TYNDALL INVESTMENT MANAGEMENT

VT Tyndall North American Fund

January Review

January 2018 was the best January in performance terms on the S&P 500 since 1997 and the 11th best since 1950, with the market up 5.62%. However, this has been overshadowed by the extreme sell off that we have seen in early February, due to the massive spike in volatility. My view is that this has been a storm in a tea cup and will not affect equities over anything but the shortest term. This is a blow up of a particular highly leveraged product, and not a systemic problem. The evidence for this is that there has been no surge in volatility in other asset classes, like currency, fixed income, commodities or most importantly credit. Of course, the equity markets have suffered but this has been due, in part, to the aggressive selling of equity market futures as people tried to exit their short volatility positions. The market was due a correction having risen almost 15% since October, and the spike in volatility exacerbated the downward move and made it happen quicker than anyone expected.

Market Outlook

But this should not dent investors confidence in the US market. Fundamentals remain strong, and the Q4 earnings season continues to deliver surprises to the upside as companies continue to execute way above expectations. One other cause of the sell off, that I should mention, is the spike in bond yields that came as a result of the 2.9% rise in wage growth reported on 2 February. Whilst there was an initial fear that this would mean a series of quicker rate rises by the Federal Reserve, it is important to remember that inflation is not bearish equities, it is bearish bonds. Particularly as we move off these extremely low levels of inflation.

The other aspect that cannot be overlooked, and that is unique to America, is the affect of tax reform and the potential of a $1.5tr infrastructure spending program. Whilst the details are yet to be confirmed, this is a clear positive for corporate America, and for consumers. We've already seen multi-billion dollar capex plans being announced, by the likes of Apple, we've seen big bonuses being paid to staff on low income, eg Walmart and Home Depot, and also huge decreases in the effective tax rates of companies, like AbbVie that recently reported a drop from 19% to 9% with the stock spiking 10% on the news. The outlook remains very positive for US companies.

Felix Wintle
7 February 2018

Stat of the Month

Apple's $350bn US investment is more than twice the amount of The Marshall Plan in today's money