Review

March saw the first full month of fighting in the war between Ukraine and Russia and that, not surprisingly, dominated the headlines. The full implications of the conflict have yet to be understood although, as has been the case with previous outbreaks of war, equity markets appeared to take these horrific events relatively calmly in their stride. The MSCI UK Index, supported by heavy weightings to the natural resource sectors, managed to gain +2.0% for the month.

Russian expectations for an early, decisive victory have been thwarted by a combination of courageous resistance from Ukraine and a seemingly poorly planned and resourced attack strategy from Russia. There have been several negotiation attempts during the month which, to date, have not resulted in a much hoped for ceasefire. Predictions as to the eventual resolution of the conflict range from a long, bloody, drawn-out affair to a relatively swift conclusion, given Russia's failures to date and the financial, economic and humanitarian costs they are having to absorb.

Elsewhere, inflation continues to rise fairly rapidly around the world with expectations of further increases still to come. These are driven by a combination of commodity price increases and more supply chain disruptions, as a consequence of both the situation in Ukraine and more periods of lockdown in China, as the country continues to persue a 'zero Covid' policy. Central bankers have responded with ongoing hawkish rhetoric and, as such, expectations for the scale of interest rate rises ahead continue to increase. The bond market has duly taken note with yields rising sharply, particularly at the short end, and yield curves continuing to flatten at lightning speed.

Here in the UK, notwithstanding relatively robust current levels of economic activity, concern continues to build for a potentially sharp economic slowdown later in the year, as the country grapples with the so called 'cost of living crisis'.

Fund performance / Activity

It was another extremely difficult month for the portfolio as cyclical stocks and sectors (outside of oil and natural resources) continued to suffer relatively. Our portfolio lost -1.1% (share class A GBP Net Accumulation), underperforming the peer group average gain of +2.5%, and the MSCI UK Index's gain of +2.0%.

Underperformers were concentrated in the consumer discretionary and industrial sectors and included holdings such as Marks & Spencer, WH Smith, Inchcape, ITV, Bodycote and Melrose. Having no exposure to index giants Shell and AstraZeneca also proved detrimental yet again this month as both performed relatively strongly.

Limited positive attribution came from financial holdings such as OSB, TP ICAP and Intermediate Capital – the latter 2 stocks purchased during the month. Other positive contributors included utilities Drax and Centrica as well as Keller, Wickes and Glencore.

Given the high levels of volatility we were relatively active during the month. We made 2 new additions to the portfolio in financial companies TP ICAP and Intermediate Capital. We have owned the latter stock in the portfolio previously and the opportunity to purchase again at a relatively distressed short-term price was too good to ignore. We made one complete disposal, Legal & General, primarily to fund these additions where we see considerably greater upside potential.

We used significant short-term price weakness to add to a variety of holdings including Bodycote, Inchcape, DS Smith, Melrose and DFS Furniture. These were funded by profit taking in holdings such as BP, Glencore, Rio Tinto, Centrica and Drax.

Market Outlook

The ultimate outcome of the terrible war in Ukraine remains extremely hard to predict at this stage. As far as can be ascertained, events have clearly not gone to plan from a Russian perspective. Whether that accelerates a potentially negotiated settlement or results in a drawn-out war of attrition remains to be seen. The implications for markets are equally difficult to predict with any certainty. Most commentators have recently become increasingly concerned for the economic and market outlook in the months ahead.

High and rising levels of inflation are a key ingredient, most likely getting worse in the short term through further energy price increases and supply chain disruptions as the western world adjusts to limited interaction with Russia. Covid remains a significant issue in many parts of the world, most notably China/ Asia, causing further meaningful disruption to economic activity.

Central banks, fearful of accusations of being 'asleep at the wheel', continue to talk tough in their willingness to take the necessary policy actions to bring inflation back to target and this is having a significant impact on bond markets globally. Short term bond yields have been rising extremely quickly of late and as curves have flattened and/or inverted in some cases, the level of concern for the near-term outlook has risen sharply.

We are clearly not oblivious to these concerns and we recognise the immediate outlook has most likely deteriorated to some degree. However, for us the primary focus is the extent to which such deterioration has meaningfully impacted the medium-term prospects of our holdings, alongside the extent to which such concerns are already reflected in share prices which, in a great many cases, have already fallen substantially.

We are currently less fearful than many when it comes to the degree of economic slowdown potentially ahead. We think the world still has a significant degree of 'reopening' to do, as we slowly emerge from the long shadow of Covid. We also believe there are considerable offsetting factors, for consumers and corporates alike, to the inflationary headwinds currently. These include, among other things, generally strong balance sheets, and healthy labour and housing markets.

We believe the collection of companies currently in our portfolio have incredibly strong franchises and are more than capable of withstanding any near-term economic difficulties. They also, in general, look exceptionally good value to us, particularly given the recent weakness in many of their share prices. As such, we remain extremely enthusiastic for the upside potential for the portfolio and we remain happy to purchase more shares at attractive prices in bouts of market volatility.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 4th April 2022
Data source (unless otherwise stated): Bloomberg, FE Analytics

Contact Details:

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

vadevalor
AAA Rated Fund Manager

Disclaimer

WARNING: All information about the VT Tyndall Real Income Fund ('The Fund') is available in The Fund's prospectus and Key Investor Information Document which are available free of charge (in English) from Valu-Trac Investment Management Limited (www.valu-trac.com). Any investment in the fund should be made on the basis of the terms governing the fund and not on the basis of any information provided herein.

The information in this Report is presented using all reasonable skill, care and diligence and has been obtained from or is based on third party sources believed to be reliable but is not guaranteed as to its accuracy, completeness or timeliness, nor is it a complete statement or summary of any securities, markets or developments referred to. The information within this Report should not be regarded by recipients as a substitute for the exercise of their own judgement.

The information in this Report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In the absence of detailed information about you, your circumstances or your investment portfolio, the information does not in any way constitute investment advice. If you have any doubt about any of the information presented, please consult your stockbroker, accountant, bank manager or other independent financial advisor.

Value of investments can fall as well as rise and you may not get back the amount you have invested. Income from an investment may fluctuate in money terms. If the investment involves exposure to a currency other than that in which acquisitions of the investments are invited, changes in the rates of exchange may cause the value of the investment to go up or down. Past performance is not necessarily a guide to future performance.

Any opinions expressed in this Report are subject to change without notice and Tyndall Investment Management is not under any obligation to update or keep current the information contained herein. Sources for all tables and graphs herein are Valu-Trac Investment Management Limited unless otherwise indicated.

The information provided is "as is" without any express or implied warranty of any kind including warranties of merchantability, non-infringement of intellectual property, or fitness for any purpose. Because some jurisdictions prohibit the exclusion or limitation of liability for consequential or incidental damages, the above limitation may not apply to you. Users are therefore warned not to rely exclusively on the comments or conclusions within the Report but to carry out their own due diligence before making their own decisions.

Employees of Tyndall Investment Management, or individuals connected to them, may have or have had interests of long or short positions in, and may at any time make purchases and/or sales as principal or agent in, the relevant securities or related financial instruments discussed in this Report.

Tyndall Investment Management is a trading name of Odd Asset Management. Authorised and regulated by the Financial Conduct Authority (UK), registration number 660915. This status can be checked with the FCA on 0845 730 0104 or on the FCA website (UK).

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