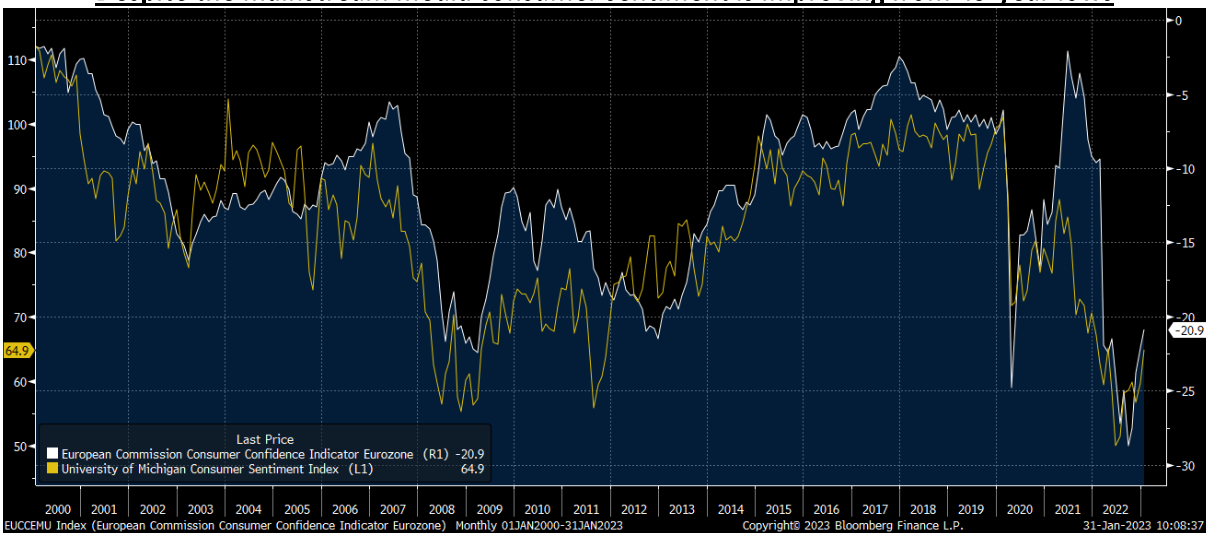
"More money has been lost trying to anticipate and protect from corrections than actually in them". – Peter Lynch

Listening to the BBC or reading most of the Fleet Street press reports leaves one feeling despondent and that the global economy has come to a grinding halt and the strikes that the UK is currently experiencing are about to become commonplace as they are in France, where they are a national pastime, and are to be expected worldwide as wage demands continue to increase; this Fund Manager should have expected getting to his flight from Gatwick in the coming days not to be as straightforward as a trip on the Gatwick Express, but alas, like many high street companies he finds a spanner has been thrown in his best laid plans and things are not as plain sailing as they should be.

