Moving Parts #1

Tyndall Partnerships - Views from across the investment desk
December 2022

In brief:

- Inflation looks to be peaking in many areas of the world
- Bond yields are showing signs of turning lower
- We expect economic weakness to be less severe than many have predicted

UK

November continued to build on the global market recovery that started during October, and with surprising vigour in several geographies. The UK equity market was a major beneficiary.

The political dramas of recent months have calmed down significantly and the new Chancellor's autumn statement, promising billions of pounds of tax rises and spending cuts to mend the nation's finances, has been broadly well received.

We have spent a significant period of November engaged with company management teams and the feedback we have received is, in general, supportive of our view that, while activity levels are softening at the margin, they are certainly not collapsing.

Market movements will likely remain volatile in the near term as investors wait for greater clarity regarding the outlook. Notwithstanding this uncertainty, we remain extremely enthusiastic for the upside potential in the UK market.

US

The softer than expected CPI print on 10 November showed inflation running at 7.7% year on year which was lower than the expected number of 7.9%. Whilst this was 'better than expectations' it's still a deceleration in the growth rate.

However, the market took this to mean that the probability of peak rates and peak inflation were in, and by extension the Federal Reserve could now pivot more dovish and that this would bring about the return of Tech and high growth stocks as leadership in the stock market.

Reshoring has become a dominant theme in the sector and there are many companies that are benefitting from ongoing capex build out in the Technology, Healthcare and Industrial markets.

Policy is also helping with tax breaks for companies that are investing onshore and creating jobs for American workers. It will be interesting to see if this downturn is contained around Technology and consumption but not the industrial economy; echoes of 20 years ago.

Global

While the world has learnt to live with COVID, President Xi of China, is sticking to his zero COVID policy. The problem is that the policy is not working, and the population are getting restless and going to extreme measures to avoid being caught in a new quarantine zone.

Many companies were just starting to recover from the production issues and drop in demand resulting from the lockdowns in Shanghai and Beijing earlier this year, however the city of Zhengzhou, which is the home to many of the country's technology companies, is entering full lockdown.

Once bitten, twice shy, companies are increasingly diversifying their production away from China. Apple, which faces severe production problems as Foxconn's plant in Zhengzhou is in lockdown so therefore cannot ship out completed products, has already announced that they will be upgrading their production hub in India.

In summary

Several of the key 'trends' that have been dominating investor sentiment for much of 2022 are showing tentative signs of changing currently. Inflation looks to be peaking in many areas of the world and the US Dollar, Government bond yields and even the oil price are showing signs of turning lower.

The extent to which these represent a fundamental change in direction remains to be seen, but as these have all given investors cause for significant concern this year, they are welcome initial developments and ones which we will continue to monitor closely.

We still expect a degree of economic weakness in the near future, driven primarily by the lagged impact of the previously mentioned rise in interest rates, inflation, energy costs and the dollar.

However, as we have argued many times, we expect that weakness to be less severe than many predict and our conviction in that view will likely increase if the trend reversals noted above continue to gain traction.

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Get in touch

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