VT Tyndall Real Income Fund

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Monthly Commentary (30th June 2020)

Review

June was another month of relative calm in equity markets, certainly compared to the early months of 2020. The MSCI UK Index gained +1.5% for the month, bring the quarterly return to +8.2%.

At the start of the month market participants continued to view the prospect of reopening economies positively, and early economic data releases generally supported the notion that economic activity was recovering, where lockdowns were easing, faster than previously anticipated.

However, during the later stages of the period that positivity started to come under pressure as fears of ‘second waves’ of Covid-19 cases came to the fore. This was particularly acute in the United States where many states that reopened early, including significant economic hubs in Florida, Texas and California, started to see an alarming rise in the number of new cases. This in turn led to many districts pausing reopening plans in an effort to contain a further spread of the virus and raising further questions as to the speed and scale of economic recovery possible without a Covid-19 vaccine.

Meanwhile, back in the UK, gradual reopening of the economy continued during June with non-essential retail outlets reopening and confirmation that pubs and restaurants will be allowed to open their doors again in early July.

Fund performance / Activity

After 2 strong months our fund declined -0.8% in June, underperforming the peer group average gain of +0.9% and the MSCI UK Index gain of +1.5%. For the quarter as a whole our fund returned +17.4%, significantly outperforming the peer group average return of +11.0% and the MSCI UK Index gain of +8.2%.

Positive attribution in June came from a mixture of financial and cyclical holdings such as Legal & General, Dunelm, Ashtead, Intermediate Capital and Phoenix. Tobacco group Imperial Brands also added positively during the month.

Negative contributors came predominantly from domestic cyclical stocks such as ITV, OneSavings Bank, JD Sports and Vistry. Travel stocks including Easyjet and National Express suffered over fears of a second wave of Covid-19.

There were no new additions or complete disposals from our portfolio during June. We added to several existing holdings including Bodycote, National Express, Vistry, ITV, Synthomer and Easyjet. We funded these additions through partial sales of stocks that have performed very strongly recently including Dunelm, JD Sports, Ferguson, GlaxoSmithKline and TP ICAP.

Market Outlook

In our view, markets have now reached something of a crossroads as we wait to see how the data unfolds in respect both of the continuing spread of the pandemic and potential for healthcare breakthroughs, such as the much needed vaccine, but also the pace of the economic recovery that by definition is underway now that most large economies are gradually reopening.

How these two critical cross currents evolve, and their impact on the corporate sector and investor risk appetite, are the key considerations for the likely trajectory of the UK stock market during the remainder of 2020 and beyond.

Whilst the outlook in this regard is even cloudier than usual, we remain minded to err on the side of optimism. Stock markets typically bottom either before or coincident with economic activity bottoming and that seems almost certain to be happening now. Equally we are hopeful, given the scale of resource being applied to the issue globally, that important medical breakthroughs will occur in the relatively near future.

Meanwhile those huge support mechanisms enacted by governments and central banks globally seem to be broadly achieving their purpose, particularly with respect to maintaining functioning capital markets, representing an important difference to the 2008/9 experience.

There will undoubtedly be bumps along the way in this recovery, as there always are in any recovery, and the capacity for unfavourable headlines, particularly virus related, to cause significant 'risk off' periods will remain ever present until an effective vaccine is widely available.

However, we firmly believe in a bright medium term future for the quality cyclical franchises we own in our portfolio and, having either started holdings or added to existing ones at what we believe to be incredibly attractive prices during the market collapse in early 2020, we remain extremely optimistic about the positive return generating capability of our portfolio over the next few years.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 2nd July 2020

Data source: Bloomberg, FE Analytics