Despite the mainstream media consumer sentiment is improving from 45-year lows

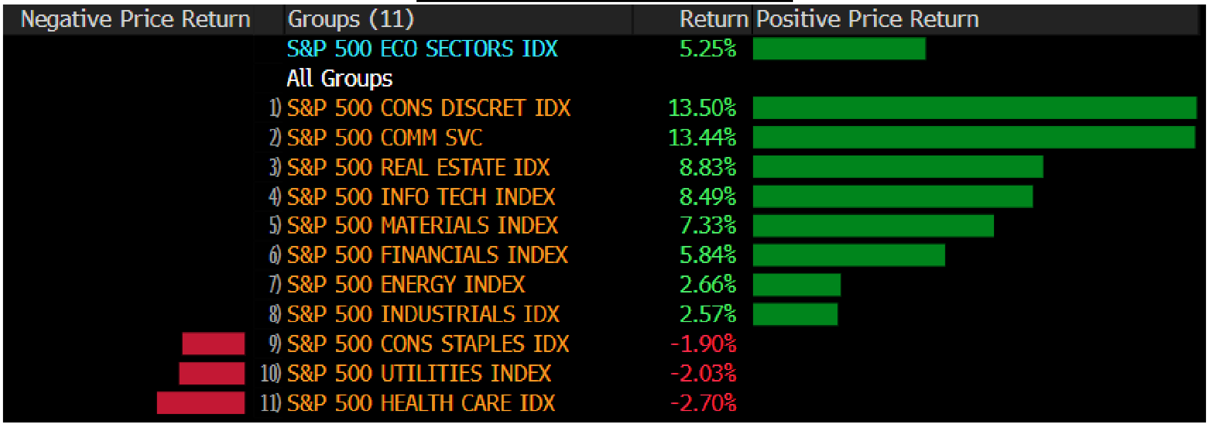


Source: Bloomberg

Nonetheless, European and emerging markets have surged into 2023, buoyed by the news of China removing almost all of its restrictions on movement and the ensuing demand emerging after months of almost total lockdown. The reporting season has seen a wide variety in results, but the market, as ever, is forward looking, and the outlook statements have set the tone for the share price movements post the release.

The performance of the different sectors varied widely as US economic data became more mixed. As the year-to-date aggregate returns within the S&P 500 show below, the US consumer discretionary companies have surprised positively, especially given the elevated concerns over falling savings and the much-reported cost of living crisis, meanwhile the more defensive sectors of health care and utilities underperformed. Again, the outlook statements varied wildly from company to company, even within industry groups, with some sighting limited to no visibility in the second half of 2023, while others expecting a continuing recovery in their underlying markets. Our focus on companies with large percentage of recurring revenues should stand us in better shape than the wider market, but despite this we have seen a few of our US listed companies take a very conservate viewpoint in respect to how they see the US market evolving during the course of the year.

