VT Tyndall Real Income Fund

Monthly Commentary (31st January 2021)

TYNDALL

Review

Despite starting the new year with a bang in the first couple of weeks of January, UK Equities subsequently surrendered those initial gains and ended the month with a modest loss – the MSCI UK Index falling -0.7% for January as a whole.

Initial enthusiasm for UK equities reflected relief at reaching a last-minute Brexit deal to enable the continued, relatively unencumbered, trade of goods with the EU. Additional positivity came in the form of a solid start to the UK's mass vaccination effort against Covid-19.

As the month wore on, positivity was displaced by ongoing concerns around the potential for new variants of Covid-19, a lack of progress in vaccinating large swathes of the global population – particularly in Europe - and still very high, albeit starting to reduce, cases, hospitalisations and, sadly, deaths in the UK. The realisation that the first sign of reopening of society – that of children going back to school – would not happen until March 8th (in England at least) at the earliest, further dampened animal spirits.

Elsewhere, the fact that Democrats now effectively control both the Senate and the House of Representatives in the US fuelled expectations of even bigger stimulus spending. Meanwhile extreme share price movements in many areas of the US market (typically very small companies or those that had a very high level of short interest in them) were a somewhat unusual feature of the month also. Exactly what the implications of such movements will be remains to be seen.

Fund performance / Activity

After 2 stellar months of performance, January was a modestly disappointing month for our fund, falling -1.5% and underperforming both the peer group average fall of -0.7% and the MSCI UK Index fall of -0.7%.

Positive attribution came from a number of cyclical holdings such as Next, Marks & Spencer, WH Smith and National Express. The biggest positive contribution came from Entain who received a takeover approach from their US joint venture partner MGM Resorts. The initial approach was rebuffed and talks are not currently ongoing. We remain excited by the medium-term prospects for the company.

Negative contributors also included a number of cyclical holdings such as Persimmon, Vistry, EasyJet, Bodycote and Legal & General. We also suffered from not owning Royal Dutch Shell and AstraZeneca.

We introduced 3 new stocks to the portfolio in January, namely resource company BHP, Standard Charted bank and insurer Prudential. These additions were funded by 2 complete disposals of companies that have performed extremely well for our fund, namely Ashtead and Synthomer. We added to several existing holdings such as Bodycote, Imperial Brands, DS Smith and Phoenix. We took modest profits in stocks such as Entain (on the bid announcement), Electrocomponents and Next.

Market Outlook

Post the initial new year enthusiasm for equities, a decidedly ‘risk off’ tone has entered markets towards the end of January. Multiple reasons can be put forward to rationalise this, ranging from forced deleveraging of hedge funds in the US caused be massive squeezes in some of their most shorted stocks, to the rather unseemly prospect of ‘vaccine nationalism’ as different countries and regions of the world exhibit varying degrees of progress at vaccination roll outs to their populations.

How long this lasts remains to be seen. However, when we think about the medium-term prospects for UK equities from here our outlook remains resoundingly positive. Economic recovery from an almost year-long lockdown has the potential to be extremely powerful when it arrives – which at the current rate of vaccination progress in the UK will likely be sooner rather than later.

UK corporates have, we believe, managed the pandemic well by adopting an extremely proactive approach and, where necessary, raising capital to protect balance sheets. Most importantly, UK equities appear cheap on any sensible long term valuation metric both in an absolute sense and certainly relative to many other global markets.

We rehash our conclusion from last month – undoubtedly it will not be plain sailing all the way and there may well be several more obstacles to overcome in the process. However, we feel confident the end result will be worth the effort, both in 2021 and beyond.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 1st February 2021

Data source: Bloomberg, FE Analytics

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.