## Review

May was a somewhat quieter month than of late (unless you are invested in cryptocurrencies that is), although the UK equity market still managed to deliver a modest positive return, with the MSCI UK Index gaining +1.3%.

The topic at the forefront of most investors mind's currently remains inflation and specifically whether the, almost guaranteed near term pick up in inflationary pressures, will ultimately prove to be short lived or whether, after more than 40 years of sustained deflationary forces, the tectonic plates are genuinely shifting once more to a new, more inflationary environment.

During May the 'short lived' argument, supported by a variety of commentaries from central bank officials, appeared to gain more traction as bond yields generally stopped rising and, in some cases, began to decline again.

There are persuasive arguments from both camps and in truth the answer will only be known in the fullness of time. It is without doubt an important issue, with significant implications for investing both at a broad asset class level and also for opportunities within markets.

In other news, the UK continued down the path of a gradual reopening of the economy on the back of continued success in the Covid-19 vaccination rollout. During May the majority of indoor activity has been allowed to restart and the strict ban on overseas travel has been relaxed. Anecdotal suggestions of significant 'pent up' demand appear to be borne out by an initial surge in domestic activity post the easing of restrictions.

## Fund performance / Activity

It was a reasonable month in terms of performance for the fund which gained +2.1%, outperforming the MSCI UK Index gain of +1.3% and inline with the peer group average gain of +2.1%.

Positive attribution came from a variety of, again predominantly UK domestic economy focused businesses, such as DFS Furniture, Marks and Spencer, Vistry, ITV and Drax. Engineering group Bodycote also added value for the fund as did tobacco group Imperial Brands.

Negative attribution came from a number of individual holdings such as WH Smith, Intermediate Capital, Electrocomponents and Antofagasta. Having no exposure to several large companies that performed strongly during the month, including Diageo and AstraZeneca, also proved detrimental.

We were slightly more active within the portfolio during May, introducing 2 new holdings in the shape of WPP and Burberry. Both businesses, under relatively new management, are part way through turnaround programmes and, having monitored them closely for some time, we feel optimistic that genuine progress is being made. We also added to several holdings including WH Smith, National Express, Micro Focus and Standard Chartered.

We made no complete disposals from the portfolio, instead funding the above additions through new money inflows and profit taking in several holdings that have performed strongly recently, including Vistry, Intermediate Capital, Entain and DS Smith.

# Market Outlook

As we approach the, historically quieter summer months, it would not surprise us to see some pause in momentum for UK equities which have had a fairly robust first few months of the year. It strikes us that there are 2 key issues currently that will likely shape the direction of markets and leadership within them.

In the short term all eyes remain on the battle with Covid-19 and specifically the ability of vaccines to continue to be effective against new variants of the virus. This is a key issue in the UK currently with the spread of the so-called 'Indian variant' and what that may, or may not, mean for the lifting of all Covid restrictions on June 21st. We are optimistic on the likelihood of science prevailing but that doesn't preclude a potential delay to full reopening.

In the medium term the issue of sustained or transitory inflation, which we mentioned earlier, will likely remain investors primary focus. For what it is worth, we are inclined to think this could plausibly be the start of a broad regime shift towards more sustained inflationary forces at work, although we are in no way dogmatic in that view and will evaluate the evidence as and when it emerges.

Notwithstanding the potential for a 'summer lull' in markets, our fundamentally constructive view on the outlook for UK equities remains in place for all the same reasons we have noted in past commentaries. The initial recovery in domestic activity post lockdown restrictions easing has been strong and if, as we suspect, it continues we believe there is still a great deal of upside in many of the UK economy exposed stocks we have in our portfolio currently.

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

**Contact Details:**

Fund Manager - smurphy@tyndallim.co.uk
Sales Director - hnolan@tyndallim.co.uk

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