

Finding Opportunities in Forgotten Sectors

While many investors are 100% focused on the Tech sector at the moment, we prefer to look at the whole market for investment opportunities. Whilst some managers claim that certain sectors are off limits to them, we view all sectors as investible if you can pick the right time to be invested in them. Part of our investment process is a macro framework which tracks the rate of change in growth and inflation and this model highlights the optimal time to be in or out of certain sectors.

For example, the current environment has growth falling on a year over year basis but inflation rising; a stagflationary environment. There are certain sectors and factors that work really well in this environment, like Materials and Industrials, and some that fare less well like Financials and Consumer Staples. We are underweight the latter two sectors and have been adding to Materials and Industrials on a selective basis in recent weeks.

What's interesting about this is that the Materials sector is one of those forgotten corners of the market that gets little attention. Its weighting in the S&P 500 is just 2.5% and is the smallest of the sector weights in the index. However, it houses some great companies that offer great investment potential when the time is right to own them. One such stock is Freeport McMoran, the copper miner. This stock has been in a downtrend for the last two years but broke out of that bearish trend this summer and has potentially started a new bullish trend.

Freeport McMoran has broken a two year downtrend



This goes hand in hand with the two underlying commodities it is exposed to, Copper and Gold, both of which have been performing well. Gold particularly likes stagflation but the continued performance of the Copper price is interesting as this is often seen as a key macro barometer for global growth and risk appetite – the Copper price is telling us there are better economic times ahead.

The Copper price has been strong recently



In Industrials, we have added John Deere to the portfolio. Deere is the premier maker of agricultural equipment in the world and is seeing a marked improvement in its end market demand. In its last quarter it beat the consensus estimates by over \$1bn on the revenue line (\$7.8bn vs \$6.7bn expected) driven by new technology and products which in turn drove demand. This led to an earnings beat that was in excess of 2x the consensus estimate.

Deere's business has inflected along with its stock price



Increasing our weighting to Materials and Industrials gives the portfolio a true blend of exposures, and further differentiates the Fund from the Index and the competition.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 11th September 2020

Source: Bloomberg