

## Bullish or Bearish?

Are you bullish or bearish? This is a question that I am asked all the time, and rightly so, it's a very fair question to ask a fund manager! It's also a question that I, along with most investors, have a pretty quick answer to. And unlike some managers, my answer is not always 'bullish' – we have a process that allows us to see the world as it is, not as we'd like it to be, and sometimes that process leads us to be bearish and therefore cautious in our asset allocation and portfolio construction.

But right now, the bull/bear debate is really quite nuanced. The market has rallied in the face of the worst economic data that any of us have ever seen, particularly as it relates to unemployment; the speed of the job losses and the absolute number have never been seen before by any living investor. Yet the market sees through it; is that a bullish or bearish development? Has the market discounted the bad news and is looking forward to better times or has it bounced to an unsustainable high based on hopes that will soon be dashed as economic reality sets in?

The answer, for me, is not to be found in the level of the S&P 500 at all. The direction of the market is very hard to determine as we cannot be sure how far the market is looking ahead and what it has priced in. However, the picture underneath the headline indices is much more revealing. At the sector level you get a much clearer picture of what the market is supporting and what it isn't and the conclusion is that the Covid 19 pandemic is creating winners and losers amongst sectors and stocks, as can be seen in the table below:

Sector	Perf. Rel to S&P 500
Technology	13.09%
Healthcare	8.92%
Comm Services	6.04%
Consumer Staples	2.54%
Consumer Disc	2.41%
Utilities	-3.06%
Materials	-5.98%
REITs	-7.25%
Industrials	-14.49%
Financials	-19.67%
Energy	-26.49%

*Year to date performance, relative to the S&P 500, to 13 May 20. Source: Bloomberg.*

As this table shows, there is much more to the US equity market story than the overall level of the index. There are big winners and losers in both absolute and relative terms, and this is one of the reasons that active management will always have such an important role to play. When we as investors see the big performance dispersion, the bull/bear debate should not really be about 'the market' at all. It should be about the sectors and the stocks that we own. Are we confident in them

to continue to deliver returns? Are we confident that these are the companies that can not only survive but also thrive over the medium and the long term?

The index will do what it may and should not be the focus of investors' attention. The underlying sectors and stocks are the crucial piece and this is where the bull/bear debate should take place. The current situation where we see Tech and Healthcare outperforming the index and the much more cyclical areas like Energy and Financials underperforming makes a lot of sense to us and this is why we are maintaining Tech and Healthcare as our two biggest weightings in the fund.

**Felix Wintle, Fund Manager, VT Tyndall North American Fund, 15<sup>th</sup> May 2020**

### Contact Details:

Fund Manager - [fwintle@tyndallim.co.uk](mailto:fwintle@tyndallim.co.uk)

Sales Director - [hnolan@tyndallim.co.uk](mailto:hnolan@tyndallim.co.uk)