US Year-to-Date Sector returns

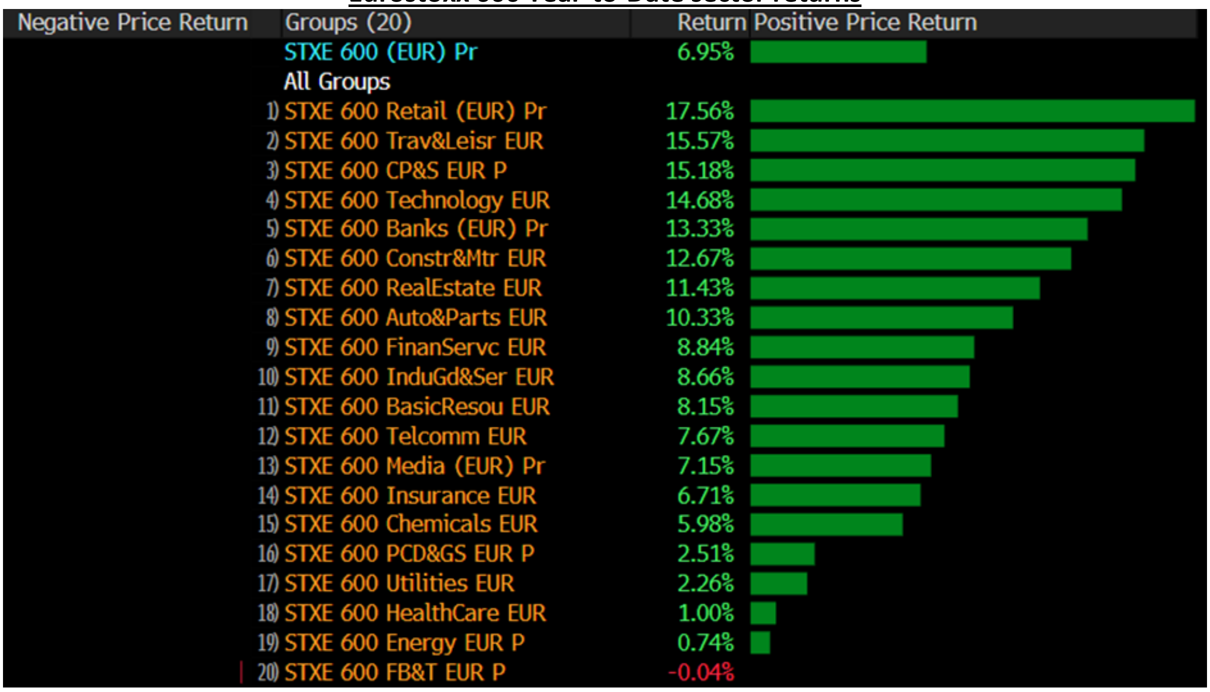


Negative Price Return	Groups (11)	Return	Positive Price Return
	S&P 500 ECO SECTORS IDX	5.25%	
	All Groups		
	1) S&P 500 CONS DISCRET IDX	13.50%	
	2) S&P 500 COMM SVC	13.44%	
	3) S&P 500 REAL ESTATE IDX	8.83%	
	4) S&P 500 INFO TECH INDEX	8.49%	
	5) S&P 500 MATERIALS INDEX	7.33%	
	6) S&P 500 FINANCIALS INDEX	5.84%	
	7) S&P 500 ENERGY INDEX	2.66%	
	8) S&P 500 INDUSTRIALS IDX	2.57%	
	9) S&P 500 CONS STAPLES IDX	-1.90%	
	10) S&P 500 UTILITIES INDEX	-2.03%	
	11) S&P 500 HEALTH CARE IDX	-2.70%	

Source: Bloomberg

However, unusually, Emerging Markets and European equities have not caught a cold after the sneeze in the United States, which is partly explained by how low expectations and sentiment were in both regions coming into the new year. Here the positive start to the year was almost universal on a sector basis, with only food, beverage and tobacco in negative territory, again Retail topped the list of sector performance, where we saw many companies beat expectations and raise guidance. An example of this is Next, which raised profit guidance during the month; We added Next to the Fund last year after it dropped to a P/E ratio of under 10x, which represented a very rare entry point for a best-in-class operator with a quality and experienced management team.

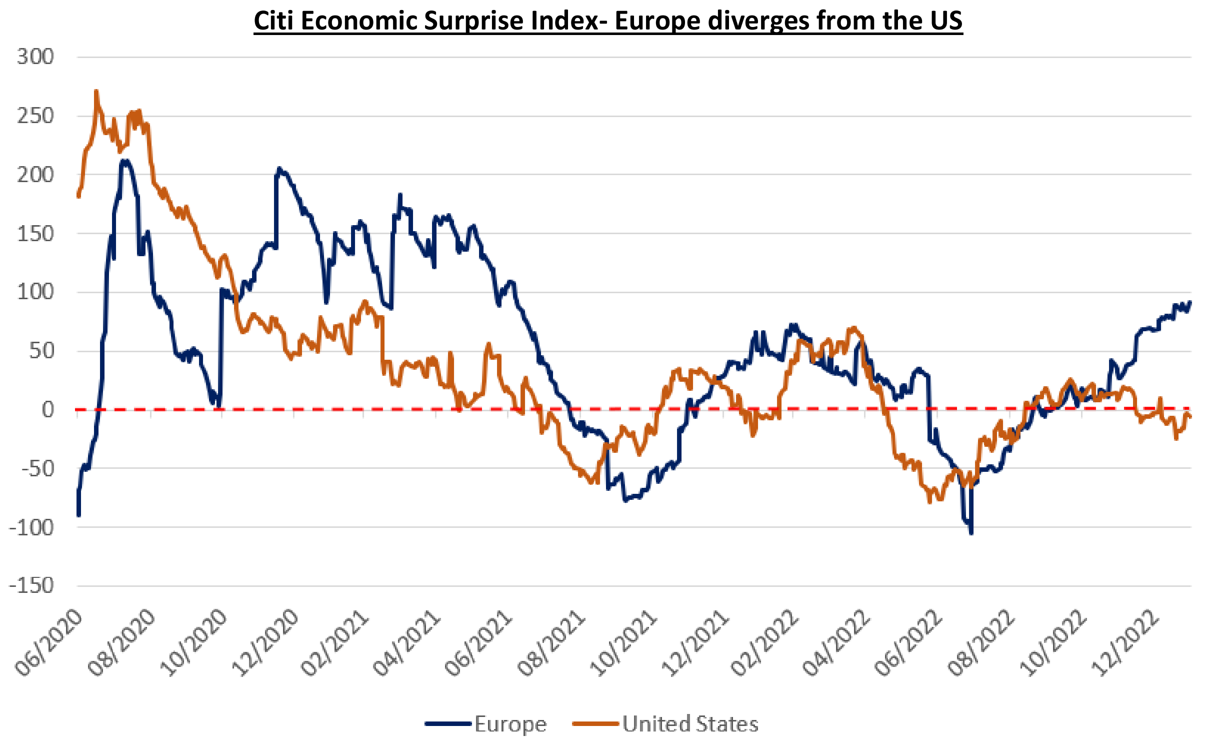
Eurostoxx 600 Year-to-Date sector returns



