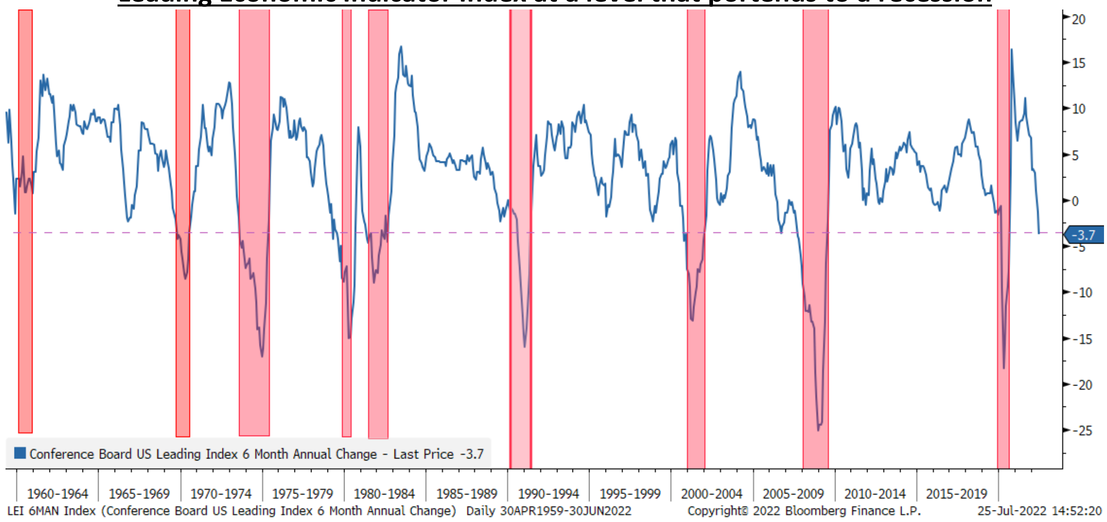
"Life grants nothing to us mortals without hard work"- Horace.

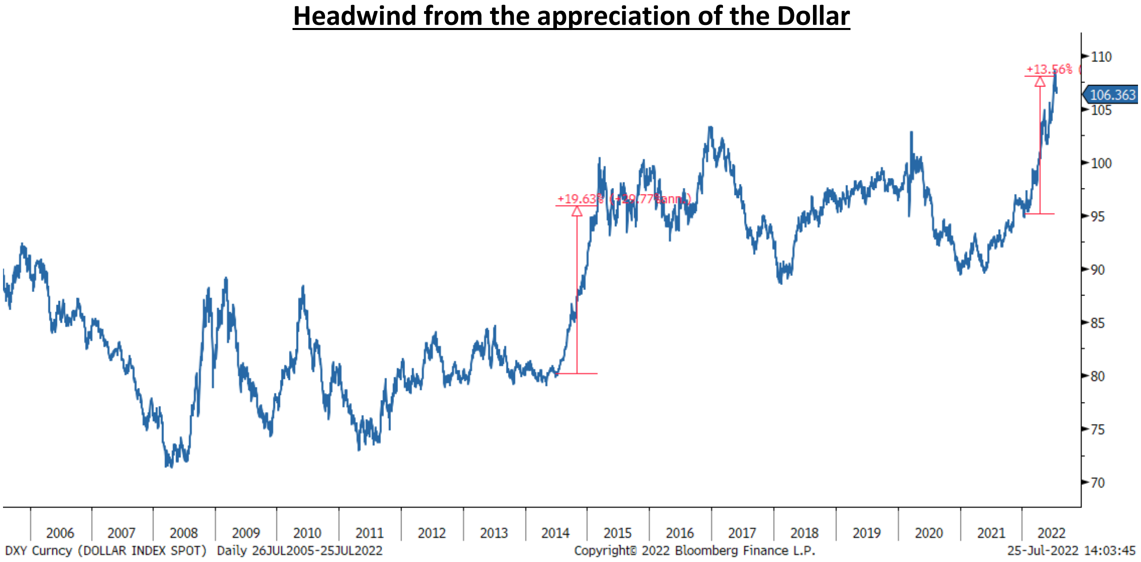
With the earnings season in full flow, investors are getting their first full insight into how company managements are seeing the situation at the coal face, given that it has become consensual (less Jerome Powell) that the global economy is heading into a recession, albeit there are varying views as to how prolonged and deep any recession may be.

