TYNDALL INVESTMENT MANAGEMENT

VT Tyndall North American Fund

April Review

The Q1 earnings season has been nothing short of spectacular. EPS growth is running at 24% yoy, with three quarters of the companies in the S&P 500 having reported so far. However the S&P 500 index has been volatile and was only up 0.27% in April. The mediocre performance of the index might indicate that we are hitting peak earnings, indeed some companies, like Caterpillar, having explicitly called this out. But while some companies and industries are reaching their peak, it is not the case for all companies and industries. This is why active management is so important at this point in the cycle. Sectors do not move in lock step, and this is the time when the dispersion of returns increases. Inflation is accelerating, and this is dire news for those companies that do not have pricing power as both rising wages and rising input costs crush margins. The Consumer Staples sector is the poster child of this issue, and is materially underperforming year to date.

Market Outlook

One of the sectors that is benefitting from this inflationary backdrop is Energy. We have been zero weighted in this sector since the inception of the fund but we have now added two energy stocks to the portfolio; Chevron and Conoco Phillips. We believe that the oil price is going to continue to go up, and these two names are well placed to benefit from that. Most US equity funds are very underweight Energy and this is a non-consensus investment that we believe can further differentiate us from other US managers. We have reduced our tech weighting over the month, selling out of Facebook and Apple. These have both been profitable investments but we believe that there are better opportunities in technology.

The 10 Year Treasury yield touched 3% this month and whilst this ‘landmark’ is much debated in the financial press, we do not believe it is damaging to equities. It is merely the bond market pricing in inflation, in our view. It is this inflationary picture that will keep the Federal Reserve hawkish over the remainder of the year, raising rates probably twice more in 2018. In this rising rate environment, coupled with increased volatility, returns will be coming from different sectors in 2018 compared to 2017 and many of the years before that. An open minded and pragmatic approach is called for in this environment and our investment process is set up for this eventuality.

Felix Wintle
4 May 2018

Apple’s $100bn stock buy back is the equivalent of the market cap of GlaxoSmithKline and Astra Zeneca combined