VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | January 2025

TYNDALL

Review

Global equity markets started 2025 in positive fashion, albeit with several wobbles during an eventful first month. Investor attention was focussed on the policy plans of the incoming Trump administration in the US, alongside movements in government bond yields, and potentially significant developments in the world of Artificial Intelligence (AI). Despite increased volatility during the month, most equity markets finished January strongly, with the UK equity market no exception. Indeed, the iShares UK Equity Index tracker gained an impressive +4.81% over the period.

Markets were quite weak at the start of January as sticky inflation concerns, following several strong US economic data releases, caused a further significant rise in global government bond yields. In the UK, for example, 30-year yields reached their highest level since 1998. Subsequent reassuring inflation data helped calm market nerves, and that, alongside relief that the new Trump administration did not implement harsh trade tariffs immediately, allowed equity markets to rally strongly.

As the month neared a close, volatility picked up substantially, particularly in US mega-cap technology stocks. This followed the release by Chinese firm DeepSeek of a new AI model that purports to be substantially equivalent to existing US based ones, but at a fraction of the cost and resource requirements. This volatility was compounded further by confirmation, on 31st January, of imminent large US trade tariffs to be applied to Canada, Mexico and China.

European equities were, perhaps surprisingly, one of the strongest performers during January, despite increased signs of economic weakness, ongoing political uncertainty in France and Germany and potential US tariff threats. The ECB did at least continue cutting interest rates, with another 0.25% cut taking deposit rates down to 2.75%. President Lagarde's commentary was also supportive, signalling likely further rate cuts to come.

In the UK, concerns continued to mount over weak domestic economic data, ongoing fallout from the October budget and, given the rise in bond yields, the potential for the government to breach its fiscal rules. Sterling weakness compounded these concerns and, whilst the overall UK equity market made good progress, the more domestically orientated mid and small-cap companies lagged materially.

Fund performance / Activity

Our fund had a relatively poor start to the year which, whilst disappointing, is not entirely surprising in the context of our extensive exposure to mid-cap companies which very significantly lagged their large-cap counterparts in January. As such, whilst our fund gained +2.09% (share class A GBP Net Accumulation), it underperformed both the iShares UK Equity Index tracker gain of +4.81% and the peer group average gain of +3.58%.

There were several individual positive contributors to performance in January including Wickes, Burberry, WH Smith, IWG, Weir, and Ashmore. Likewise, there were several negative contributors including Marshalls, EasyJet, Dunelm and RS Group. However, the real damage came from not owning market heavyweights such as HSBC, AstraZeneca, Shell, and British American Tobacco, as their share prices performed strongly in the rising market.

Activity was moderately more active during January. We introduced no completely new holdings, although we added to Marshalls, Savills, RS Group, Dunelm, Victrex, and Kier. These were funded by two complete disposals of stocks that have performed well for the fund, Games Workshop and IMI, as well as profit taking in Just Group, Weir, Intermediate Capital and TP Icap.

Market Outlook

The cautious mood in which equity markets ended 2024 gave way to a strong rally more or less across the board in January, despite the high-profile issues noted above. Clearly, the significant rise in government bond yields in recent months has been weighing heavily on investor sentiment and hence encouraging recent inflationary datapoints have been very well received.

However, substantial uncertainty remains surrounding both the possible impact of a major trade war, should the US continue to implement its recent tariff proposals, and the ramifications of potentially game changing competition in the nascent AI industry. Consequently, equity market volatility is likely to remain elevated in the short term in our view. Furthermore, in the UK specifically, we continue to contend with the fallout from the October budget and worries regarding the government's fiscal position, alongside a loss of confidence in the 'pro-growth' agenda.

Notwithstanding these concerns, our base case remains for a steady improvement in global, and UK, economic activity in the year ahead. Inflation remains relatively well anchored, interest rates continue to gradually fall, consumers are in reasonable shape and government fiscal support is significant and, in many cases, increasing. We take the view that the most draconian US tariff proposals are more likely to be bargaining tools than anything more sinister and, whilst aggressive competition in the AI space may prove challenging for the large incumbent US players, it is entirely possible that it will be of potentially significant benefit to the world at large.

Here in the UK, sentiment towards the domestic economy remains as downbeat as we can recall at any point in our careers. Meanwhile, having spoken to several of our investee companies recently, we are strongly of the view that the facts on the ground are considerably better than such sentiment would suggest. This apparent disconnect is, in our opinion, providing many excellent medium-term investment opportunities and we are actively taking advantage of them.

As always, regardless of the nature of short-term market moves, we consider it extremely important to focus on the medium-term potential of our investments and, as such, our enthusiasm for the medium-term potential of our current portfolio is substantial. Consequently, we remain happy to purchase more shares, at attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Unconstrained UK Income Fund

4 February 2025

Data source (unless otherwise stated): Bloomberg, FE Analytics

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