Leading Economic Indicator Index at a level that portends to a recession



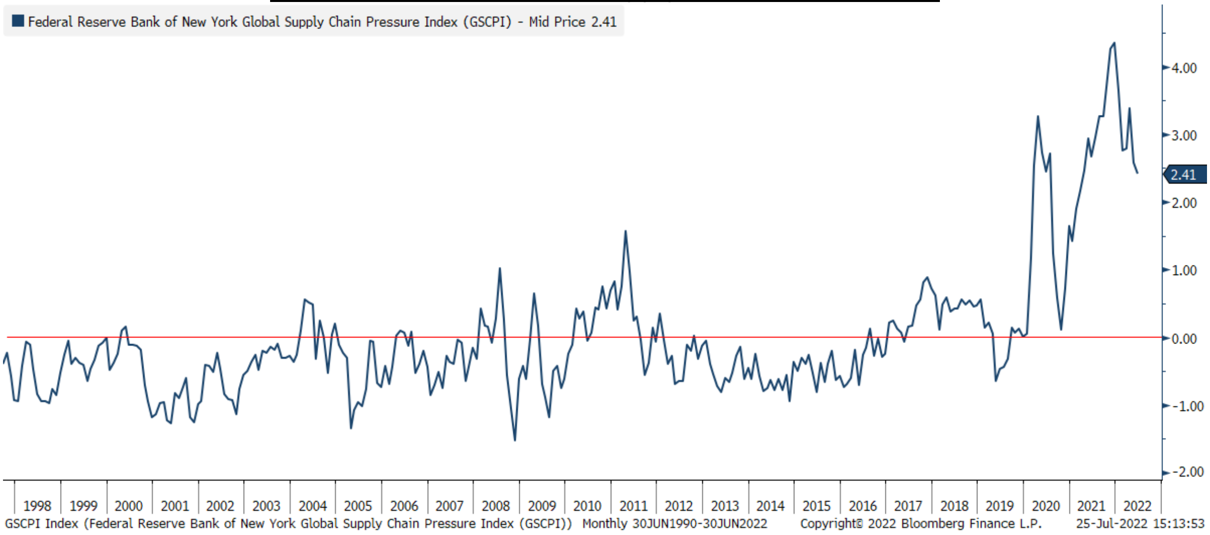
The first half of 2022 has had more than its fair share of headwinds for companies to tackle, from COVID lockdowns in China, the continuing devastation of Ukraine, the oil price and commodity boom, persistent inflation and the rapid rise in the value of the Dollar. For US companies with overseas earnings, the headwind owing to the rate of the increase in the Dollar has been the largest since the second half of 2014 and has led to many companies to cite the headwind in their earnings calls. Microsoft went to the length of warning mid-quarter as it had become apparent that the impact was larger than they had anticipated at the start of the year, and analyst consensus estimates were not reflecting this increase; Microsoft was not an outlier in this respect.

