

Review

After several tricky months for UK equities, November saw the market come back with a bang as the MSCI UK Index climbed +13.1% for the month – one of the biggest monthly gains ever.

Covid-19 dominated the headlines again but this time, notwithstanding continued significant increases in cases globally, attention was concentrated on potential vaccine breakthroughs. On 9th November Pfizer/ BioNTech announced their phase 3 results showing their vaccine as potentially 90% effective in preventing the transmission of Covid-19. A few days later, Moderna issued phase 3 results which showed up to 95% efficacy in their trial. Finally, here in the UK, the Oxford University/ AstraZeneca collaboration reported – despite some confusion – efficacy of between 62% and 90% depending on the dosing regimen.

Markets globally reacted with widespread euphoria at multiple prospects of a breakthrough in the nearly year-long fight against this global pandemic. Unsurprisingly, there were extremely powerful rotational trades within markets also, as those companies that have suffered the most through the pandemic were the biggest beneficiaries of the notion that the end may well be truly in sight.

Elsewhere, the US presidential election reached (almost) its conclusion as Joe Biden was effectively declared the victor, notwithstanding President Trump's refusal to acknowledge defeat amid seemingly unfounded allegations of vote rigging. The suggested 'blue wave' never quite materialised to the degree expected and, whilst not certain until early January, it is looking likely that US politics will remain as gridlocked as ever, with a Democratic President and House of Representatives and a Republican controlled Senate.

Finally, expectation continues to build that the Brexit deadlock can be broken in time for some form of trading arrangement to be agreed before the transition period ends on 31st December 2020.

Fund performance / Activity

It was an outstanding month of performance for our fund, gaining +25.3% and dramatically outperforming both the peer group average gain of +15.7% and the MSCI UK Index gain of +13.1%.

Positive attribution, unsurprisingly, came from a variety of mostly cyclical holdings that have generally had a very difficult time during the pandemic, and arguably stand to benefit the most from an eventual recovery. Really substantial positive contributors included Vistry, National Express, EasyJet, Legal & General, WH Smith, Intermediate Capital, OneSavings Bank and Melrose amongst others.

Negative contributors, such as there were, consisted primarily of things we do not own in the fund also performing strongly – for example oil major Royal Dutch Shell and spirits business Diageo. Within the portfolio, pharmaceutical company GlaxoSmithKline was a notable laggard.

We introduced 1 new stock to the portfolio in November, namely utility group Drax. We made one complete disposal of Tate & Lyle. We added to several existing holdings such as Electrocomponents,

Persimmon, SSE, GVC and JD Wetherspoon. We also took modest profits in stocks such as Synthomer and OneSavings Bank.

Market Outlook

We have, for several months now, operated on the basis that the pandemic has been offering us fantastic opportunities to purchase dramatically discounted stakes in quality, cyclical businesses that, whilst suffering short term trading difficulties – in some cases extremely so – were nevertheless likely to survive and, in many cases, emerge stronger than most of their peers once we started to win the war against this virus.

We are of course delighted that we appear to be making very material scientific progress in this battle, and clearly a large number of holdings within the portfolio have been rewarded, in the short term at least, with sharply appreciating share prices. We very much hope this is only the start of what we believe will be a long, full and highly productive recovery as the war is slowly but surely won by human endeavour.

For sure there remain several difficult months ahead in the near term, with still large numbers of cases in many geographies, enforced restrictions on economic activity to varying degrees, further scientific hurdles to jump prior to vaccine approvals being granted and, not least, tremendous logistical issues to resolve for mass vaccinations to take place around the world.

However, we do firmly believe we are on our way to winning this particular war and, short term setbacks aside, given the degree of valuation upside that exists within a great number of stocks in our portfolio, we remain hugely excited about the return prospects for our fund in the medium term.

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

Data source: Bloomberg, FE Analytics