VT WOODHILL UK EQUITY STRATEGIC FUND INCOME
Managed by Woodhill Asset Management LLP

NEWSLETTER MAY 2024

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

Fund value at midday 31ST May was 89.8763

Assets under management: £29.1m

	1 month	6 month	1 year	3 year	5 year	Inception
Total return	0.1%	4.0%	15.3%	25.2%	24.7%	26.2%

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

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

We remained hedged[1] for the month and consequently saw a flat to very slightly positive performance. For most of the month the market has remained substantially overbought, however, as the month came to an end some of the more extreme aspects of market positioning were somewhat improving. For much of the last twelve months, markets have been riding what have been some quite substantial changes in interest rate expectations. At the end of last year and in the first month or two of 2024, there was a strong expectation that interest rates in the Western world were going to be cut substantially and imminently. Since then, this expectation has been largely unwound and the Western world has found itself back in a 'higher for longer' environment.

From our perspective we find the higher for longer expectations to be more constructive. This is because expectations surrounding interest rates can then move back the other way. There is also less risk of disappointment. When hopes for interest rate cuts were running high earlier this year, we felt concerned about the likelihood of rates being cut as quickly or as soon as many expected. Unemployment was very low in the US and the UK and inflation was somewhat sticky. Today, however, the situation has shifted a little. Some aspects of labour market data in the UK and the US have softened and to us, even more importantly, energy prices have come down quite sharply. There has been a firm correlation between the oil price and core inflation

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.

rates, and with oil and gas prices falling there is now a better chance that we will see a more certain decline in inflation and with that lower interest rates. There may be another moment of enthusiasm for equites as rates start to fall.

Further out, however, the picture is less constructive. Historically once interest rates start to fall in earnest, equities tend not to perform well. This is usually because economies are weakening, and company profit forecasts become less positive. There are also some patches of weak economic data emerging that suggest that the Western world economy may evolve in this way again. There are certainly some notable risks out there.

Although it feels a long way away from the UK the situation in Japan also looks to be both serious and not easily resolved. Developments in Japan could easily have a real significance for all global equities. Despite putting up interest rates very slightly the situation in Japan can be characterized simply as follows. Short-term interest rates are at 0.1% and the most recent PPI inflation number came in at 2.8%. In a normal environment a central bank, when faced with such a situation might be expected to move rates up to at least 2% or so. However, because Japanese national debt to GDP ratio is an astonishing 264%, the result of an interest rate increase of just 2% would be a 5% increase in the ratio of government interest expenses to GDP. Given that the current Japanese budget deficit is already running at 6.4% this sounds serious indeed. If they increase rates to tackle inflation, then the budgetary effects will be serious. Any country with a rising government debt to GDP ratio of 264% and a budget deficit of over 10% would look insolvent. If they do not act to control inflation the currency will keep falling and potentially push inflation up further.

In a quiet way, Japan may be experiencing the start of an elegant and gradual currency and or solvency crisis. Behind the curtain there is also the Yen ‘carry trade’. Since Japanese interest rates have been so close to zero for so long, leveraged players have borrowed in Yen (in effect shorting the Yen) and have then deployed the proceeds in higher interest rate countries, such as Mexico. This trade is estimated to have grown to being as large as $20 trillion (half the size of the market capitalization of the S&P 500 and more than five times bigger than the total market capitalization of the FTSE 100). Any sudden move stronger in the Yen in response to either local interest rate increases, or declines in interest rates in the West, has the potential to seriously destabilize global markets.

While there may be opportunities we can take advantage of over shorter periods, further out we suspect that both markets and economies are going to experience heightened volatility and what could be a generally difficult market environment. This should favour a fund style like ours, that can act to protect investors when necessary.

TOP FIFTEEN EQUITY HOLDINGS 31st MAY 2024

Shell plc	7.4%
AstraZeneca PLC	7.4%
HSBC Holdings PLC	6.0%
BAE Systems PLC	3.8%
BP PLC	3.5%
Rio Tinto PLC	3.3%
Relx PLC	3.1%
GSK plc	2.8%
Compass Group PLC	2.6%
3i Group PLC	2.4%
Diageo PLC	2.4%
Unilever PLC	2.0%
British American Tobacco	2.0%
National Grid PLC	1.9%
Glencore PLC	1.8%

Fund manager: Paul Wood

11th June 2024
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