Headwind from the appreciation of the Dollar



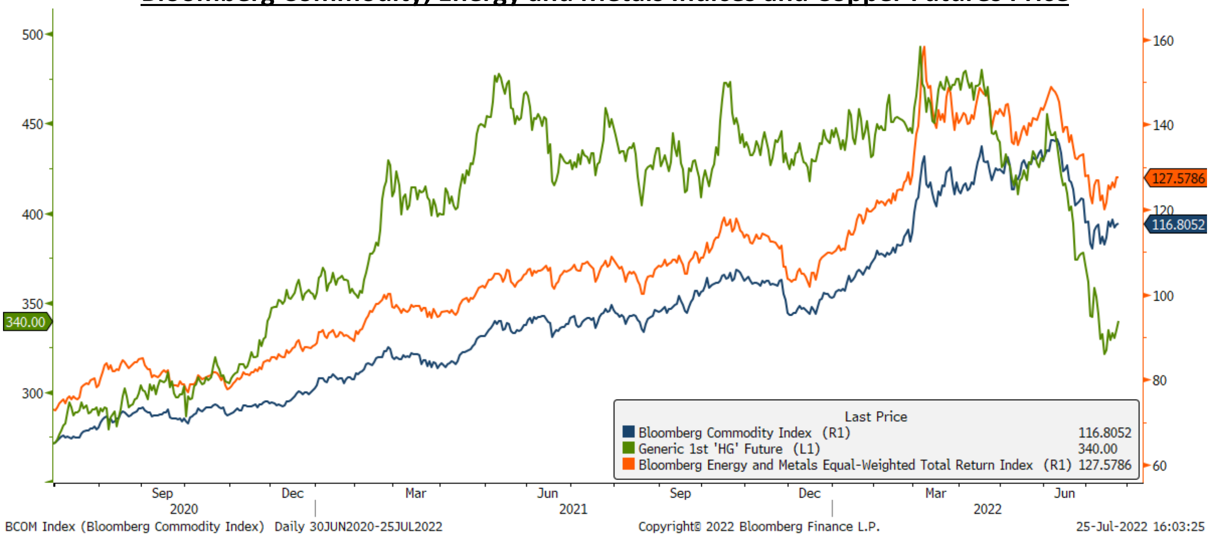
Despite these headwinds, and the possibility of a more subdued economy in the second half of 2022, management teams have been surprisingly upbeat in their outlook statements, suggesting that any recession may be short lived and have minimal impact on corporate profitability.

New York Federal Reserve Supply Chain Pressure Index



The supply chain constraints that plagued companies in 2021 continued to be an issue in the past six months, however, most companies have seen bottlenecks such as truck availability and port congestion ease (and thus prices decrease) and raw material prices fall from their elevated levels, while the effects from their offsetting price increases are starting to come through in margins.

