November Review

The Fund's F Acc share class units returned -5.12% compared to the S&P 500 Index ETF return of -2.39% in sterling terms.

The Fund underperformed in November and the reason for this was the market reaction to the softer than expected CPI print on 10 November. The number 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 of just 0.2% which is not that meaningful in the grand scheme of things. 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. This did indeed happen, for two days at least, and the S&P 500 rose 5.5% on the 10 November and 0.9% on the 11th of November. This bounce was led by the lagging stocks of 2022, such as Tech and profitless Tech in particular, the UBS Profitless Tech Basket was +15.2% and +7.56% on those two days, and as such we underperformed the market at that time.

At the same time that Tech bounced, sectors like Healthcare and Staples were the sources of funds for this trade and sold off, meaning that we underperformed on a relative basis by almost 800 bps over that two-day period. Whilst painful in the very short term, there was no reason to change our positioning and view this move as a flash in the pan. The relative performance has already started to recover what proved to be a 7 standard deviation move.

Market Outlook

We remain very underweight Tech and Discretionary stocks and continue to believe that these two sectors will feel the brunt of the weakness as the recessionary playbook unfolds. There are pockets of strength in other parts of the economy however and the Industrial sector is one such highlight.

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.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 30 November 2022

Data sources: Bloomberg

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