VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | February 2025

TYNDALL

Review

There were mixed performances across major global equity markets during February with the US, for once, proving to be a notable laggard. Elsewhere, Continental European markets continued their stellar recent run and were some of the strongest performers. The UK equity market sat somewhere in between but still managed another positive performance, and the iShares UK Equity Index tracker gained +1.19% over the period.

Markets began the month in defensive mode as the threat of imminent US tariffs on Canada, Mexico and China created high levels of risk aversion. Whilst 10% tariffs on China did come into force, there was a last-minute postponement for Canada and Mexico, allowing markets to relax somewhat as the month progressed. However, concerns continued to build over the economic outlook for the US, hitherto the primary economic growth engine in the global economy. These were compounded by increased policy uncertainty and several weak data surprises, including consumer confidence indicators falling to an 8-month low. Previously high-performing technology stocks bore the brunt of US weakness, with the 'poster child' Nvidia falling sharply, despite a relatively robust earnings report.

In Europe, risk appetite continued to improve as the prospect of significant increases in defence spending supported many industrial companies share prices. The mood improved further following the German elections, where the result was largely in line with opinion polls beforehand, with markets increasingly expectant of significant fiscal stimulus in the years ahead. In a similar vein, expectations for further policy stimulus in China were supportive for China and other markets in the Asian region.

In the UK, it was a relatively quiet month compared to recent ones. In contrast to the US, the UK's economic datapoints came in modestly better than expected, helping to alleviate concerns over an imminent UK recession. Sterling duly staged a solid recovery against the Dollar, despite the Bank of England's Monetary Policy Committee voting unanimously to cut interest rates by 0.25% to 4.5% at its latest meeting. All eyes now turn to the Chancellor's Spring statement at the end of March.

Fund performance / Activity

Our fund had another relatively poor performance month, with a key theme once more being the significant underperformance of mid-cap companies, to which we have substantial exposure, compared to their large-cap counterparts. As such, our fund lost -2.40% (share class A GBP Net Accumulation), underperforming both the iShares UK Equity Index tracker gain of +1.19% and the peer group average gain of +0.01%.

There were several individual positive contributors to performance in February including Prudential, OSB Group, Entain, Imperial Brands and International Workplace Group. However, there were significantly more negative contributors this month including Morgan Advanced Materials, Wickes, WH Smith, Ashmore, Victrex, Burberry and Marshalls. Once more, significant damage came from not owning market heavyweights such as HSBC and AstraZeneca as their share prices performed strongly.

Activity was relatively modest during February. We introduced no completely new holdings and made no complete disposals during the month. We did add to Marshalls, RS Group, Victrex, Kier and Dunelm and these were funded by profit taking in Wickes, Just Group, Imperial Brands, Weir, and Intermediate Capital.

Capital at Risk – the value of investments can fall as well as rise and you may not get back what you invested

Past performance is not a reliable indicator of future results.

Market Outlook

Despite surprisingly strong progress for many equity markets in the first two months of 2025, the underlying mood of investors appears one of extreme caution currently. There are many plausible explanations including concerns over the previous narrowness of US market leadership, unpredictable policy changes from the new US administration, geopolitical uncertainty in Europe, potential economic weakness ahead and much more. This caution can manifest itself in numerous ways and we see evidence in the outperformance of large-cap companies compared to mid and small-caps around the world, alongside recent outperformance from more traditionally defensive areas within markets, and even the significant weakness in cryptocurrencies of late. It can also be seen in the plethora of investor sentiment surveys regularly produced by various investment banks.

Furthermore, at the time of writing, concerns over a potentially escalating global trade war are ratcheting higher following the Trump administration's decision to push ahead with draconian tariffs on Canada, Mexico, and China after all. This, allied with a possible breakdown in the US's hitherto unwavering support for Ukraine in its war against Russia, is leading to significant risk aversion behaviour in markets.

We do not take these legitimate concerns lightly by any means. However, our typical approach in these situations is to look for opportunities to take advantage of periods of weakness to allocate capital, at increasingly attractive valuations, when considered from a medium-term perspective. We currently view this episode as one such opportunity and are acting accordingly. We cannot predict when these concerns will start to dissipate, which is why we always view our investment decisions over a medium-term horizon.

In addition, as we have mentioned several times recently, sentiment towards the UK 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.

As we hope is clear from the discussion above, 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.

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

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

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