Review

August, being the heart of the summer holiday period, is usually a relatively quiet month for stock market activity and in many respects that was true this year as well. However, the general enthusiasm towards equity markets that we have witnessed all year persisted and the MSCI UK Index gained a further +1.88% for the month.

The issues that have occupied investor discussions in recent months remained at the forefront, principally the ongoing debate over inflation and whether or not the current bout will prove persistent or transitory, and the Covid-19 pandemic and specifically the likely impact on growth expectations as the 'delta' variant spreads inevitably around the world. Other topics of conversation included the ongoing severe disruption to supply chains in many critical parts of the global economy, the geopolitical implications of the US and UK withdrawal from Afghanistan and the forthcoming German elections in September.

Elsewhere, the annual Jackson Hole economic symposium of central bankers took place and, despite several 'hawkish' statements from Federal Reserve board members leading up to the event, Chairman Powell continued to insist that the Fed would move extremely slowly in any effort to remove stimulus given uncertainties surrounding the impact of the Covid delta variant etc.

Here in the UK, a noticeable feature of our market, and arguably a reflection of how relatively cheap our stocks look, has been increased levels of merger and acquisition activity during 2021. That took another step forward in August when US industrial group Parker Hannifin announced an agreed bid for aerospace and defence group Meggitt at a whopping 70% premium to the closing price the day before the announcement. Not to be outdone, a week later another US rival offered a counterbid a further 12% above the initial offer. We suspect this trend is here to stay, at least while access to finance is readily available and UK equities remain relatively lowly valued.

Fund performance / Activity

It was a better month than recently in terms of performance for the fund which gained +3.23% (share class A GBP Net Accumulation), outperforming the peer group average gain of +2.72% and the MSCI UK Index gain of +1.88%.

There was one individual stand out positive contributor during the month, namely Marks & Spencer. The shares responded very strongly to an unscheduled trading statement suggesting that the business is recovering more quickly than previously anticipated amid signs that the significant turnaround plan of the last few years is starting to have a meaningful impact.

Elsewhere, a number of our cyclical holdings contributed positively including Micro Focus, WPP, Bodycote, Prudential, Standard Chartered and Barclays Bank.

Negative attribution came from a variety of holdings including travel related names such as WH Smith, EasyJet and National Express. Resource holdings such as Rio Tinto and Antofagasta were also a drag on performance. Meanwhile, the biggest single detractor was Burberry group.

Portfolio activity was extremely limited during August. We added to Burberry during the sell-off of luxury goods companies that was induced by fears of a Chinese clampdown on high income earners as President Xi Jinping called for wealth redistribution and stronger regulation of high incomes.

Market Outlook

We are not consciously being lazy but, as with last month, we do not really have anything new to add from previous outlook comments. There are, perhaps, tentative signs that markets are starting to shift away from the cautious/defensive bias that has been in operation for several months now, but it is very early days at best.

The primary concerns remain well understood, namely the impact of the ongoing Covid-19 pandemic, the persistence or otherwise of current elevated inflation readings, the drag to growth from severe supply chain disruptions in certain industries and the eventual need to withdraw ultra-easy policy support.

Notwithstanding these concerns, our view remains that we are in the relatively early stages of the post-pandemic recovery period. Economic activity still has substantial room to rebound as economies gradually reopen around the world, corporate profitability continues to recover strongly and policy, whilst eventually needing to be tightened, remains very accommodative and will likely be so for a substantial period to come, as US Federal Reserve Chair Jerome Powell made clear in his latest commentary at Jackson Hole.

Concerning our portfolio holdings, we reiterate our previous views, specifically we remain extremely optimistic on the medium-term outlook for significant further progress. In a great many cases we view our holdings as being roughly one year into a multi-year recovery process. Of course, there will be bumps along the way, but the medium-term upside still looks exceptional to us and, as such, we are happy to keep the exposures we currently have, and indeed we remain comfortable utilising any near term weakness to add to favoured positions.

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

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