VT Tyndall North American Fund

COVID-19 Commentary 24th April 2020

TYNDALL

The Market We Have Infront of Us:

One of the more challenging features of markets like the one we have today is realising that, at times, we must have two countervailing thoughts in our heads at the same time; and not go mad! The economic data and the corporate earnings data that we are currently seeing is especially dire, the worst in living memory in some cases, and yet the stock market is performing well. How should we square that circle? Our outlook is inherently defensive and cautious given what could be the worst consumer led recession since the Great Depression yet we must, and do, note and consider the fact that markets don't go down in straight lines and discount an unquantifiable amount of data and emotion.

Sometimes it is right to be short term more bullish, within the framework of a more cautious longer-term view. And this is where we find ourselves today. Indeed, as we explained last week in our note entitled 'Haves and Have Nots', there are some sectors that may perform well but that we will just not touch at this time, like much of retail, energy and other parts of the market that we view as existentially challenged at the moment. But there are other parts of the market that look really quite promising and we have been adding to these over the last few days. Consumer Staples, Tech and Healthcare are our favourite sectors to be long of now and we do not want for new ideas in these areas.

So we have reduced our cash position and our bond position and have been quite active in getting the portfolio to where we want it to be. In markets like this we are particularly vigilant around stop losses in our tactical bucket and sell stocks that do not perform as expected. Indeed our turnover, particularly in our tactical bucket, has gone up as we are more inclined to take shorter term profits than let positions run. This is because our macro process identifies that growth and inflation are of course slowing at the same time and this means discretion is the better part of valour in terms of taking profits; a deflationary environment requires risk management.

That deflation is the core macro concern of the day was emblazoned on the market this week with the astonishing performance of the oil market. With the front month WTI oil future closing on Monday at -$37.63 down 305% on the day. This is a truly remarkable print for a such a key input in the global economy and goes to show what the oil price tells us about global growth expectations. What is interesting however is that on that day there were zero new 52 week lows amongst Energy stocks, and some were actually up on the day. It's this type of decoupling that piques our interest and makes us watch the sector closely for potential signs of a bottom in energy. It's far too early to make that call, but as we noted at the beginning of this piece, one must entertain countervailing thoughts and remain open minded as to what the next move this market makes will be and have the process and flexibility to capitalise on it.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 24th April 2020