VT Tyndall Real Income Fund

Monthly Commentary (28th February 2021)

TYNDALL

Review

February witnessed a resumption of the upward trend in equity markets, including the UK, with the MSCI UK Index gaining +1.8% for the month.

A key element in the renewed positivity towards equities is undoubtedly the continued progress in the fight against Covid-19, both in terms of falling levels of infection generally and excellent vaccination progress, most notably in the US and UK.

In addition, central banks around the world continue to reiterate their willingness to keep policy extremely accommodative until well into the post pandemic recovery. Meanwhile, additional fiscal stimulus continues to add to the recovery potential of many countries, with the US in particular inching closer to agreeing President Biden's proposed package totalling some $1.9 trillion.

Here in the UK, the Prime Minister announced the much-anticipated route out of lockdown for England. Whilst the focus on a 'cautious' approach disappointed some, the clarity on when key aspects of the economy will be able to start functioning again was broadly welcomed, with the possibility of all pandemic restrictions effectively being lifted by late June a particular highlight.

The positive sentiment towards the global economic outlook has seen bond markets around the world take notice, with a significant rise in key global bond yields throughout February. Whilst broadly being welcomed by equities - and leading to quite substantial shifts in leadership within equity markets - a period of volatility occurred towards the end of the month on fears that yields were rising too far too quickly.

Fund performance / Activity

Pleasingly, February saw a return to strong performance for our fund which gained +6.2%, significantly outperforming both the peer group average gain of +2.7% and the MSCI UK Index gain of +1.8%.

Positive attribution came from a number of holdings that stand to benefit from the reopening of economic activity such as National Express, EasyJet, WH Smith and J.D. Wetherspoon, as well as holdings that typically benefit from a rising bond yield environment such as Barclays, Prudential and Antofagasta.

Negative contributors were primarily in the more defensive elements of the portfolio such as Imperial Brands and SSE. We also suffered from not owning Royal Dutch Shell and HSBC.

There were no completely new additions to the portfolio in February although we did add to a number of positions in stocks such as Prudential, BP, Standard Chartered, Bodycote and OSB Group. These additions were funded by the complete disposal of our residual position in GlaxoSmithKline as well as profit taking in stocks such as Next, Electrocomponents and Intermediate Capital.

Market Outlook

We are pleased to see a return to positive equity market performance in February, and are particularly pleased at what is, we think, a fairly decisive change in leadership that has been slowly building for several months now and finally appears to be accelerating.

That change in leadership, away from the 'stay at home' and the 'low bond yields forever' beneficiaries is a sign, to us at least, that the outlook for global economic growth is improving significantly, due in large part to those factors already mentioned – substantial Covid-19 progress, extremely supportive monetary and fiscal policy stances etc.

If, as we anticipate, this rotation persists, then areas of the market that have been shunned by many investors for a sustained period of time will, we suspect, need revisiting – areas such as banks, energy companies, traditional value cyclicals and so on.

For sure it is unlikely to be a one-way street, and periodic episodes of volatility such as that witnessed at the end of February will most likely continue to occur. However, in our view, the direction of travel – and the most likely leaders along the path – has become much clearer (and welcome!) during the course of February 2021.

We reiterate our stance from previous monthly reviews – the post lockdown economic recovery, which with a fair wind is likely only a couple of months away, has the potential to be extremely robust and, as such, we have built a portfolio of quality cyclical companies that we expect to disproportionately benefit in that scenario. Consequently, we remain enormously excited about the return potential available from our portfolio in the medium term.

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

Data source: Bloomberg, FE Analytics

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