Negative Price Return	Groups (20)	Return	Positive Price Return
	STXE 600 (EUR) Pr	6.95%	
	All Groups		
	1) STXE 600 Retail (EUR) Pr	17.56%	
	2) STXE 600 Trav&Leisr EUR	15.57%	
	3) STXE 600 CP&S EUR P	15.18%	
	4) STXE 600 Technology EUR	14.68%	
	5) STXE 600 Banks (EUR) Pr	13.33%	
	6) STXE 600 Constr&Mtr EUR	12.67%	
	7) STXE 600 RealEstate EUR	11.43%	
	8) STXE 600 Auto&Parts EUR	10.33%	
	9) STXE 600 FinanServc EUR	8.84%	
	10) STXE 600 InduGd&Ser EUR	8.66%	
	11) STXE 600 BasicResou EUR	8.15%	
	12) STXE 600 Telcomm EUR	7.67%	
	13) STXE 600 Media (EUR) Pr	7.15%	
	14) STXE 600 Insurance EUR	6.71%	
	15) STXE 600 Chemicals EUR	5.98%	
	16) STXE 600 PCD&GS EUR P	2.51%	
	17) STXE 600 Utilities EUR	2.26%	
	18) STXE 600 HealthCare EUR	1.00%	
	19) STXE 600 Energy EUR P	0.74%	
	20) STXE 600 FB&T EUR P	-0.04%	

Source: Bloomberg

The difference in economic data across the western economies is transparent in the economic surprise indicators too, where Europe inflected in the summer of 2022 and turned positive towards the end of the year, with the balance of positive surprises continuing to improve so far this year, while the US is delicately balanced between positive and negative surprises.

