September Review

The Fund's F Acc share class units returned -4.72% vs the S&P 500 Index ETF return of -1.24%, in sterling terms.

The last few months have been a challenging period for performance. The fund has not kept pace with the market and the underperformance has been frustrating. The main cause has been continued rotation between sectors and styles. The battle between cyclical exposures and growth exposures has been directed predominantly by the US 10 Year Government Bond yield, and this itself has been volatile. As the Bond yield has risen, cyclicals have outperformed at the expense of growth and as it has fallen, growth has outperformed at the expense of cyclicals. The Bond yield started the year at 0.92% and rose to a high of 1.77% on 30 March only to fall back to a low of 1.17% on 3 August - these are big moves for this asset, and this caused quite a bit of volatility in the equity market. We have continued to avoid the FANMAG stocks, and some of these have been performing well of late, which has not helped the relative performance, but we continue to believe that there are better opportunities than these companies offer, given their multi-trillion dollar market caps. For example, in our tech portfolio we prefer Snapchat at $112bn to Facebook at $920bn and prefer Zebra at $27bn to Microsoft's $2.1tr market cap. We contend that the risk for these mega caps is that their best days of growth are most likely behind them and although these companies are widely owned and much loved, their stocks are beginning to reflect a different reality.

We added a couple of Healthcare stocks to the fund, one in particular that is a recent IPO. Stevenato is a manufacturer of pre-filled syringes and other products that are part of the regulatory framework for drug discovery and manufacture. The company raised money in order to increase capacity and we believe it is very well placed to benefit from the ongoing boom in drug discovery.

Market Outlook

There has been an interesting development as it relates to our macro overlay. We have long been inflation hawks and continue to believe that inflation is sticky and trending. But whereas growth was slowing for most of the third quarter, giving us a stagflationary environment, our model is nowcasting a pickup in growth. This takes us from quad 3 to quad 2 which is a more bullish scenario. Rates tend to rise in quad 2, and this is likely to mean that performance will come from cyclical areas like Energy and Financials, two sectors that we have been recently adding to.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 30th September 2021

Data sources: Bloomberg

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