Bloomberg Commodity, Energy and Metals Indices and Copper Futures Price

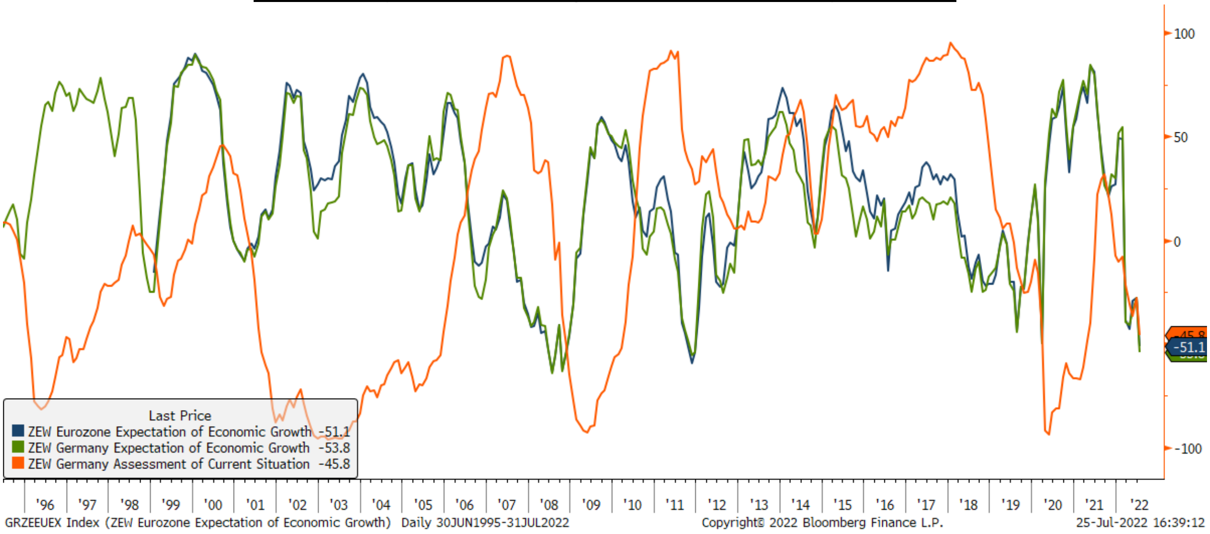


With Oil, and many other commodity prices falling from the peak, and the easing of the supply constraints of 2021, inflation should start to fall, however, thus far, it has been far from transitory in nature as the Federal Reserve tried to claim it was this time last year. We did not foresee the impending Russian actions in Ukraine, and the resultant effect on energy and commodity prices, but always argued that inflation would be more persistent and continue to believe that when we come through this current spike, we will not return to the low levels of inflation that the world experienced over the last decade.

Economic data, probably unsurprisingly given the divergence between management's outlooks and the macroeconomic environment, remains very mixed. The Purchasing Manager indices (PMI) for

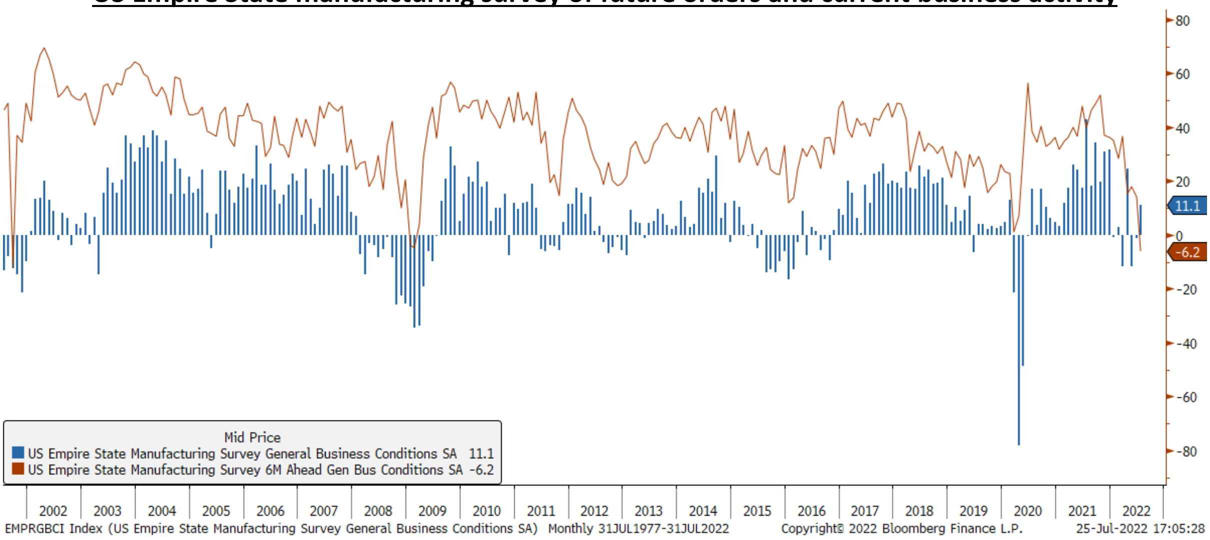
Europe are all now registering below 50, signalling a contraction in the economy. Germany, in particular, is suffering from the twin effects of its reliance on Russian oil and gas after the decision to close its nuclear power plants, and the low level of water in the Rhine, preventing cargo (especially coal) transiting up and down stream. The ZEW survey of economic expectations both in Europe and Germany are at similar levels to where they were in the 2008/09 Financial Crisis, while the assessment of the current economic growth is falling but remains well above the lows of 2002, 2009 and 2020.

