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VT Tyndall North American Fund

31 January 2019

TYNDALL

January Review

Following the worst December since 1931, we've had a huge recovery in markets from the low on Christmas Eve. The S&P 500 has bounced some 15% since then and has returned 4.44% in sterling terms in January. The Fund returned 2.97% although this number does not include the last day of the month, if included it jumps to 4.46%. The portfolio hasn't changed much since last month, although we did make one interesting tactical purchase of the long bond ETF. This position is the purest expression of our high conviction view that interest rates are going to continue to fall, as global growth continues to slow. This position also lowers the beta of the fund and is of course incredibly liquid. We have also started to invest in the housebuilding sector. This is a sector that has underperformed for a long time but I believe it has the potential to turn around and have a sustainable move higher. This sector has struggled badly for many reasons, not least that millennials are buying houses much later than previous generations. However, older millennials are now reaching the age when buying a house becomes a necessity, as they settle down and have children. Therefore a demand wave is coming which is likely to last several years. That's the longer term theme, the shorter term dynamics are also positive in that the group benefits from falling interest rates, their input costs have plummeted (particularly lumber) and the stocks trade at a pe ratio of around 5x.

Market Outlook

My outlook is unchanged and the portfolio remains defensively positioned. Whilst earnings season has been broadly pretty good, there are warnings everywhere that growth is slowing. China gets all the headlines, but Europe is particularly worrying with Italy already in recession and the likelihood of France and Germany following increasing all the time as the reported economic data from the region gets worse at an accelerating rate. The US really stands out vs the rest of the world in terms of performance and earnings, although it too is slowing, and I believe that discretion is the better part of valour here and that we take profits as markets bounce rather than adding more to positions. Protecting investors from downside is the top priority at this stage of the cycle.

Felix Wintle 7 February 2019

We remain cautious for now until the data improves