June Review

The Fund's F Acc share class units returned -0.02% vs the S&P 500 Index ETF return of 4.6%, in sterling terms.

Markets have continued their rotational action and whilst the broad indices have continued higher, there has been quite a lot of volatility underneath the surface. Take the Software sector as an example; despite rising 6.7% in June, only 22% of its constituents is in a relative uptrend vs the S&P 500, that figure was 77% this time last year*. This shows some narrowness to the market and a lack of momentum. This is not something we are unduly worried about, but it is interesting to note that the momentum that we have seen in both the 'Working From Home' trade for most of 2020 and the 'Reopening Trade' of the last 6-8 months is not currently on display. As this phenomenon has played out, investors have rotated back to the mega cap growth names, and this is an area we do not have exposure to, and this has been part of the reason we have underperformed the market this month.

The 10 year bond yield has now been correcting for 3 months and this has meant that some of our cyclical positioning has also corrected. We are sticking with our positions however, as we believe that this is a consolidation in the 10 year yield rather than a change in trend and that the most likely course for yields is higher. Part of the reason we believe this is the inflation outlook, which is hawkish, and a large part of that assessment involves the oil price, which rose over 10% in June. This helped our Energy stocks, which performed well in the month, with Diamondback Energy +17.3% and Devon Energy +10.7% being the best two. Energy is one of the sectors that we own to express our inflation views and it's interesting that despite the correction in the 10 year yield there has been no stopping the oil price, which has risen around 25% over the last 3 months. This is a leading indicator of inflation and approximately 9% of the Headline CPI calculation, and its continued strength is an important market message in my view.

Market Outlook

The outlook remains positive for US equities. The next 3 months will see a surge in employment numbers as the pandemic unemployment assistance program will stop sending cheques in the post to citizens**. This process has already started in some states and will be completed by September, which will in effect force people back to work. But those workers will go back to higher wages than they were earning before due to the acute shortage in labour seen since the reopening started some months ago.

For this reason, investors should expect inflation to remain high for the next few months and with that a recommencement of higher bond yields.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 1 July 2021

Data sources: *Strategas Research Partners **Hedgeye Risk Management LLC
Bloomberg and Bureau of Labor Statistics

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