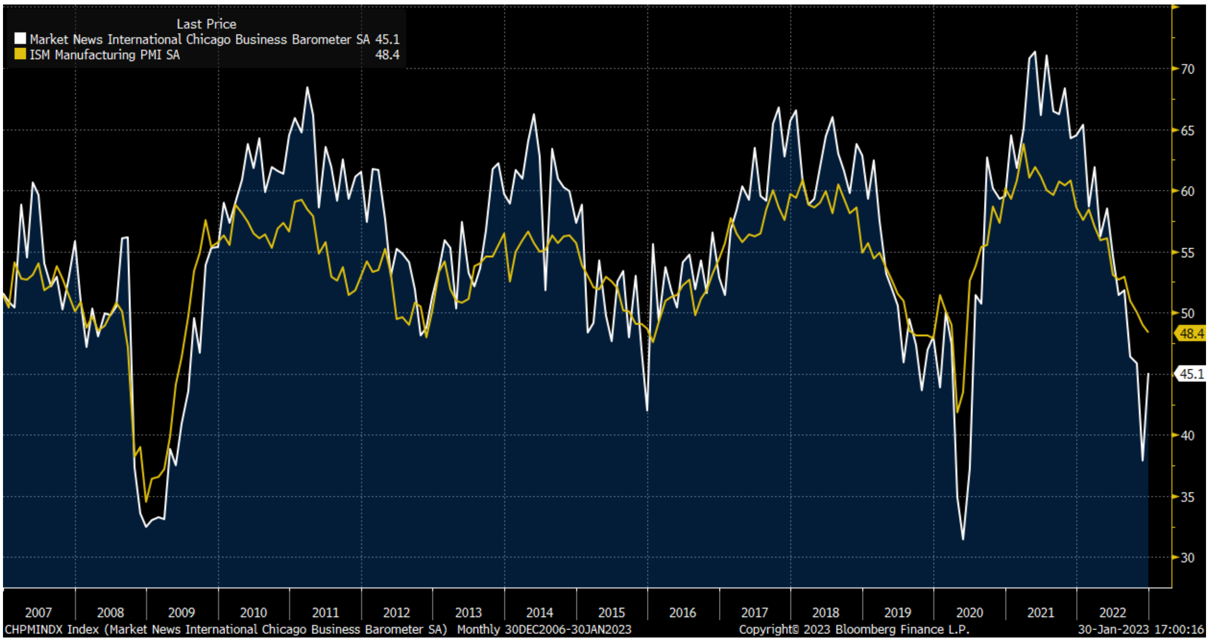


Source: TIM/Bloomberg

Almost in a polar opposite direction to what you hear from the mainstream media the OECD G-7 leading indicator also shows signs of turning positive, with the six-month change inflecting and becoming less bearish after the panic and euphoria stages around the pandemic period.

Source: TIM/ OECD

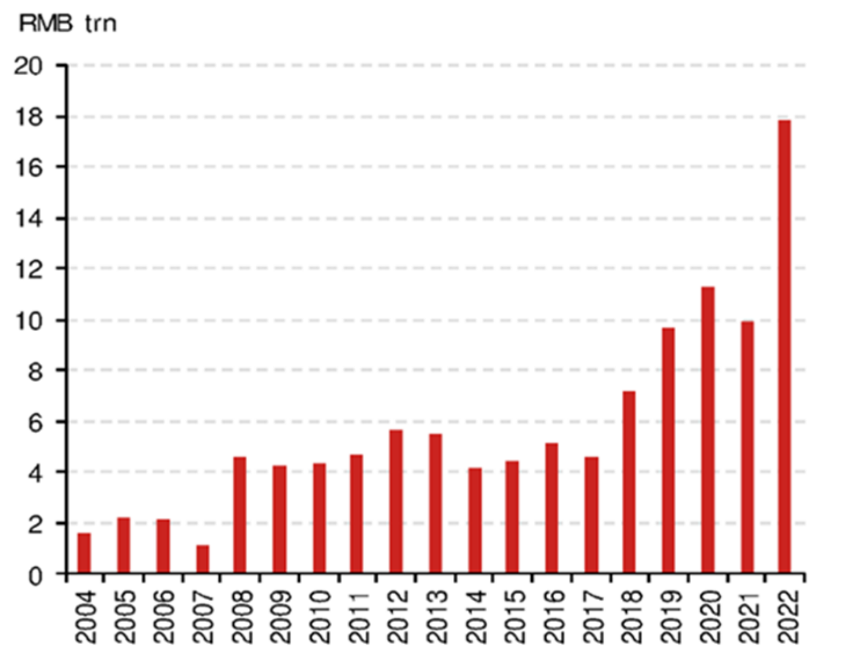
Turning to the US Manufacturing ISM, which is widely regarded as a key indicator given its correlation to overall S&P 500 year-on-year returns and has a history of bottoming as inflation comes down. In Europe the latest overall manufacturing PMI, while still in contraction territory has risen in each of the last three-monthly readings, however, France, Italy, Spain and China are all now back above 50, signalling expansion. In the US, while the readings are still falling, the Chicago Business Barometer, which normally leads the ISM has improved also, suggesting that the point of inflection may also be about to occur here.



