

Review

After several positive months, July was a relatively weak one for UK equities with the MSCI UK Index falling -4.5%. Economic and corporate data continued to show evidence of ongoing recovery from one of the sharpest downturns in history and the UK, for the most part, continued the gradual reopening of the economy.

However, investor sentiment was dominated by ongoing fears of second waves of the Covid-19 virus around the world and the UK was certainly not immune, with local lockdown measures being reintroduced in areas such as Leicester, Greater Manchester, East Lancashire and parts of West Yorkshire.

In addition, further easing of lockdown restrictions in England were postponed and the government also introduced self-isolation requirements on travellers returning from Spain, in response to rising Covid-19 cases in the country, dealing another blow to the already beleaguered travel sector.

Investor sentiment was given a further test towards the end of the month with a lack of political progress in the US towards another stimulus bill, just as the benefits from the previous bill start to expire for millions of American workers.

Fund performance / Activity

In an essentially 'risk off' environment it was a difficult month for our fund which declined -6.4%, underperforming the peer group average fall of -3.0% and the MSCI UK Index fall of -4.5%.

Negative contributors came predominantly from those stocks most at risk of a detrimental impact from further lockdown restrictions such as travel related stocks Easyjet, National Express, W H Smith and Melrose. Other, generally cyclical, detractors included Bodycote, Vistry, ITV and OneSavings Bank. Our holdings in the 2 tobacco majors – British American Tobacco and Imperial Brands – were also relative underperformers.

Positive attribution, such as there was in July, came from a mixture of holdings such as Persimmon, Intermediate Capital, Synthomer and Phoenix Group. Our holding in retailer Next was a particular highlight following a stronger than expected trading update.

There were no new additions to our portfolio during July although we added to several existing holdings, focussing primarily on those that have been relatively weak of late including Bodycote, National Express, Vistry, ITV, Synthomer and OneSavings Bank. These additions were funded through the disposal of the last of our Jupiter Fund Management holding and through partial sales of stocks that have performed, relatively at least, more strongly recently including GVC, Ashtead, Ferguson, Intermediate Capital, JD Sports and TP ICAP.

Market Outlook

We commented last month that we thought “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.”

These thoughts remain broadly unaltered although clearly during July investors were primarily concerned with the ongoing spread of the pandemic and its potential to continue hampering a meaningful economic recovery.

We do not dismiss these concerns lightly by any means, and it may well be the case that any economic recovery we witness will struggle to gain significant momentum until we get further meaningful progress on testing, treatments and hopefully ultimately a vaccine.

However, from our perspective the question remains one of time horizon. In the relatively short term these issues will undoubtedly dominate market sentiment and behaviour. From a medium term perspective we believe economic recovery will persist, we think and hope that medical progress will be made in relatively short order and we are currently able to invest in a number of high quality, cyclical, franchises that, notwithstanding short term trading difficulties, have seen share price declines in the region of -40% to -70% this year alone. This is why, short term issues aside, 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, 4th August 2020

Data source: Bloomberg, FE Analytics