VT Tyndall Real Income Fund

Monthly Commentary | January 2023

TYNDALL

Review

2023 certainly started with a bang as equity markets around the world rose, in many cases extremely vigorously, during January. The UK equity market happily joined the party, and the iShares UK Equity Index tracker gained +3.58% for the month.

The primary worries that have made investors so fearful for some time now – inflation, interest rates, China, Europe and corporate earnings all, at least on the face of it, appeared to ease during January, no doubt contributing significantly to the strength in equities.

Inflation continued to show signs of meaningfully falling in a variety of geographies, most notably in the United States, leading many investors to anticipate the imminent end of the Federal Reserve interest rate hiking cycle – despite the best efforts of various Fed speakers intimating very much to the contrary.

Meanwhile, evidence of ample energy stocks, in conjunction with a milder than expected winter, had most investors breathing a sigh of relief that a significant energy crunch in Continental Europe could be avoided for this winter at least. Subsequently, a raft of economists and investment banks have upgraded their outlook for Europe for 2023, with most now no longer expecting the recession they were previously forecasting.

Elsewhere, enthusiasm continued to build towards the seemingly complete abandonment of zero Covid policies in China, and the implications in terms of unleashing pent up demand on the wider world from the second largest global economy, after 3 years of strict lockdowns.

Finally, the corporate earning season began in earnest in January and, whilst by no means universally positive, the general commentary has been one of reasonable resilience in underlying demand so far. Here in the UK for instance, the traditional post-Christmas trading updates from the general retail sector showed surprising strength, given the well flagged cost-of-living crisis and so on.

Fund performance / Activity

Pleasingly it was an outstanding month performance wise, as the portfolio gained +10.69% (share class A GBP Net Accumulation), materially outperforming both the peer group average gain of +4.29% and the iShares UK Equity Index tracker gain of +3.58%.

Significant outperformance came from a variety of our industrial, consumer discretionary and financial holdings such as EasyJet, Intermediate Capital, Dunelm, Howden Joinery, Vistry, Burberry, Bodycote, OSB Group and Prudential. Detractors were, unsurprisingly, relatively limited. Portfolio holdings TP ICAP, DFS Furniture and PageGroup were modest underperformers, whilst the biggest detractors were large index constituents that we do not own, such as HSBC, Lloyds and Shell, whose share prices performed well in the broad market rally.

January was another relatively quiet month for portfolio activity with no complete disposals or new additions for the second month running. We added modestly to existing positions in PageGroup, ITV, Imperial Brands and Hill & Smith, funded via profit taking in holdings such as Burberry, Melrose Industries, Intermediate Capital, Prudential and DS Smith.

Market Outlook

We noted last month the potentially significant impact the reopening of China could have on global growth expectations, and anticipation continues to build in markets in that regard. Throw in a somewhat better outlook for Europe from an easing of the acute energy crisis, inflation continuing to recede, consumer demand generally still strong in many countries, interest rate hiking cycles potentially nearing their end, alongside hitherto extreme levels of investor pessimism with regards these issues, and you have the recipe for a vigorous bounce in markets, which is arguably what has just occurred.

The question obviously remains, to what extent these are temporary improvements in the overall picture, only to be subsequently overtaken by an inexorable decline into recession, corporate earnings collapse, a further lurch down in equity markets and so forth. Alternatively, are they, as unlikely as it may seem today, the early stages of a more fundamental improvement in the economic and investing landscape, to be built upon in the weeks and months ahead.

Only time will reveal the answer of course, however regular readers will understand our position, which has consistently erred on the side of the more optimistic rather than pessimistic viewpoint. This has been primarily driven by the unusual, and much healthier, starting conditions for entering this period of economic turbulence, in terms of employment, consumer and corporate balance sheets and so on. To be clear, we do not think we are out of the woods economically speaking, but rather the extreme bearishness that has been priced into many, particularly cyclical, areas of markets is simply too excessive.

We are obviously delighted with the recent performance of our portfolio, not just in January 2023, but over the last few months more generally. Whilst this gives us encouragement that the market is starting to recognise the significant value on offer in many quality, albeit cyclical, franchises, we still expect a degree of volatility in the near term as investors wait for greater clarity regarding the outlook. Notwithstanding this uncertainty, we remain extremely enthusiastic for the upside potential for the portfolio, and we remain happy to purchase more shares, at attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, February 2nd 2023
Data source (unless otherwise stated): Bloomberg, FE Analytics

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AAA Rated Fund Manager

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