

## July Review

The Fund's F Acc share class units returned -1.82% vs the S&P 500 Index ETF return of 1.48%, in sterling terms.

The stock market has been dominated by the 10 year bond yield for some time now as investors grapple with the inflation debate, yet bond yields continue to correct. Our 4 Quadrant macro process has identified a shift in the economic backdrop, and we have moved out of Quad 2 reflation and into Quad 3 stagflation. The key dynamic behind this shift is that growth is now decelerating from its recent peak while inflation continues to accelerate. This means that we are making some changes to our tactical positioning. Sectors like Financials which like Quad 2 reflation perform much less well in Quad 3, as the 10 year bond yield tends to go sideways to down, and so we have sold our rate sensitives in that sector.

We have also reduced some of our smaller cap exposures, which prefer a steepening yield curve. One example would be Capri Holdings, formerly known as Michael Kors. This company had blow out earnings and was up over 12% on the print and we sold half our position into strength. There are many sectors that perform well in Quad 3 and the key metric that unites them is pricing power. As stagflation takes hold, it is those companies with pricing power that can survive and indeed thrive. We have added back some Technology names eg: Adobe, some Consumer Discretionary eg: Starbucks, and also reintroduced REITs to the portfolio, all of which have pricing power and tend to perform well in this environment.

## Market Outlook

While the word 'stagflation' may sound rather ominous, the broader market still has a positive expected value in Quad 3. Sector and factor exposures are important however as there are many sectors, like Consumer Staples, that really struggle with inflation. Many of the largest global Staples companies have called this out as a problem in their quarterly earnings, some citing 7-8% cost inflation, and scant ability to pass this through. Other sectors as mentioned above can deal with this reality far better and we are moving the portfolio into these areas incrementally and opportunistically.

### **Felix Wintle Fund Manager, VT Tyndall North American Fund**

**Data sources:** Bloomberg & Hedgeye Risk Management LLC

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