February Review

The Fund's F Acc share class units returned -0.64% compared to the S&P 500 Index ETF return of 1.13% in sterling terms.

February has been a month where the market has continued to lack direction and has remained rotational in terms of performance. Our macro process still flashes warning signs regarding the economy and in particular consumption and we remain defensive in our positioning. It has been that defensive positioning that has caused us to underperform in the last two months. Our overweight to Healthcare has been the culprit and in particular our positions in Eli Lilly and McKesson. Neither company has suffered any setback operationally or in their fundamentals, but both have quietly drifted lower as other parts of the market have performed better. Despite the poor performance of Healthcare in February we remain invested and view the sector positively in the light of a sharply decelerating economy and a looming recession. We would also caution that some of the areas that have seen good share price performance are unlikely to sustain, most notably the more speculative corners of Technology and Consumer Discretionary are likely to mean revert lower after substantial bounces so far in 2023.

On the positive side of the ledger were Industrials, which performed quite well in the month. This sector is benefiting from several thematic trends in America: onshoring and legislation in the shape of the Inflation Reduction Act, which introduced a raft of incentives and subsidies which are aimed at climate change and environmental issues. We are finding plenty of interesting opportunities in this sector which is being presented with a unique opportunity of broad-based reshoring capex and emission-based retrofitting and overhaul. We have added Carrier back to the portfolio, which specialises in HVAC (Heating, Ventilation and Air Conditioning) and will likely add some more names in due course.

Whilst we are still avoiding most of Tech and Discretionary, we are finding some interesting opportunities within these two sectors. One of the biggest trends is the reshoring of the semiconductor industry and we have recently invested in Lam Research and Teradyne. Both these companies have exposure to this theme and I believe are very well positioned to benefit from this change in fundamentals. On the Consumer Discretionary side, we have recently bought a position in MGM which is benefitting from unusually strong fundamentals in Las Vegas. The return of convention business has boosted the top line and the company is now seeing margin expansion on higher room rates. I believe this is the beginning of a sustained upswing for the company and a market that has been left for dead since Covid.

Market Outlook

The market is choppy and continues to worry about rates, inflation and growth. It remains very much a stock picker's environment and whilst I remain cautious on the market overall there are areas that are picking up. As we enter the last month of the quarter we are getting ever closer to the likely bottom of this bear market in economic data, which we forecast will happen in the second quarter. Leading stocks will discount the low and we are laser focused on finding those winners of the next cycle. The second half of the year is likely to be one of strong performance, but this will not be lead by the bigger constituents of the S&P 500, and therein lies the opportunity for the Fund.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 28 February 2023

Data sources: Bloomberg

Contact Details:

Fund Manager –Felix Wintle fwintle@tyndallim.co.uk
Sales Director – Theresa Russell trussell@tyndallim.co.uk

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.