<u>ZEW surveys of economic growth and future expectations</u>

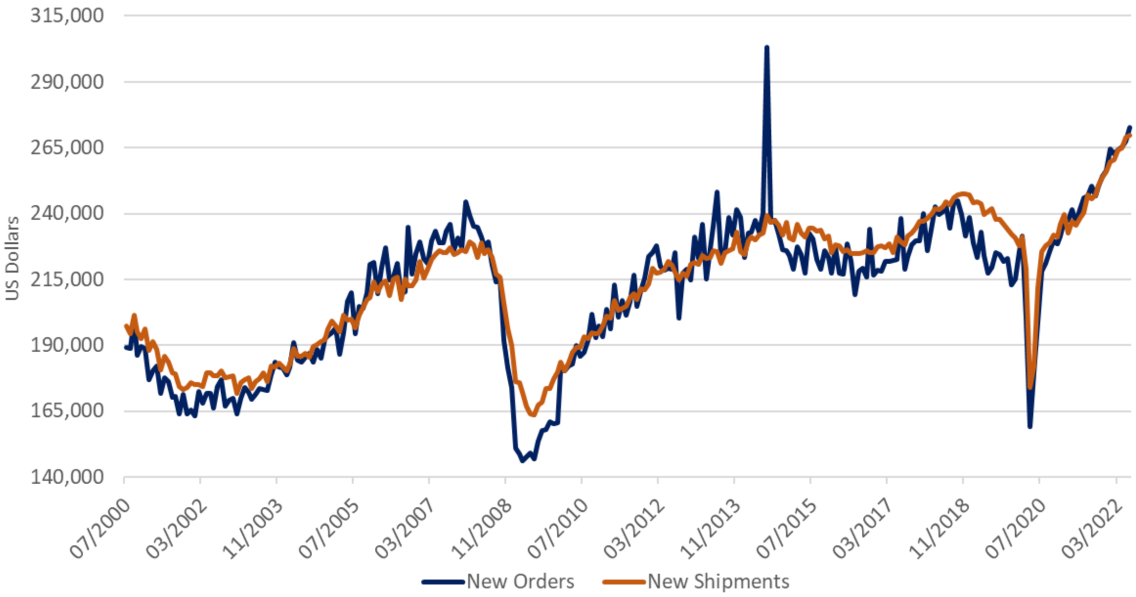


In the United States, current business has remained surprisingly resilient despite a drop off in future orders as the first chart below shows, the second chart, however, shows that US durable goods orders and shipments continues to go from strength to strength. The various data points show a very different picture between large corporates and small businesses, with the former showing management teams much more upbeat on the outlook than the later. The costs of labour and regulation fall harder on small enterprises, and thus we are not totally surprised that they are somewhat more downbeat on the outlook, especially with the Federal Reserve casting uncertainty and increasing the cost of borrowing into the mix.

<u>US Empire State manufacturing survey of future orders and current business activity</u>



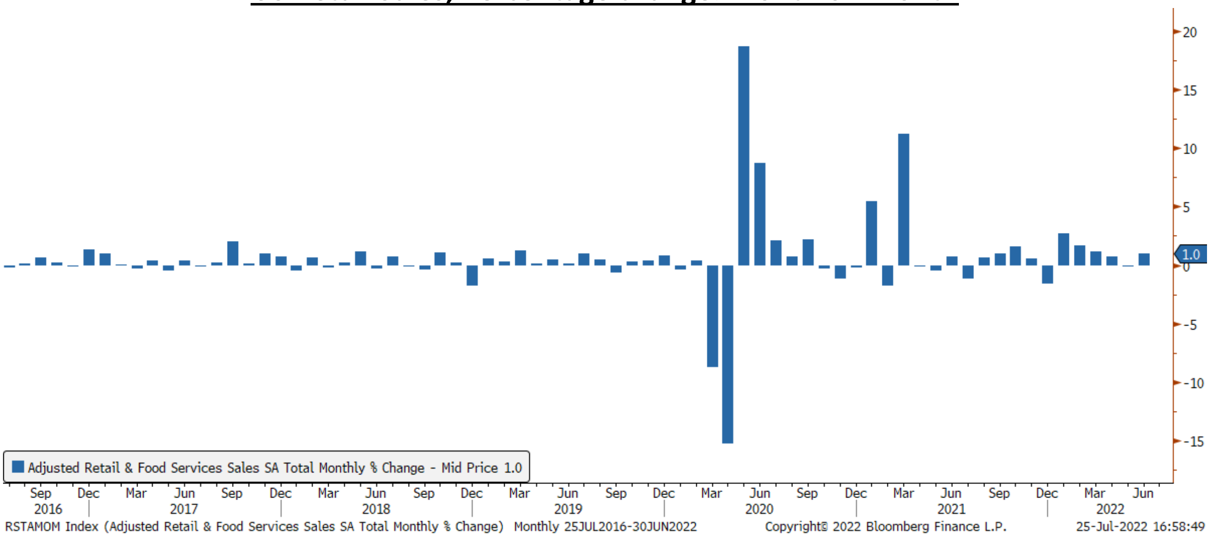
US Durable Goods: New Orders & Shipments



