

“October. This is one of the peculiarly dangerous months to speculate in stocks.”

The above quote comes from the 1894 Mark Twain novel Pudd'nhead Wilson. These days you can find all manner of statistical analysis on likely market, sector and even stock level performance per calendar month. Typically, these data series are then overlaid with additional 'insights' such as what year of the US election cycle it is etc. As most will be aware, October has often been associated with heightened market volatility including some spectacular crashes, most notably October 1929 and October 1987 of course.

So, as we begin to embrace the fourth quarter of, what can only be described as a truly tumultuous year in so many respects, what twists and turns await us not just in October but the weeks and months ahead? Well it seems to us that the markets have a veritable smorgasbord of potential 'issues' to wrestle with in the fairly imminent future. In no particular order these include:

- Will there be second, third, fourth and more waves of Covid-19 infections? Will these lead to more lockdowns? When will a vaccine arrive and how quickly can it be deployed?
- Who will be the next president of the United States? What will that mean for monetary policy, fiscal policy, international relations, taxes, regulation and more?
- Will Europe and the UK reach a trade deal before 31st December 2020? If so, to what extent? If not, what will a 'hard brexit' entail?
- With such extraordinary amounts of fiscal and monetary policy support during the Covid-19 pandemic what will be the unintended consequences? Is the disinflationary/ deflationary environment of the last 40 years finally drawing to a close or not?

It is not our intention to make bold predictions about the future here – we seriously doubt that we have a crystal ball any bigger or clearer than anyone else – instead we think we can make a number of observations, regardless of the fact that it's October, which we find useful when investing with heightened levels of uncertainty. Once again, in no particular order:

- There are always big issues and uncertainties when investing in the stock market. This is not intended to sound trite but it is true.
- It is rarely the case that things are ever as good as the stock market narrative makes out for the current market darlings and, conversely, it is rarely as dire as the doomsters predict for those currently out of favour.
- We currently observe - and it is only our observation – that the media narrative around most of the big topics of the day has an almost universal negative slant to it. Perhaps that captures the general mood of populations today but it is interesting nonetheless.
- One of the best ways to 'compensate' for all these uncertainties is to buy things – markets, sectors, stocks where expectations are depressed and valuations look attractive. That doesn't guarantee success of course, but it tends to shift the odds in your favour.

- Patience goes an awfully long way in investment. That’s really easy to say but, these days, seems ever more difficult to implement.

To take our favourite topic of the moment, the UK stock market and Brexit. We have hopefully highlighted clearly enough in the past the relative valuation attractions of the UK market and how seemingly deeply out of favour the market is with both retail and institutional investors alike.

We definitely hope a Brexit deal is reached by the end of December 2020 but we don’t know whether it will happen. If it doesn’t then we may very well have another difficult short-term period for UK equities. That will almost certainly make future returns from UK equities even more attractive than they currently are and, over the medium term, the UK will adapt, adjust and move forward.

We would use a similar argument for investments in our portfolio that are currently being seriously impacted by the Covid-19 pandemic. If there are more waves of cases over the winter then clearly life will remain difficult for the likes of WH Smith, National Express and EasyJet in the months ahead. In the medium term, we will either defeat the virus or learn to live with it and these franchises will adapt and move forward. Given their starting valuations today, the returns we should receive will be outstanding we think.

So, we have no idea what might happen in October or indeed the immediate future thereafter. We hope things turn out favourably with regard to all the big issues of the day. Regardless, our portfolio consists of a collection of strong business franchises that are currently available at incredibly attractive valuations which should deliver us strong returns into the future. If it takes time for those returns to materialise so be it. On the other hand, should we see positive surprises earlier than expected, so much the better. On that point the table below highlights key performers in the few days immediately post the surprise landslide conservative party election victory last year. For those who think they will be able to adjust portfolios and capture the impact of positive surprise if it happens around Brexit, the Covid-19 pandemic or anything else – good luck.

UKX Index		Analyze List	Settings	Member Ranked Returns				
View	Members	Groups	Period	Cust	12/11/19 - 12/16/19	Total Return	Currency	LCL
Movers	All							
Negative Total Return		Members (101)	Return	Positive Total Return				
		FTSE 100 INDEX	4.21%					
		Best Performing						
		1) BARRATT DEVELOPMENTS PLC	17.55%					
		2) INTL CONSOLIDATED AIRLINE-DI	17.17%					
		3) TAYLOR WIMPEY PLC	15.17%					
		4) NATWEST GROUP PLC	14.52%					
		5) BERKELEY GROUP HOLDINGS/THE	14.27%					
		6) BARCLAYS PLC	14.10%					
		7) PERSIMMON PLC	13.04%					
		8) LEGAL & GENERAL GROUP PLC	12.78%					
		9) HARGREAVES LANSDOWN PLC	12.63%					
		10) WHITBREAD PLC	11.81%					
		Worst Performing						
		11) BP PLC	1.03%					
		12) ROYAL DUTCH SHELL PLC-B SHS	0.68%					
		13) GLAXOSMITHKLINE PLC	0.64%					
		14) ROYAL DUTCH SHELL PLC-A SHS	0.35%					
		15) ROLLS-ROYCE HOLDINGS PLC	0.23%					
		16) JUST EAT TAKEAWAY	--					
		17) COCA-COLA HBC AG-DI	-0.12%					
		18) POLYMETAL INTERNATIONAL PLC	-1.01%					
		19) FERGUSON PLC	-1.62%					
		20) HIKMA PHARMACEUTICALS PLC	-2.96%					

By the way, the astute observer will have noticed that we deliberately didn't complete the Mark Twain quote in the title of this note. For completeness, it finishes "The others are July, January, September, April, November, May, March, June, December, August and February"!!!

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Data source (unless otherwise stated): Bloomberg

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