December Review

The Fund's F Acc share class units returned -4.10% vs the S&P 500 Index ETF return of 2.79%, in sterling terms.

December was a frustrating month for the fund, as performance lagged the index. This was due to a bout of volatility in the second week of the month which hit some of our tech holdings quite hard. Nvidia and AMD, that had both been notable outperformers in November, gave quite a bit of that back, falling 10% and 9% respectively. It also affected our Consumer Discretionary holdings, where Bath & Body Works gave back some recent gains, falling 7.11% in the month. We made some changes to the Consumer Discretionary portfolio, adding back some more exposure to Housing. This subsector is experiencing unprecedented demand and very low inventory levels which is a positive set up for continued house price appreciation. We did not have much exposure to the sector for most of 2021 because we were in a rising interest rate environment, which despite the very strong fundamentals, can restrain the performance of the group, as the interest rate is one of the key gauges of affordability. Our macro process indicates to us now that rates are likely to stop going up, as the rate of change of inflation starts the peaking process, and this is one of the main reasons for our reinvestment in the group. We own homebuilders and home improvement companies.

In light of the outlook on inflation peaking, we also sold our Energy holdings in December and reduced our Materials weightings. These sectors are key beneficiaries of inflation and we owned them in our tactical book to express the inflation theme and, as this starts to abate, it's time for us to move on.

Market Outlook

The outlook is positive for US Equities as inflation starts to peak and the world starts to look beyond Covid. Bottle necks are beginning to ease, shipping rates are falling and it looks as if many of the economic hurdles that we faced in 2021 should improve significantly in 2022. However, there is the prospect of rate rises, now the Federal Reserve has finally acknowledged inflation, and this may concern markets over the shorter term. Whilst Q1 has a positive outlook in terms of growth, we will likely see a slowdown in Q2 and this is something that we will proactively prepare for as the time approaches, particularly if the Federal Reserve is in tightening mode.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 31 December 2021

Data sources: Bloomberg

Contact Details:

Fund Manager – fwintle@tyndallim.co.uk
Sales Director - hnolan@tyndallim.co.uk

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.