VT Tyndall North American Fund

Monthly Commentary | 31 August 2022

TYNDALL

August Review

The Fund's F Acc share class units returned 3.17% vs the S&P 500 Index ETF return of 1.66%, in sterling terms.

August was yet another month that was dominated by the Federal Reserve. For the first half of the month, the rally that started in June, continued but was brought to an abrupt halt after the Jackson Hole Conference where Jay Powell reiterated his hawkish stance on interest rates. While he didn't really say anything new, we know the Fed's goal on interest rates, but the language he used was quite aggressive, and served to highlight again to market participants that his priority is reducing inflation and that he will do so at the expense of asset prices. The market sold off quite heavily, the S&P 500 falling 3.4% that day and the Nasdaq was -3.9%.

There has been some talk in recent weeks of the possibility of a 'Fed Pivot' ie: the prospect of the Fed slowing down on their rate rising schedule, or that the peak of rates is approaching, but Jay Powell's comments have taken that off the list of likely events for now. This is one of the key reasons that we remain defensively positioned and are likely to stay that way until things improve. Our positions in Healthcare performed quite well in the month as did our Utilities stocks, which have been leadership, and this highlights the defensive tone of the market.

Market Outlook

With the Fed banishing any hope of a pivot away from raising interest rates, the market will also have to contend with more tightening actions via Quantitative Tightening. Starting this month, the Fed is going to double the rate of MBS and Treasury Bond run off, from around \$45bn to around \$90bn. In fact, although the Fed had committed to around \$45bn per month, its actual run rate has been closer to \$17bn per month, so if they stick to their plan this would mean an increase of around 5 times. We will have to wait and see what they do, but this is potentially a lot more QT and something that growth stocks tend not to enjoy.

For this reason, we have virtually no exposure to the growthier parts of the market and remain skewed to defensive and value type stocks in the portfolio.

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

Data sources: Bloomberg

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