Review

The bounce in equity markets through July proved relatively short lived as material weakness emerged, globally, once again during August. The UK equity market was not immune, and the MSCI UK Index lost -1.31% for the month.

Economic datapoints continue to point to an ongoing, albeit relatively modest at this stage, loss of growth momentum around the globe. Meanwhile, hopes that the US Federal Reserve might start to signal a slowdown in the pace of interest rate increases were dampened significantly following Chairman Powell's commentary at the annual Jackson Hole symposium.

Over in Europe, all eyes remain on the ongoing conflict between Russia and Ukraine, with market participants getting increasingly concerned for the economic impact of surging energy costs, in no small part due to limited supplies of gas from Russia.

Here in the UK, the race to become the next Prime Minister is nearing its conclusion, with Liz Truss still widely regarded as the favourite. Whoever wins will face a rather full in tray of urgent matters to deal with, most notably the pressing need to be seen to help as far as possible with the escalating cost of living crisis, which has been given another shot in the arm with the latest, eyewatering, increase in the energy price cap.

Fund performance / Activity

The rollercoaster of performance that we have experienced for several months now showed no signs of abating in August, this time with relatively weak performance for our fund, after the stronger showing in July. The portfolio lost -5.94% (share class A GBP Net Accumulation) for the month, materially underperforming both the peer group average loss of -2.59% and the MSCI UK Index loss of -1.31%.

In yet another complete reversal of the prior month, underperformers were concentrated in the industrial and consumer discretionary sectors and included holdings such as Vistry, Rolls-Royce, ITV, Melrose, Dunelm, Wickes, Taylor Wimpey and Inchcape.

Positive attribution, such as there was, came from select financial companies including OSB, Standard Chartered, Barclays and, most notably, TP ICAP. More defensive holdings such as Imperial Brands performed relatively well, and we also benefitted from not owning index heavyweight GSK.

We were less active during the month than recently. We made no new additions to the portfolio and only one complete disposal of Marks & Spencer. We have a significant amount of exposure to strong UK consumer franchises in the portfolio and, given substantial weakness in share prices, we reallocated the M&S capital to higher conviction holdings, adding to Howden Joinery, Dunelm, Wickes and DFS Furniture during the month.

We also added to Prudential, Rolls-Royce and EasyJet during August and these additions were funded by profit taking in stocks such as NatWest, OSB and TP ICAP.

Market Outlook

As we leave summer 2022 behind and head into the autumn, the mood in equity markets remains as downbeat as we can recall in many years. The list of worries is impressively high and includes persistently high inflation, hawkish central banks, soaring energy costs, ongoing war in Ukraine, rolling Covid related lockdowns in China, rising bond yields, fears of global recession and more.

We are not, by any means, oblivious to these concerns and we fully expect there to be a degree of economic weakness ahead consequently. However, we remain of the view that we have, in general, entered this difficult period with significantly better 'starting conditions' than we typically do in times of weakness, particularly in important areas such as the health of consumer, corporate and banking sector balance sheets. Our expectation, therefore, remains for a relatively modest economic slowdown and certainly significantly less than what, we believe, is already priced into a great many of the more cyclical areas of stock markets.

Regardless of the very near-term outlook, we remain firmly of the view that the collection of companies currently in our portfolio 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 today. 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, September 2nd 2022
Data source (unless otherwise stated): Bloomberg, FE Analytics

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