VT Tyndall Real Income Fund

Monthly Commentary | April 2023

TYNDALL

Review

April was a relatively calm month in equity markets, as the threat of a global banking crisis appeared to recede further. The UK market made steady progress against this backdrop, and the iShares UK Equity Index tracker gained +2.43% for the month.

Fears over the health of the US banking system continued to keep markets on edge during April, and in particular the ongoing concern over the fate of First Republic Bank. However, investors took increasing comfort that the issues, whilst serious, were unlikely to create wider contagion problems. Indeed, at the time of writing it appears a deal has been struck for JP Morgan to acquire the majority of First Republic, potentially bringing this acute period of banking stress to an end.

Meanwhile, the US earnings reporting season has been in full swing during April and the early signs of relative strength have been confirmed more broadly. Over half of S&P 500 companies have now reported first quarter 2023 earnings and c. 79% have beaten earnings estimates and c. 73% have beaten sales estimates. Given the prevailing level of pessimism towards the economic and corporate outlook, these are welcome developments for sure.

Here in the UK, there has been little new of note during April. Ongoing industrial disputes, largely pay related, continue to add a degree of friction to the economic backdrop. That said, in general UK data points are continuing to surprise relatively positively, and encouragingly we are continuing to see modest improvements in the housing and mortgage markets following the weakness of last autumn.

Fund performance / Activity

Whilst the UK market made steady progress during April, market leadership had a 'defensive' feel to it and consequently our, more cyclical, portfolio lagged modestly. Our fund gained +1.36% (share class A GBP Net Accumulation), underperforming both the peer group average gain of +2.30% and the iShares UK Equity Index tracker gain of +2.43%.

There were a wide variety of positive contributors to performance in April, including holdings such as Entain, Melrose, Bodycote, Intermediate Capital, Prudential and Taylor Wimpey. Detractors to performance came from holdings such as DFS Furniture, Ashtead and EasyJet, although once again the biggest detractors were large index constituents that we do not own, such as HSBC, Shell, AstraZeneca and Unilever whose share prices performed well in the rising market.

We were more active than usual during April, introducing three new holdings to the fund and making three complete disposals. The new holdings were in Weir, Games Workshop and MoneySuperMarket.com, whilst the disposals were of Burberry, Rio Tinto and Dowlais (the recent automotive spin out from Melrose). We also added modestly to DFS Furniture and Ashtead and took profits in EasyJet, Vistry and Inchcape.

Market Outlook

We mentioned last month that we felt the US banking issues, whilst serious, were unlikely to lead to a repeat of the 2008/9 financial crisis and we have increased levels of confidence in that view today. The speedy resolutions we have seen for failing institutions, together with additional liquidity provision more broadly, should be sufficient to limit the damage from what is primarily a liquidity crisis rather than a question of solvency.

Of course, that is not to say there will be no consequences from these events and a more limited availability of credit for the economy may well be a key one. Only time will tell to what extent that may manifest itself in weaker levels of economic activity and/or a possible recession, that so many market participants seem to have been predicting for some time now.

Meanwhile, it seems likely that one of the most aggressive interest rate hiking cycles in recent memory is at, or very close to, a peak as inflation, whilst undoubtedly 'sticky,' is gradually brought down to more acceptable levels.

It should not surprise our readers that, in the face of some of the most extreme pessimism we have experienced, we have generally erred on the side of a more optimistic take on prevailing economic and market conditions and we continue to hold that view today. We may well see some weaker data points in the period ahead, but we think there remain important offsets in terms of residual corporate and consumer balance sheet strength, still relatively robust labour markets and income growth and benefits yet to accrue from substantially lower oil and energy prices.

Meanwhile, we remain encouraged by the resilience of corporate earnings in the latest results season, and we take comfort from company outlook statements which, by and large, remain cautiously optimistic.

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.

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

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AAA Rated Fund Manager

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