VT Tyndall North American Fund

Monthly Commentary | 31 March 2023

TYNDALL

March Review

The Fund's F Acc share class units returned -0.34% compared to the S&P 500 Index ETF return of -0.45% in sterling terms.

March was a month that will surely go down in the history books and is proof, if it were needed, that even if you had perfect foresight, markets can still be very difficult to predict. I'm referring to the fact that there were two significant bank failures, a financial crisis in terms of liquidity fleeing the banking system, a hastily concocted weekend rescue plan, followed by an interest rate hike, and despite all that, the S&P 500 was +3.51% for the month. It was quite a volatile month, to end a volatile quarter, which also seen some very big moves in the mega cap tech sector which has been the large part of the S&P 500's gain so far this year. Apple and Microsoft have comprised around 40% of the Index's gain in 2023 and with stocks like Tesla (+68%) and Nvidia (+90%) it has been quite a one-sided feel to performance. The fund does not have exposure to the mega cap tech stocks and this is one of the reasons the fund trails the S&P 500 year to date. We continue to believe that there is a great deal of risk in owning the mega cap tech stocks, not least because Q1 earnings expectations are likely too high but also because these stocks are very unlikely to be the new leadership group going forward. After a decade or so of outperforming and becoming multi trillion-dollar market cap, household names, is not what leadership groups are made of. Whilst this has gone against us so far this year, we continue to believe that this will play out over the near to medium term.

The chart below shows the performance in March by S&P 500 sector, and what stands out is the bifurcation. Financials, as one would expect, sold off meaningfully yet Technology and Communication Services performed strongly.

With the Federal Reserve hiking again during March, the market looks like it is pricing in one more hike which will then conclude this tightening cycle. That is an important message for investors and this is perhaps why the market has remained in buoyant mood. There has also been a big unwind in the Fed's Quantitative Tightening program, which saw them undo 63% of the QT in two weeks, when they formulated the bank liquidity rescue package, known as the Bank Term Funding Program. This, plus other stimulative measure globally, the Chinese and Japanese are still doing QE at this point, has greatly reduced the effectiveness of the Fed's QT measures.

Market Outlook

Looking forward, Q1 earnings season will commence on 14 April and will be closely watched particularly in the banking sector. There has not been any significant recovery yet in most banking stocks' share prices and the ongoing issues there will be a source of great focus. We do not own any banks in the portfolio and have been underweight financials since before Covid. Heading into earnings season we retain a cautious stance due to the fact that we still see the rate of change of profits not bottoming yet this quarter. We are more bullish for the second half of the year when economic growth should start to improve.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 31 March 2023

Data sources: Bloomberg

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