

Review

April has been yet another month of strong equity market performance, with the MSCI UK Index gaining +4.0% over the period.

At the risk of repetition, the same themes that have been driving equity markets higher in recent months were dominant again during April. Continued progress in the global rollout of Covid-19 vaccinations is allowing investors to focus on the potential for relatively strong economic recoveries as countries, to varying degrees, emerge from enforced lockdowns. Early indications from the latest corporate earnings season suggest that the highly anticipated vigorous rebound in corporate earnings is well underway, further boosting sentiment towards equities.

At the same time, as the latest update from the US Federal Reserve has made abundantly clear, central banks and governments around the world remain absolutely committed to sustaining extremely accommodative policy stances until economic recoveries are substantially further entrenched.

As is frequently the case, it has certainly not been all positive news during April. Whilst the third wave of Covid-19 through continental Europe is, thankfully, showing signs of slowing down, there has been an alarming acceleration in cases throughout India which, given the scale of the latest outbreak, is requiring international help and assistance.

We flagged significantly rising government bond yields as a potential risk to equities in our March review and, for now at least, yields have remained relatively well contained. However, with rising input cost inflation becoming a consistent theme through the latest company reporting season, it remains an issue to be mindful of, and one which we continue to monitor closely.

Fund performance / Activity

After a couple of very strong months for performance in February and March, our fund lagged the continued strength in UK equities during April. Our portfolio gained +1.9% for the month, whilst the MSCI UK Index gained +4.0% and the peer group average gained +3.4%.

Positive attribution during the month came from a variety of, predominantly UK domestic economy related holdings, such as house builders Vistry and Persimmon, specialist lender OSB Group, and asset management group Premier Miton. Intermediate Capital also continued to add significant value.

Negative attribution came through a lack of ownership of several large companies that performed strongly during the month, including AstraZeneca, Unilever and Diageo. Of stocks in the portfolio, Barclays, Micro Focus, National Express and Bodycote all detracted modestly during April.

It was a relatively quiet month in terms of portfolio activity with no completely new additions to, or disposals from, the fund. We added to several existing holdings such as Marks & Spencer, Micro Focus, Drax, ITV, Bodycote and Standard Chartered. We took modest profits from positions in Electrocomponents and Vistry Group following strong share price performances.

Market Outlook

There has been no material change in our thinking towards the UK equity market during April. As progress continues to be made in the global Covid-19 vaccination rollout, so our confidence in the eventual reopening of economies and subsequent rebound in economic activity and corporate earnings continues to build. We believe the UK is particularly well placed in this regard, not only due to the relative success of our vaccination programme but also as the uncertainties related to the lengthy Brexit process start to fade.

Of late we have received an increasing number of questions surrounding the extent to which the market has already moved to price in the 'reopening' trade in the UK. Our view remains that, whilst we have clearly seen a degree of share price strength in many of these cyclical areas, we still believe there is substantial further appreciation to be realised as we proceed through the balance of this year.

As such, it should not be a surprise that our portfolio remains exposed to high quality cyclical franchises that should benefit disproportionately from a strong economic recovery. We remain hugely excited about the future return potential of our current holdings into the medium term.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 4th May 2021

Data source (unless otherwise stated): Bloomberg, FE Analytics

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