Source:TIM/Bloomberg

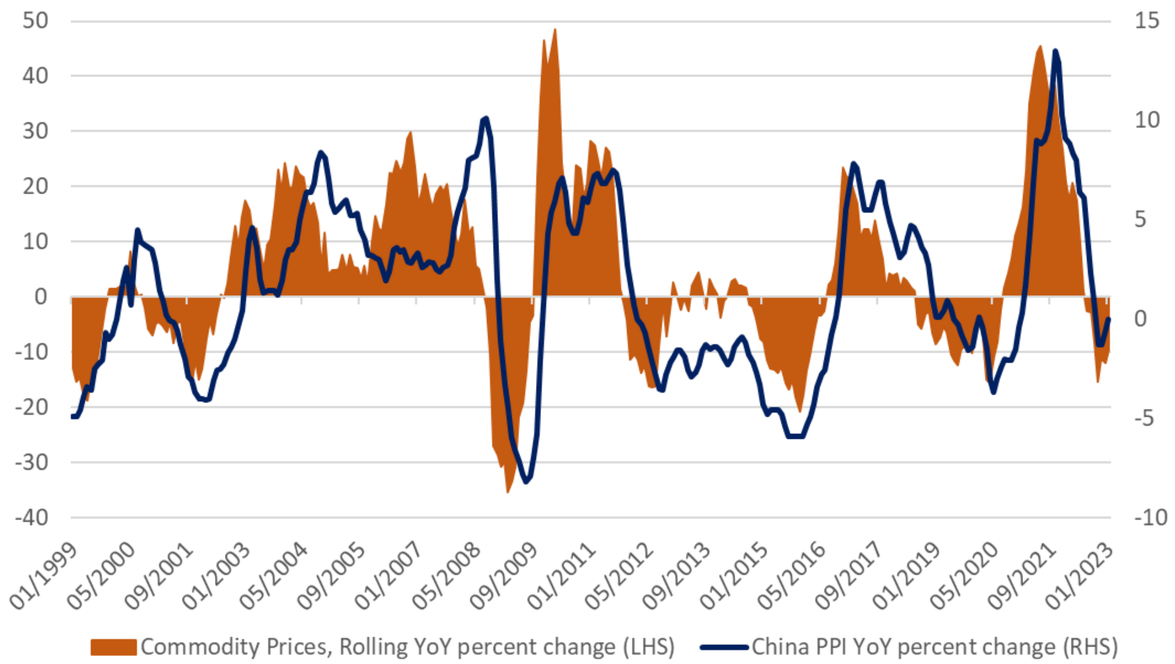
Although the economic data from China is yet to inflect, we expect that the news coming out from the world's second largest economy with show significant improvements in the weeks to come, now that the government has performed a complete U-turn on their zero-COVID policies. Consumer savings are very robust given the inability to spend over the past 12 months, and there is likely to be a significant amount of pent-up demand that will provide a support to both Chinese and multi-national companies alike.

Fig. 2: Net increase in China's household saving deposits



Source: CEIC and Nomura Global Economics.

The fly in the ointment of the Chinese re-opening story is the commodity price impact, which has been helping the global headline inflation numbers start to fall in the past few months. With China consuming 20% of the world oil supply, over 50% of the global copper, zinc and nickel supplies and over 60% of iron ore there is a considerable risk that commodity prices become a significant headwind again as we go through the year.



