

Review

October witnessed another difficult month for UK equities with the headlines dominated by the resurgence of the Covid-19 pandemic. The MSCI UK Index fell -5.1% for the month.

Cases of Covid-19 have continued to climb rapidly both here in the UK, the USA and several other major economies across Europe. This has led to numerous additional lockdown measures being introduced to try and stem the rising tide of infections, with little sign of material success to date. Hospitalisation and death rates are still, thankfully, running significantly below the levels seen in the spring, however they too are rising again.

As the US presidential election race nears its conclusion nervousness has increased in equity markets globally. The primary source of that nervousness appears to be, not necessarily in respect of who will emerge as the ultimate winner, but rather the potential for a very narrow margin of victory to lead to a 'contested' result and an extended period of uncertainty to follow.

On a (marginally) more positive note, there have been increasing signs during October that a Brexit deal can still be reached in time for the end of the transition period on 31st December 2020. Time will tell of course, but for now at least, both sides appear to be suggesting compromise is still possible.

Fund performance / Activity

It was a very encouraging relative performance month for our fund which gained +0.2%, significantly outperforming both the peer group average loss of -3.6% and the MSCI UK Index loss of -5.1%.

Positive attribution came from a variety of mostly cyclical holdings such as Synthomer, OneSavings Bank, Premier Miton, DFS Furniture, WH Smith and Bodycote. Having limited exposure to the pharmaceutical sector also proved beneficial as heavyweights AstraZeneca and GlaxoSmithKline both underperformed.

Negative contributors were relatively modest for the period but included house building stocks Persimmon and Vistry, Imperial Brands, Tate & Lyle and Electrocomponents.

We introduced 1 new stock to the portfolio in October, namely asset manager Premier Miton Group. We added to several existing holdings such as Electrocomponents, Intermediate Capital, Imperial Brands and Severn Trent.

These purchases were funded by the complete disposal of TP Icap and BAE Systems. We also took profits in stocks such as Ashtead, JD Sports, Melrose and GVC.

Market Outlook

We mentioned last month the potential for significant near-term volatility around major ‘macro’ events, and with the US election result and the ongoing Brexit saga still to be resolved, that remains the case at the time of writing.

In addition, the recent news that England will move to yet another national lockdown for a minimum of 4 weeks (albeit a ‘lockdown lite’ version of the measures previously in place in the spring) is a further unwelcome economic development as we strive to continue recovering from the dramatic, albeit relatively short, recession earlier this year.

At the risk of sounding blasé (we most definitely are not), as we said last month, nothing so far has materially changed our outlook for the medium term. Undoubtedly news such as a second national lockdown adds to the uncertainty over timing and extent of recovery, but we remain firmly of the view that the recovery will continue, aided in no small part by government and central bank support mechanisms that not only remain significant but will likely get materially bigger as well.

As we concluded our last outlook, when we survey the UK stock market landscape today, we can find a great number of strong business franchises where share prices are still down significantly from previous peaks, where valuations look extremely attractive, and where future prospective returns look outstanding – notwithstanding the potential for near term volatility. This is what makes us so excited about the prospects for our portfolio in to the medium term.

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

Data source: Bloomberg, FE Analytics