VT Tyndall Real Income Fund

Monthly Commentary | October 2021

TYNDALL

Review

Equity markets continued to strengthen globally during October, and the UK was no exception, with the MSCI UK Index gaining +2.31% over the month.

The list of worries we referred to last month, including elevated inflation readings, possible large scale bond defaults in China, and political gridlock in the US, all eased somewhat in October with longer dated government bond yields falling back, Chinese authorities insisting any fall out from the Evergrande situation will be contained, and US politicians extending the 'debt ceiling' temporarily to allow more time to potentially approve large scale fiscal stimulus measures.

This left the latest reported earnings season as the primary focus for markets and, in general, notwithstanding concerns over input cost pressures and supply chain logistical headaches, earnings have been robust with underlying demand strength sufficient to more than offset these obstacles in the majority of cases.

Here in the UK, whilst the overall market made good further progress it was very much led by the large, typically multinational, companies rather than the small/medium sized more domestically focussed businesses. There are a number of perceived headwinds in the UK currently including high levels of Covid infections, rising energy costs, ongoing Brexit frictions and, more recently, worries that the Bank of England are becoming increasingly concerned about persistent inflationary pressures and are about to embark on a series of interest rate increases which may act to dampen the economic outlook.

Fund performance / Activity

It was a disappointing month in terms of relative performance for the fund which fell -0.46% (share class A GBP Net Accumulation), underperforming both the peer group average gain of +0.47% and the MSCI UK Index's gain of +2.31%.

Negative attribution came from a variety of cyclical holdings including industrial businesses Melrose, DS Smith and Bodycote and travel related holdings National Express, EasyJet and WH Smith. Additional detractors included two large companies that we do not own, HSBC and GlaxoSmithKline, whose share prices performed relatively strongly during the month.

Positive attribution came from a number of unrelated holdings such as Burberry, WPP, Drax and DFS Furniture. Two of our bank holdings, Standard Chartered and Barclays, also performed relatively strongly during the month.

October was a reasonably quiet month for activity in the portfolio. We added one new holding, Taylor Wimpey, which was funded by exiting our Persimmon position as we see greater upside in the former. We also added to several existing holdings such as Wickes, Rolls Royce, DS Smith, Bodycote and Keller.

We made one further complete disposal during the month, of our Micro Focus holding. This has been a disappointing investment for us but, given weakness in other higher conviction holdings, we decided to use the capital to add to those positions (as noted above). We also took modest profits in BP.

Market Outlook

We commented last month that we felt most of the ‘issues’ facing markets at the time were likely, in our view, to prove relatively temporary and unlikely to derail the ongoing recovery from the Covid-19 pandemic, and we very much stick with that view.

We acknowledge the capacity for short term volatility at any time but fundamentally, as the latest corporate reporting season is perhaps reminding us, the world is still in the recovery phase from the scarring created by the worst global pandemic in over 100 years. The strength of underlying demand, across multiple geographies and industries, is a key reason why we have issues with supply chain bottlenecks, inflationary pressures and so forth, but is also a reason to believe these will be overcome positively in due course.

With regard to the perceived issues currently facing the UK specifically, we would again argue that most appear relatively temporary and unlikely to derail the economic bounce back. Covid cases, whilst high, may be close to peaking and vaccines appear to be having the intended consequence of significantly reducing hospitalisations and deaths. Brexit frictions will be a fact of life for some time to come, but it remains in the interest of all parties concerned for them to be resolved in due course. Whilst the Bank of England may well start the process of raising interest rates, from the ultra-low level of 0.10% imminently, we feel it unlikely that a modest round of rate increases will be enough to materially change the economic growth outlook. We consequently remain unashamedly positive on the outlook for the UK economy, and domestic related stocks, in to the medium term.

Concerning our portfolio holdings, we perhaps spoke too soon last month when we observed a recovery in ‘value’ relative to ‘growth’ equities, as that quickly reversed again during October. Nevertheless, we remain extremely optimistic on the medium-term outlook for significant further progress with substantial further upside potential still to come. As such, we are happy to keep the exposures we currently have, and we remain comfortable utilising any near term weakness to add to favoured positions.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 2nd November 2021
Data source (unless otherwise stated): Bloomberg, FE Analytics

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