Source: TIM/US Census Bureau

Despite various commentaries describing weakening consumer demand and across the world consumer confidence surveys are at post WW2 lows, retail sales have remained positive. Given that consumer spending is almost 70% of US GDP, these numbers remaining positive are of paramount importance in determining how deep any recession may be.

US Retail Sales, Percentage change. Month on Month



July saw global equities claw back some of the losses seen in the past six months, as signs emerged that valuations had already priced in a drop in earnings, well ahead of the analyst community. The correction in many company valuations has been as severe as we would expect in a deep recession, and thus positive outlook commentaries and earnings proving to be more resilient than feared saw some positive price action.

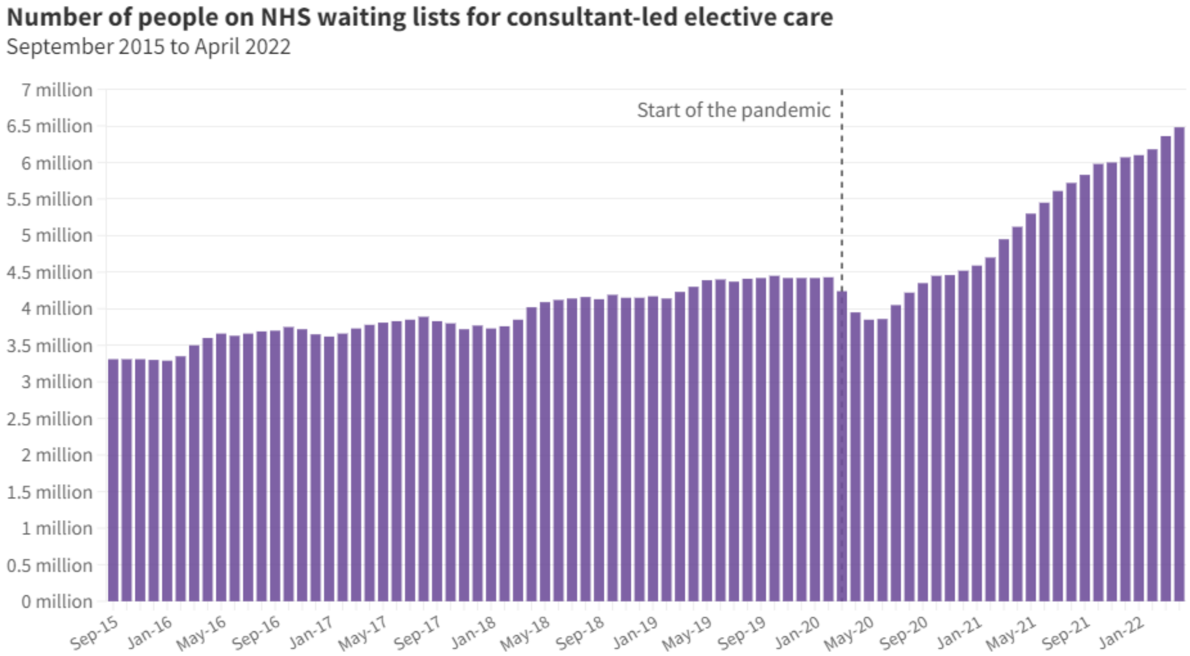
The Fund rose by 7.78% during the month. As a result, the VT Tyndall Global Select Fund B Acc (GBP) loss for 2022 thus far was reduced to -11.58%.