Source: TIM/ Bloomberg

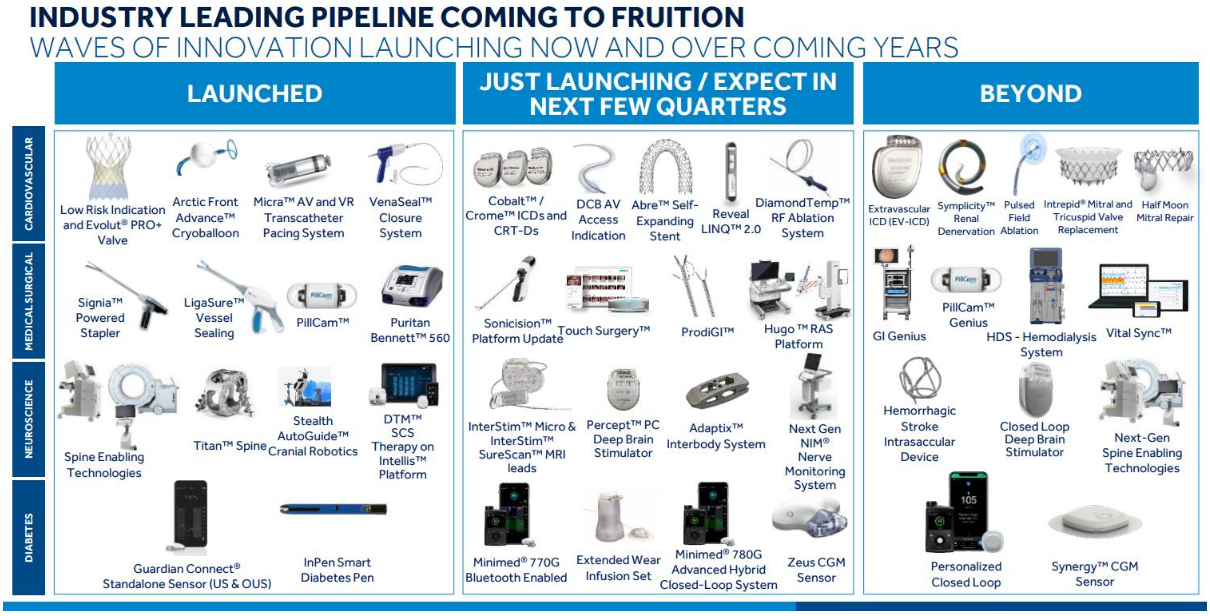
Although headwinds and uncertainties persist, and undoubtedly central banks, Russia, reshoring, recessionary concerns, home prices, and other fears will combine to make the year less than plain sailing, if you stick to profitable companies with good cash flows and strong market positions the year should not be as difficult as the sentiment would have you believe. We expect that, as has happened in January, short-term overreactions to company statements will allow us to add to existing positions at attractive prices and may even create opportunities to initiate positions in companies that remain on our watch list.

The VT Tyndall Global Select Fund B Acc (GBP) rose by 3.14% during the month as investors' confidence in European and Emerging Market equities rose given China reopening and upbeat outlook statements on depressed valuations.

<u>Fund Activity and News</u>

During the month we sold our position in the one of the world's largest medical technology companies whose products include heart values, pacemakers, and surgical equipment, namely Medtronic.

Medtronic has been at the cutting edge of medical technology for many years and exited the pandemic with a strong portfolio of new products that should have set the company up for above market growth for many years. This should have been complemented the volume of elective procedure increasing as those postponed due to the pandemic as well as the normal growth in surgeries laid the foundations for many years' worth of excess revenues. However, the lack of availability of hospital space for elective surgeries and poor execution by management has let the competition close the gap and this advantage has been wasted.



Source: Medtronic

The recent outlook given by management is equally disappointing, highlighting continuing pressure on margins from a combination of inflation, supply constraints, foreign exchange as well as a continuing high level of R&D spending.

While inflation, and FX are likely to subside, and a high level of R&D is good for long-term growth, we worry about the long-term outlook for margins and control over their suppliers. Although R&D remains high it is well below the level being invested by some of its peers, especially in diabetes management, structural heart and robotics, the latter of which Medtronic sees as a key growth platform with its Hugo platform.

Management also signalled that the delay in elective procedures is likely to continue owing to staffing shortages and COVID, and that it may take three to four years to get close to pre-pandemic margins. With increased competition in the Cardiac Rhythm Disease Management (CRDM) segment (19% revenues) from Boston Scientific and Johnson & Johnson, Stryker, Zimmer and NuVasive in spinal (14% revenues), we question whether this time frame is conservative enough.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st January 2023
Data source (unless otherwise stated): Bloomberg.

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