VT Tyndall Real Income Fund

Weekly Commentary 24th July 2020

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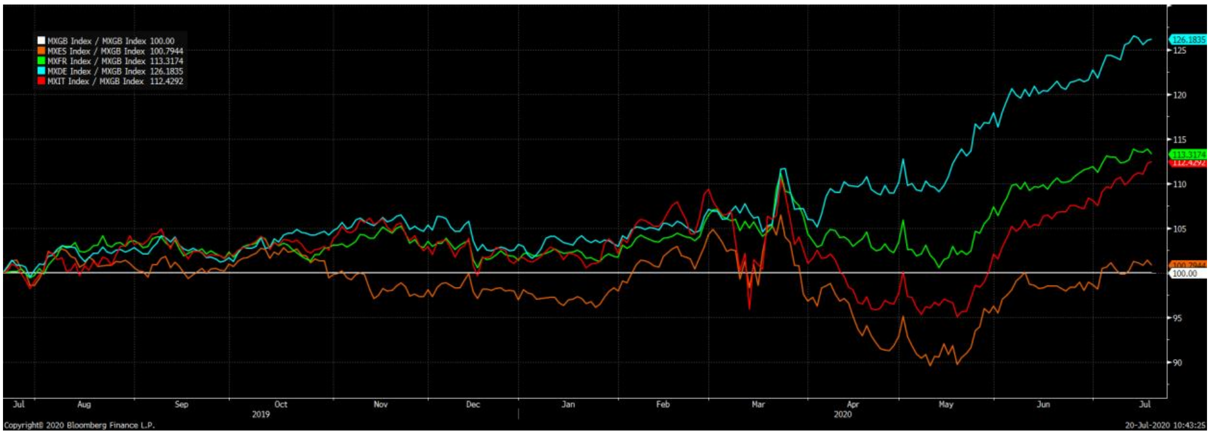
It's not me, it's you.

Another week and - we apologise in advance - it is another rant about the deeply out of favour UK equity market. Whilst markets around the world have been recovering since the Covid-19 pandemic induced March lows, the UK market has been something of a laggard, even in a European context, as highlighted by the chart below (showing MSCI German, French, Italian and Spanish indices relative to the MSCI UK Index) – even the Spanish index has outperformed (just) the UK on a 1 year view!



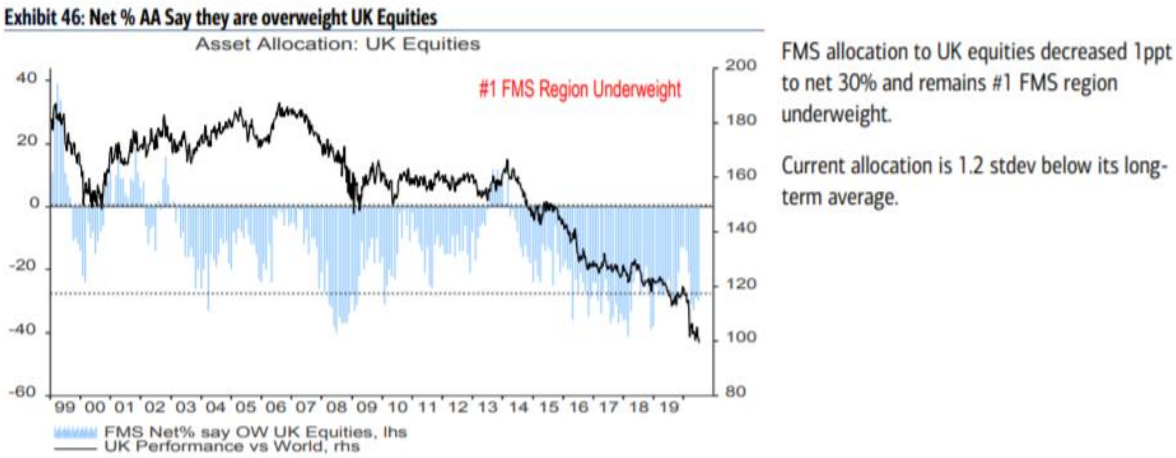
The situation is undoubtedly not helped by headlines such as the following that came from the latest Fund Flow Index (FFI) report from Calastone, the global funds network;

- "June sees **highest ever outflows** on record for UK equity funds as investors cash in profits following rally in the stock markets"

Other cheerful nuggets in the report include;

- "Actively managed equity funds bore the brunt of June's outflows, shedding £1.1bn"
- "**UK equity and equity income funds** felt the worst impact, each suffering **record outflows** of £679m and £671m respectively"

It's not just retail investors who have the hump with UK equities either as the UK remains unloved by global fund managers as well, as the chart below shows, from the latest Bank of America Merrill Lynch Global Fund Manager Survey. The UK is currently the **number 1 underweight region** for global fund managers.



All this comes at a time when the **UK market** is now **1970's style cheap** relative to the MSCI World index on a blend of Price/Earnings, Price/Book and Dividend Yield valuation measures, as the chart below from Morgan Stanley Research highlights.

The most recent explanations for the ongoing malaise of the UK market appear to include

- A slower, more lacklustre, economic recovery post lockdown than other economies
- An increasingly likely 'no deal' Brexit at the end of 2020
- A greater impact on the UK market of all the recent dividend cancellations than elsewhere

Whilst all of the above looks, and indeed feels (!), very depressing for UK equity investors it does not, in our view, take a great deal of imagination to assess the current situation as an outstanding buying opportunity if you have a medium-term investment horizon. As the above analysis shows, we have a situation where

- The UK market has been underperforming global markets for a decade or more.
- The UK market is extremely cheap relative to global markets on an historical basis.
- The UK market is significantly 'under owned' by global fund managers.
- The UK market is out of favour with retail investors alike.
- The biggest uncertainty overhanging the UK market for the last 4 years (Brexit) is nearing greater clarity at the least.

As such, it need not take much to start shifting the narrative in favour of a more positive outlook for UK equities. Exactly when that might happen is for better crystal balls than ours. For the patient investor, given the starting conditions above, that should not really be a cause for concern.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 24th July 2020

Data source (unless otherwise stated): Bloomberg

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