May Review

The Fund's F Acc share class units returned -4.15% vs the S&P 500 Index return of -1.76%, in sterling terms.

Markets have been somewhat stodgy over the last several weeks, with little momentum and quite a lot of rotation. This has meant that certain sectors have performed well only to peter out and pass the baton onto other areas of the market, which then in turn have led the market, only to stall out again. This makes for slow and frustrating progress, but this phenomenon can and does happen periodically and we just have to accept it. The Consumer Discretionary sector has been one such sector where there have been some amazing Q2 earnings and some stocks have popped on the news, like our holdings in Dillard's which rose over 22% on the day it reported, and others like Foot Looker where the reception has been much more muted. We continue to like this sector, however, and are finding lots of interesting off-the-radar opportunities, like Dillard's, which are overlooked by the market and our peers. Even though we like this sector, we continue to have a zero weight to Amazon, and this has been the case for almost 9 months now. Amazon is not the best way to play a very strong consumer backdrop with the reopening of the economy and the end of covid very much in play.

Most of the underperformance in the month came from our tech and growth stocks, which corrected, and we have sold some of these holding to make way for more Financials and Industrials which we feel are the best way to play the ongoing US recovery. Financials performed well in the month, despite the fact that the 10-year bond yield went nowhere, and we continue to believe that the most likely trajectory for the bond yield is higher. We believe this because of the many inflationary data points that are proliferating now. The debate is, will this inflation be transitory or lasting?

Market Outlook

We believe that inflation will remain high for the next several months. We may have reached a peak in the rate of change in the acceleration of inflation, but there are three factors that make it very likely that inflation is likely to remain elevated. The first is the huge amount of cash that has been handed out to consumers, some $2.4tr dollars. That equals 50% of retail sales. The second is the return to work. Stimulus checks to 45% of the workforce are due to end in the next two to three months which will drive a surge in employment. And third, the infrastructure bill, some $4tr of extra money to be spent on upgrading US roads and bridges.

For these reasons we remain overweight cyclicals and believe that we are still in the early innings of the post covid recovery.

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Data source: Hedgeye Risk Management LLC

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