July Review

The Fund's F Acc share class units returned -0.6% vs the S&P 500 Index ETF return of 8.74%, in sterling terms.

July was a tough month for the fund performance wise as there was a broad rally across the equity markets, with Tech performing particularly well. The S&P 500 was +9.1% and the Nasdaq was +12.3% in the month, with broad participation from many of the beaten down bellwethers, most notably Amazon +27% and Apple +18% that both put up better than expected numbers on their Q2 prints. We still have a very large underweight position in Tech and Discretionary and so have not benefitted from these moves and thus have underperformed the index in July. We continue to be cautiously positioned and see no value in trying to chase these stocks who have, in my opinion, likely seen their best days already. Growth is still slowing across the board and these rallies are bear market bounces and not the beginnings of some new bull market. It's worth nothing that other widely held mega caps like Microsoft (+9.3%), Alphabet (+6.7%) and Meta (-1.3%) performed satisfactorily in July, ex Meta, but are sill in downtrends.

We exited our Energy position early in the month and are now zero weight this sector. As Quad 4 deflation starts to permeate the market, Commodities and Energy stocks tend to perform badly and it is our view that the cyclical play in Energy has run its course. Commodities across the board have continued to sell off, ex the startling move in Natural Gas which was +51.7% in July, but this seems to have been an anomaly as Oil was -6.75%, and Natural Gas is of course extremely volatile. As earnings season continues, we have seen some early warnings signs of trouble in the retails sector, with a notable double profit warning from Walmart. Their warnings centred around inventories, and this is likely to be a theme across retail and consumer discretionary; customers are buying fewer things and are trading down as the pinch from inflation and the cost of living continue to be a burden. In the most recent ISM report inventories were at a 38-year high and this is the main reason we are so underweight the consumer in the fund.

Market Outlook

The Federal Reserve was perceived to be somewhat less hawkish post the Chairman's comments recently, but I do not believe this a reason to be more constructive on equities and risk. I believe the Fed when they say they will keep hiking until inflation is under control and they are likely to 'get lucky' as many parts of the CPI basket are beginning to slow and come down. However, the key elements of the cost of living, (shelter, food and energy) may well stay elevated for the time being. But it's the earnings cycle that keeps us cautious and despite these bear market rallies, which are inevitable, discretion is the better part of valour as we continue to navigate this tough corporate environment.

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

Data sources: Bloomberg, Strategas Research Partners

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