Fund Activity and News

During the month we made no major sales or additions to the Fund, save for rebalancing issues as certain holdings crossed are self-imposed risk reward maximum position size limits.

According to the British Medical Association the backlog in the NHS for elective surgery in England has surged to 6.5 million people from 4.2 million at the start of the pandemic. According to a study by the University of Birmingham, however, there are a further 3.3 million people on a 'hidden' waiting list. These 'hidden' patients are those who need elective surgery but, as a result of the pandemic-related disruption have not yet been identified and added to the official NHS waiting list. Even more alarmingly the National Audit Office published its report into the backlog in the British Medical Journal estimating that the number could rise to 12 million patients by 2025.

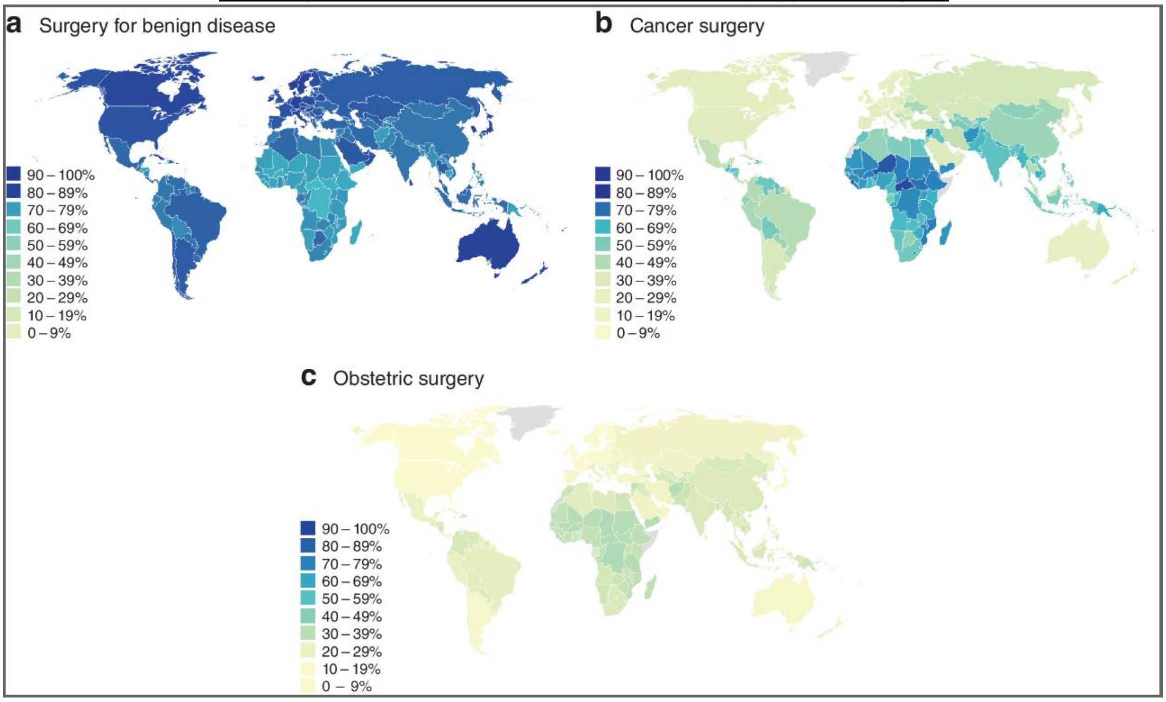
The NHS currently plans to eliminate the number of people waiting more than a year by March 2025, and those waiting 18 months or more by March 2023. For these targets to be met the NHS says that it would require the NHS to be at full manpower and to be able to operate in normalised operating conditions. However, we believe even in these situations the backlog may be so large that these targets are likely to slip to the right.



