VT Tyndall North American Fund

Monthly Commentary | 31 January 2022

TYNDALL

January Review

The Fund's F Acc share class units returned -12.46% vs the S&P 500 Index ETF return of -6.71%, in sterling terms.

January was a very weak month for markets, led by a selloff in Tech and in Growth more generally. The Nasdaq was -8.98%, and the Russell 2000 was -9.66% for the month which were the worst monthly readings since the Covid crash in March 2020. We have started to pivot to more defensive sectors as our macro process shows that growth is slowing and inflation has likely peaked in rate of change terms. We believe the market is pricing in this peak and roll over in growth and that is why small caps and growth have sold off so aggressively. High volatility is also a feature of poor markets and we have seen this manifest itself in a big way in the stock price reactions to earnings. With the VIX, the volatility index, in the high 20s or north of 30 signifies a bearish stock market environment, and the VIX ran up to an intraday high of 38.94 this month. We have reduced our weightings to Tech and Discretionary significantly and increased our weighting to Staples, Utilities and REITs as we expect these sectors to outperform in these challenging conditions.

Earnings season is upon us again and it's been quite a mixed bag. Inflation pressures have been called out across the board as a major issue as have wage increases. This does not just affect the smaller companies, JP Morgan explicitly pointed to both wage inflation and a fight for talent as key reasons for much higher expenses in the quarter. Those companies that can raise price are doing so but margin pressures are evident everywhere.

Market Outlook

The Federal Reserve will of course have a pivotal role to play. They have struck a hawkish tone and have finally admitted that inflation is a problem. The market has priced in 4 rate hikes and many of the large Investment Banks are predicting more rate hikes than that. The problem is that by raising rates in March they will be raising rates right into a growth slowdown. The growth comps for Q2 are the toughest we will probably ever see (+12% GDP growth) and added to the ongoing margin pressure, we believe the market will not like this double whammy, and perhaps this is what the market has been trying to price in in January.

This is the reason for our defensive positioning for the next few months.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 31 January 2022

Data sources: Bloomberg

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