VT WOODHILL UK EQUITY STRATEGIC FUND INCOME

NEWSLETTER JUNE 2024

Managed by Woodhill Asset Management LLP

Bloomberg ID: VTWARNI LN **SEDOL: BMTRT64** **ISIN: GB00BMTRT641**

Fund value at midday 28th June was 89.5123

Assets under management: £29.6m

	1 month	6 month	1 year	3 year	5 year	Inception
Total return	-0.4%	2.8%	15.2%	24.2%	21.9%	25.8%

VT Woodhill UK Equity Strategy Fund, five-year performance, dividends re-invested (UKp)

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS *Source: VTIM*

In a volatile June our fund NAV fell 0.4% compared to the overall UK stock market which fell by 1.4%. While we have a lot of concerns about the outlook for equities over the medium to longer term, we did remove the hedge[1] in the second half of June. This decision was taken for a few reasons.

From a fundamental economic perspective, a sharp fall in some commodity prices, and especially oil, natural gas and copper, made us feel more confident that the outlook for inflation has now turned the corner. For much of this year there had been a situation in which central banks had been signaling dramatic rate-cutting intentions during what turned out to be patches of sticky inflation. Over the last few months, we believe we have found ourselves in the opposite situation. Inflation is no longer in its sticky patch while central banks are now generally in the higher for longer camp. As the now improving inflation data continues to come in this should mean that central banks can finally get more on the front foot in terms of cutting rates. We expect rate cuts in the UK to start in the second half of this year. In both the UK, Europe and in the US, it seems quite plausible for rate cuts to follow elections.

While we believe that we are now finally in a situation where interest rates can be cut it also seems that the economies of the Western World are proving to be a little more resilient than may have been expected. Growth is not especially strong but, given how much interest rates have moved up, it is remarkable that there is any

1 From time to time, the fund uses FTSE 100 equity futures to protect the value of the fund. When the hedge is applied, net equity exposure is reduced, and the capital should be largely protected.

growth at all. Consequently, over the next few months we could see a situation in the UK in which interest rates are cut and that the economy is doing reasonably well. This should be a positive environment for UK equities.

It is also worth noting that after pulling back over the last month or so that on some measures the UK market has become somewhat oversold. In the past, such measures have been reliable indicators that market sentiment had become a little too negative.

Further out, there is a great deal more uncertainty, both in the UK and in much of the rest of the world. One of the main reasons why western economies (and especially the US) have stayed stronger than many expected is almost certainly because of large government spending. In many ways it almost appears that governments got used to spending large amounts of money during covid and have just continued to spend. There are a few aspects to this spending. On the one hand the various campaigns of quantitative easing that central banks have enacted over the last few decades has seemed to convince politicians that any amount of spending will be all right, and that in some way, central banks will prevent anything bad in the economy from happening. At the same time 2024 is very much an election year. In the US, in Europe and in the UK absolutely none of the major parties are promising to cut spending and or to balance their budgets. Those on the left simply want to spend more without raising taxes. Those on the right want to cut taxes without really cutting spending. At some point, and perhaps it may be after all the elections are finished, a more sober attitude may be needed. It has been interesting to note that the IMF has stated openly that if European government borrowings are ever to stabilize, that, on average the main countries of Europe need to cut spending by 3% of GDP. No political party is presenting anything like this as a policy stance. Sadly, the history here is that governments virtually never take government financing seriously until markets force them to do so. This will, if it occurs, almost certainly mean a recession.

In the near term the world may currently be on the edge of enjoying a type of *Indian summer*. The outlook for inflation and interest rates looks improved and the economies are still expanding. Further out we remain cautious and will proceed carefully.

TOP FIFTEEN EQUITY HOLDINGS 28th JUNE 2024

AstraZeneca PLC	7.4%
Shell plc	7.4%
HSBC Holdings PLC	5.8%
BAE Systems PLC	3.5%
BP PLC	3.4%
Relx PLC	3.2%
Rio Tinto PLC	3.1%
3i Group PLC	2.5%
Compass Group PLC	2.5%
National Grid PLC	2.5%
GSK plc	2.4%
Diageo PLC	2.2%
Unilever PLC	2.1%
British American Tobacco	2.1%
Glencore PLC	1.7%

Fund manager: Paul Wood

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