VT Tyndall Real Income Fund

Review

March witnessed a return of significant volatility in equity markets, largely because of concerns surrounding the health of the global banking sector, and specifically the US regional banks. The UK market did not escape the fallout, and the iShares UK Equity Index tracker fell -2.88% in March.

In the space of just 2 weekends in March, we saw the 2nd and 3rd largest bank failures, by assets, in US history, namely Silicon Valley Bank and Signature Bank respectively, followed by the hastily arranged sale of Credit Suisse to UBS, after it became clear that not even a $54bn credit line from the Swiss National Bank would be sufficient to shore up client confidence in the ailing franchise. Meanwhile, the 14th largest bank in the US by assets, First Republic Bank, had a $30bn cash infusion from 11 top US banks, including JP Morgan Chase and Bank of America which still, at the time of writing, has not been enough to ensure the survival of First Republic in its current format.

Understandably, markets initially reacted extremely negatively to these developments, with substantial falls in equity markets and oil prices alongside some of the largest falls in bond yields ever seen in such a short time period, as investors moved swiftly towards perceived safety. As the month progressed, a degree of calmness returned as it appeared the relatively speedy resolution of these issues, alongside further liquidity provision from central banks, would be sufficient to contain the fallout and prevent broader contagion to other areas of the markets.

Elsewhere, economic and corporate data has continued to come through healthily, relative to persistent bearish expectations, and many commentators have been surprised by the general level of resilience. It is too early to say what impact these latest banking sector travails will have in this regard, although this will clearly be an important issue to monitor as we move forwards.

Finally, here in the UK a new deal between the UK and the EU over post-Brexit trade arrangements for Northern Ireland has been agreed, with key aspects of it approved by Parliament, despite opposition from the DUP and a small number of Eurosceptic conservatives. In addition, the UK has recently reached agreement to join a major free trade bloc in the Pacific region, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Fund performance / Activity

Given the increased volatility and weakness in the UK equity market, with mid and small cap companies hit particularly hard, it is perhaps no surprise that our portfolio suffered during March, falling -5.24% (share class A GBP Net Accumulation), underperforming both the peer group average loss of -4.14% and the iShares UK Equity Index tracker loss of -2.88%.

Detractors to performance came from a broad range of cyclical holdings in the portfolio such as Inchcape, Keller, Intermediate Capital, Standard Chartered, DFS Furniture, Ashmore and DS Smith. It was not all negative news during the month, with positive attribution from several holdings including Melrose, EasyJet, Rolls-Royce and PageGroup. Although, the biggest contributors were actually large index constituents that we do not own, such as HSBC and Shell, whose share prices also suffered in the broad market sell off.

We were reasonably active during the heightened volatility in March, adding to a variety of holdings as share prices fell, including Inchcape, Intermediate Capital, Prudential, WH Smith and Wickes. These additions were funded by profit taking in holdings such as Melrose, Burberry, Imperial Brands and BP. We also made one complete disposal during the month of our position in Premier Miton.

Market Outlook

With the uncertainty of 'who's next' gripping markets and memories of the Global Financial Crisis of 2008/9 still raw for many, it is perhaps only natural to question whether we are on the verge of another global financial crisis and if so, just how bad could it be. Without wishing to downplay the seriousness of the above events, our view remains that a 2008 Redux is not particularly likely. This seems to be first and foremost a liquidity issue not a solvency one, unlike in 2008. As such, the authorities have the tools and the experience (post the GFC) to deal with liquidity issues quickly, which is exactly what we are seeing occur in the situations noted above.

Clearly market volatility is high currently, but we think it will be key to focus on the reaction function of governments and central banks going forwards. Aside from actions relating to specific banks, the most likely reactions now are slowing/stopping interest rate hikes and providing additional liquidity to markets, which is already starting to happen.

From an economic perspective the data will most likely take a turn for the worse soon, as banks become increasingly reluctant to make new loans, particularly in higher risk lending segments. Whilst not necessarily helpful, the key for us is that, courtesy of the extreme pessimism towards the economic outlook that has been prevalent for some time now, this is already more than reflected in the valuations of many very cyclical companies, particularly in the mid-cap area of the market.

Given the speed and scale of the above events, it is not surprising that investor sentiment has shifted extremely negatively very quickly, and this is undoubtedly creating opportunities in many areas, particularly where pessimism is the highest. Financial related stocks, for example, feel extremely uncomfortable to hold or buy right now, and there are interesting opportunities emerging consequently. Finally, there are some potential positive developments occurring that should not be ignored, most notably the significant fall in the oil price. This will offer further relief on the inflationary front and additional discretionary spending capacity directly to consumers' pockets.

We continue to expect a degree of volatility in markets 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.

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Data source (unless otherwise stated): Bloomberg, FE Analytics

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AAA Rated Fund Manager

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