Source: BMA analysis of NHS England Consultant-led Referral to Treatment Waiting Times statistics

England is not alone in this respect, as similar tends face, not only NHS Scotland and NHS Wales, but the rest of the world. In the US surgical procedures dropped 48% in March 2020 and continued at an estimated rate of 343.7 thousand cancelations per week for the three months post the start of March. Brazil, China, Colombia, Japan, Russia, Italy, Germany, France, Australia, and Turkey all faced cancellation rates of over 50 thousand per week in the same period. The COVIDSurg Collaboration estimates that 28.4 million operations were cancelled or postponed worldwide in the 12 weeks of peak disruption due to COVID -19 and that if countries would be able to increase their normal surgical volume by 20% it would take a median of 45 weeks to clear the backlog.

Country-Level 12-week cancellation rates by type of surgery



Source: BJS Society/ COVIDSurg Collaborative

Medtech companies such as Medtronic, Johnson & Johnson, Abbot Laboratories (all of which we hold in the Fund) were quick to warn that the pandemic would hit sales. Although procedure volumes returned to 2019 levels once beds were freed up from being used for COVID patient care, the subsequent variants have continued to lead to volatility in the number of elective surgeries carried out in any given month.

The subsequent increase in backlogs provides a long runway of growth for the Medical Technology companies as sales will remain higher than normal for many years to come. Johnson and Johnson saw a 17.9% growth in sales from its Med Tech segment in 2021, registering over $1bn in additional sales to the pre-pandemic levels and in Q2 this year sales were a further 6% despite COVID restrictions in the Asia-Pacific region. Medtronic also registered record sales in both its Minimally Invasive and its Restorative Therapies segments in its latest full-year results.

In addition to the underlying growth in the sector the leading companies in the sector (of which we regard the aforementioned companies to be part of) have continued to invest in research and development, and now have state of the art pipelines that allow them to take market share and outgrow the overall market. We continue to hold a large exposures to both the Medical Technology and Life Science subsectors.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st July 2022
Data source (unless otherwise stated): Bloomberg.

Contact Details:

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

Disclaimer

WARNING:
Not for retail distribution. This document is intended for professional clients only.
All information about the VT Tyndall Global Select Fund ('The Fund') is available in The Fund's prospectus and Key Investor Information Document which are available free of charge (in English) from Valu-Trac Investment Management Limited (www.valu-trac.com). Any investment in the fund should be made on the basis of the terms governing the fund and not on the basis of any information provided herein.
The information in this Report is presented using all reasonable skill, care and diligence and has been obtained from or is based on third party sources believed to be reliable but is not guaranteed as to its accuracy, completeness, or timeliness, nor is it a complete statement or summary of any securities, markets or developments referred to. The information within this Report should not be regarded by recipients as a substitute for the exercise of their own judgement.
The information in this Report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In the absence of detailed information about you, your circumstances or your investment portfolio, the information does not in any way constitute investment advice. If you have any doubt about any of the information presented, please consult your stockbroker, accountant, bank manager or other independent financial advisor.
Capital at Risk- Value of investments can fall as well as rise and you may not get back the amount you have invested. Income from an investment may fluctuate in money terms. If the investment involves exposure to a currency other than that in which acquisitions of the investments are invited, changes in the rates of exchange may cause the value of the investment to go up or down. Past performance is not necessarily a guide to future performance.
Any opinions expressed in this Report are subject to change without notice and Tyndall Investment Management is not under any obligation to update or keep current the information contained herein. Sources for all tables and graphs herein are Valu-Trac Investment Management Limited unless otherwise indicated.
The information provided is "as is" without any express or implied warranty of any kind including warranties of merchantability, non-infringement of intellectual property, or fitness for any purpose. Because some jurisdictions prohibit the exclusion or limitation of liability for consequential or incidental damages, the above limitation may not apply to you.
Users are therefore warned not to rely exclusively on the comments or conclusions within the Report but to carry out their own due diligence before making their own decisions.
Employees of Tyndall Investment Management, or individuals connected to them, may have or have had interests of long or short positions in, and may at any time make purchases and/or sales as principal or agent in, the relevant securities or related financial instruments discussed in this Report.

Tyndall Investment Management is a trading name of Odd Asset Management. Authorised and regulated by the Financial Conduct Authority (UK), registration number 660915. This status can be checked with the FCA on 0845 730 0104 or on the FCA website (UK).
Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.