Review

The key themes that have been dominating investor concerns for several months now, chiefly the war in Ukraine, persistently high levels of inflation, hawkish rhetoric from prominent central bankers and the potential for a global slowdown/recession, remained at the forefront of the investment debate during April. The result saw some extremely painful equity market declines in many regions, particularly the USA, where the S&P 500 had one of its worst months on record. Somewhat surprisingly, the MSCI UK Index managed to record a gain of +1.00%.

The war in Ukraine continues with, at this stage, seemingly little prospect of a swift resolution. Having been thwarted in their initial objectives, Russian forces have regrouped to focus on capturing a large chunk of territory in eastern Ukraine. Progress appears relatively limited as Ukrainian forces, supported by supplies from the west, provide stern resistance. The political rhetoric continues to build from both sides, making a peaceful near-term resolution an increasingly unlikely outcome.

Inflation, and the necessary policies to combat it, remains a constant source of angst for market participants, with government bond yields continuing to rise sharply. Central bankers, having been caught out by the 'this is transitory' argument in 2021, appear to be in a race to prove their inflation fighting credentials, and expectations for significant monetary policy tightening continue to build.

In large part due to the factors above, arguably made worse by the strict lockdown policies China are implementing in their ongoing battle for 'zero Covid', expectations for global growth have deteriorated sharply and talk of an imminent global recession is rife. These events have had the expected impact on investor sentiment which, according to several widely followed surveys, is more depressed now than it has been for a very long time.

Fund performance / Activity

It was yet another frustrating month for the portfolio as cyclical stocks and sectors continued to suffer relatively. Our portfolio lost -2.9% (share class A GBP Net Accumulation), underperforming the peer group average loss of -0.4%, and the MSCI UK Index's gain of +1.0%.

Underperformers were again concentrated in the consumer and industrial sectors and included holdings such as Marks & Spencer, DFS Furniture, Rolls-Royce and Melrose. Financial holdings Intermediate Capital and TP ICAP were also a drag. Having no exposure to index giants Shell, AstraZeneca, Diageo and Unilever also proved detrimental again this month as they performed relatively strongly.

There were significant pockets of positive attribution including from holdings such as Wickes, Inchcape, National Express, DS Smith and Standard Chartered. However, these were insufficient to offset the negative contributors noted above.

Portfolio activity was relatively modest during the month and we made no completely new additions or disposals in the fund. We added to a variety of holdings where share prices remain under pressure, including Bodycote, TP ICAP, Marks & Spencer, Burberry and Intermediate Capital. These were funded by further profit taking in holdings such as BP, Glencore, OSB Group and Drax.

Market Outlook

We do not have a great deal to add to our market outlook commentary of prior months. As mentioned previously, the economic growth outlook has deteriorated somewhat recently, driven primarily by all the factors noted above. This deterioration has not been lost on equity markets, with significant losses in some markets and very substantial losses in specific, typically highly cyclical, sectors of markets.

As a consequence, investor sentiment, judging by survey indicators, is extremely depressed currently and to a far greater degree than we would have expected. To what extent that creates the potential for positive relative surprises remains to be seen. Certainly, we are 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, including generally strong balance sheets, and healthy labour and housing markets.

In the short-term, company commentary during the latest earnings reporting season has generally remained robust, with scant evidence of any meaningful demand weakness in the areas markets seem most concerned about, such as UK housing activity for example. Only time will tell whether the markets have correctly anticipated a major economic slowdown or whether, in fact, recent significant share price weakness offers attractive opportunities for the medium term. It should come as no surprise to regular readers that we currently sit firmly in the latter camp.

We believe the collection of companies 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, 3rd May 2022
Data source (unless otherwise stated): Bloomberg, FE Analytics

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