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# VT Tyndall Real Income Fund

May 2020

TYNDALL

## May 2020 Review

After several relatively wild months in equity markets, May saw early signs, at least in the short term, of volatility declining to more ‘normal’ levels. This allowed the UK stock market to build further on the modest recovery seen in April, and the MSCI UK Index gained a further +3.1% during May.

Markets were encouraged by the continued progress in ‘flattening the curve’ in terms of the Covid-19 outbreak together with further moves to reopen major economies, including the UK, from lockdown. Significantly greater relaxation plans have been announced starting in June – perhaps somewhat quicker than worst case fears when lockdown began.

It was certainly not all good news during the month as US-China tensions escalated further on the back of China’s move to introduce a new security law in Hong Kong which many see as threatening the autonomous status of the territory. Meanwhile, closer to home the potential for a ‘hard Brexit’ at the end of December is coming back in to view, with little progress on negotiations so far and a deadline of the end of June to request a post-December negotiation extension drawing closer.

## Fund performance/ activity

Our fund continued its recovery during May, gaining +3.4%, outperforming the MSCI UK Index gain of +3.1% and the peer group average gain of +1.4%.

Positive attribution to performance came largely from further recovery in several of our cyclical holdings that had suffered most in the recent market decline. Holdings such as JD Sports, Dunelm, Melrose, Jupiter, OneSavings Bank and easyJet all contributed significantly during the month.

Negative contributors to performance included more defensive holdings such as BAE Systems, SSE, Tate & Lyle and Imperial Brands but also travel related holdings WH Smith and National Express.

We introduced 1 new holding to the portfolio in May, heat treatment specialist Bodycote. Given heavy exposure to energy, automotive, aerospace and general industrial end markets the shares have suffered a significant correction recently. We like the management team, the strength of their competitive position and the trend towards increased outsourcing of heat treatment applications and believe the business will emerge relatively stronger from the crisis. We added modestly to holdings in National Express, Barclays, WH Smith and Imperial Brands.

We made no complete disposals in May although we trimmed several holdings to fund new additions, taking money from GlaxoSmithKline, AstraZeneca, Tate & Lyle, TP ICAP and GVC.

## Market Outlook

There has been an 'unprecedented' decline in economic activity in the UK and globally as a result of the enforced shutdown of most major economies to try and contain the Covid-19 pandemic. Now, as one by one economies slowly start to reopen, it is inevitable that economic activity will bounce back and potentially quite vigorously in the near term.

The combination of an optically vigorous recovery together with continued, and in some cases increasing, fiscal and monetary support measures will probably be enough to allow equity markets to recover further in the absence of additional unexpected shocks.

Post this initial recovery, the durability of market gains, and indeed the potential for further gains, rests largely on the sustainability of the improvement in economic activity. As an early indicator of sustainable improvement, we are looking for more meaningful changes in leadership within the market towards those more cyclical, economically sensitive sectors. We are hopeful this is starting to occur but we will take the evidence as it comes.

Meanwhile, we must always remain vigilant for potential additional issues that have the capacity to derail investor risk appetite again. In this regard, the previously mentioned US-China tensions and Brexit 'deal/ no deal' headlines could easily depress sentiment again at any point, along with the persistent risk of a 'second wave' of Covid-19 cases – at least until a vaccine is developed.

Notwithstanding these near term risks our base case remains that the economic recovery will ultimately prove durable and that a portfolio of quality, cyclical franchises with strong competitive positions and attractive through cycle valuations remains incredibly well placed to deliver excellent returns over the medium term.

***Simon Murphy 2nd June 2020***