Review

March was another strong month for UK equities and the MSCI UK Index gained +4.1% over the period.

It was really a case of 'more of the same' in terms of the drivers of positive equity market performance, namely encouraging economic activity data points, continued support from ultra-accommodative monetary and fiscal policies and good progress, in the UK and US specifically, in the battle against Covid-19.

From a government policy perspective, the US is particularly noteworthy as not only did they approve the $1.9 trillion stimulus package, but they also initiated the process to approve another $2+ trillion infrastructure investment plan.

The US is also leading the charge, in the west at least, in terms of reopening their economy from lockdown restrictions, with several major states, such as Texas and Florida, essentially fully reopening again. There are many who believe such moves are premature although time, clearly, will tell.

Here in the UK, excellent progress has continued in terms of the Covid-19 vaccination project and cases, hospitalisations and deaths have, thankfully, fallen significantly. That has allowed us to continue on our 'cautious' journey out of lockdown, with schools broadly fully reopened and outdoor activity starting to resume again.

It has not been all positive news during March, with an accelerating 'third wave' of Covid impacting continental Europe and somewhat unseemly 'vaccine nationalism' emerging in the face of a struggle for supplies. Elsewhere, and perhaps a function of the US points noted above, the US $ has strengthened significantly during the month and that, should it continue, may have implications in the resource sectors and areas such as emerging markets in due course.

Fund Performance / Activity

March was another pleasing month for our fund in terms of performance with a gain of +7.1%, significantly outperforming both the peer group average gain of +4.8% and the MSCI UK Index gain of +4.1%.

Positive attribution came from a variety of domestic UK holdings such as housebuilders Vistry and Persimmon, retailers DFS and Marks & Spencer, as well as JD Wetherspoon, ITV and Drax. Financial holdings also featured prominently with strong contributions from Barclays, Standard Chartered, Legal & General and Prudential.

Our resource holdings such as Rio Tinto, BHP and Antofagasta contributed negatively this month, probably a result of the strong US $ performance. Modest negative attribution also came from WH Smith and OSB Group.

There was one new addition to the portfolio in March, technology group Micro Focus International. The business has had a difficult time over the past few years following an overambitious acquisition in the US. One year into a three-year recovery plan we are encouraged by the progress being made. We added to a variety of existing holdings during the month including OSB, National Express, Phoenix, BHP and Rio Tinto.

There were no material disposals during the month, with additions being funded by new money flow into our fund.

Market Outlook

The change in leadership we referred to last month, towards more cyclical stocks and 'reflation' beneficiaries, continued during March as optimism towards a robust, post pandemic, global economic recovery continued to build.

This accelerating growth narrative received ongoing support from a variety of central banks insisting on no reversal of ultra-easy monetary policy any time soon, as well as further signs of government willingness to enhance fiscal spending to support the recovery, particularly in the US. Continued progress, albeit not universal, in the Covid-19 battle has also been encouraging.

Government bond yields have continued to rise, more or less globally, and that is starting to create episodes of volatility from time to time. Our own view is that the rise in yields is, at this stage, a healthy sign of recovery in economic activity and momentum. We would expect this trend in yields to persist for a period and, whilst further bouts of volatility are to be expected, we do not see an alarming tightening of financial conditions that would warrant a more cautious stance any time soon.

As such, we very much continue to hold a positive outlook for UK equities, and remain hugely excited about the return prospects available from our portfolio of quality cyclical companies in the medium term.

As the end of March is also our fund's year end, a brief comment on performance and dividends is warranted. From the depths of despair 12 months ago equity markets, including the UK, have recovered surprisingly well. Our portfolio, having taken the decision to aggressively support high quality cyclical businesses during the crisis, has performed incredibly strongly and we are delighted to be the top performing fund in the IA UK Equity Income sector over the last year with a gain of +67.6%.

From an income perspective our fund's full year distribution has declined -20.4% (this figure includes a provisional estimate of the final distribution for 2020/21). Whilst this is disappointing of course, we are at least relatively pleased, given the wider UK market saw dividends decline -44% in 2020 according to the widely followed UK Dividend Monitor from Link Group. Perhaps more importantly, as we look to the coming year, we are extremely enthused by the prospects of potentially very strong dividend growth from the group of companies assembled in our portfolio.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 1st April 2021
Data source (unless otherwise stated): Bloomberg, FE Analytics

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