Review

After the relative calm of May, June witnessed a brutal sell off in markets around the world, and this time the UK equity market was not immune, as the MSCI UK Index fell -5.17% for the month. Whilst persistently high inflation remained an important theme, the focus of markets shifted decisively towards the increasing likelihood of a global recession, creating high levels of risk aversion across multiple asset classes.

Elevated inflation prints across many geographies, together with increasingly tough rhetoric from central bankers expressing their willingness to raise interest rates aggressively, if needed, to get inflation under control, is convincing an increasing number of market participants that a meaningful global recession is both imminent and inevitable.

Economic datapoints are increasingly starting to reflect a degree of slowing in the global economy although by no means, yet at least, weaking at the sort of rate that might be expected in a recessionary environment. Similarly, whilst there is an inevitable degree of caution being inserted into company outlook commentaries of late, most companies we follow, even in very cyclical sectors of the economy, are still trading fairly robustly at present.

Here in the UK, Boris Johnson survived a leadership challenge from within his own party and whilst, technically at least, he is safe from another challenge for at least 12 months, the scale of internal dissent, with over 40% of conservative MPs voting against him, presents significant challenges to his authority and ability to govern effectively.

Fund performance / Activity

Given the scale of risk aversion seen in the market during June, it was an extremely disappointing month for performance as our, largely cyclically exposed fund, struggled significantly. Our portfolio fell -10.59% (share class A GBP Net Accumulation), materially underperforming the peer group average fall of -6.17%, and the MSCI UK Index's fall of -5.17%.

Underperformers were concentrated in the consumer and industrial sectors and included holdings such as National Express, EasyJet, Bodycote, Wickes, JD Wetherspoon and Ashtead. Select financial holdings were material detractors as well, including Intermediate Capital and TP ICAP.

There was limited positive attribution within the portfolio, although industrial company Melrose performed well, and more defensive holdings such as Imperial Brands also outperformed. The most significant positive attribution came from large stocks we do not own, such as Shell and Anglo American, whose share prices underperformed.

We were reasonably active during the month, given the heightened degree of volatility in the market. We added one new holding to the portfolio, industrial business Vesuvius, and we made one complete disposal of media group WPP.

We added to a variety of holdings following significant share price weakness including Ashtead, Bodycote, DS Smith, Prudential and WH Smith. These were funded by profit taking in holdings such as BP, Rio Tinto, Centrica, Standard Chartered and British American Tobacco.

Market Outlook

We have noted multiple times in recent months that the economic growth outlook has deteriorated somewhat, and that this deterioration has not been lost on equity markets, and in particular the cyclical sectors of the market. Nonetheless, extreme periods of weakness, such as we had in June, remain incredibly painful in the short term.

Whilst feeling increasingly in the minority, we remain of the view that a period of significant or protracted economic weakness in the near term is by no means a certainty. We do not base that view on unsubstantiated 'hope' but rather the combination of the very unusual economic starting conditions coming into this turbulence (strong consumer and corporate balance sheets, healthy labour and housing markets, pent up reopening demand post Covid etc) and the, generally speaking, still robust trading patterns of most businesses we follow.

Meanwhile, the scale of the weakness seen in the share prices of many of the highly cyclical areas of the market is already, in our view, discounting an extremely sharp economic slowdown. In the UK for example, the Mid 250 (ex Investment Trusts) Index actually peaked 10 months ago, at the end of August 2021, and is currently down approximately -25%, with a great many individual shares down considerably more.

Whilst our portfolio remains highly cyclical, we believe the collection of companies have incredibly strong franchises and are more than capable of withstanding any near-term economic difficulties, should they indeed come to pass. What's more, given the scale of share price falls for many of them recently, they also look exceptionally good value currently. As such, we remain extremely enthusiastic for the upside potential for the portfolio over the medium term, and we remain happy to purchase more shares, at increasingly attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, July 4th 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:

Not for retail distribution, this document is intended for professional clients only

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.

Capital at Risk - 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.