VT Tyndall North American Fund

COVID-19 Commentary 19th June 2020

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Index Levels Can Hide the True Picture:

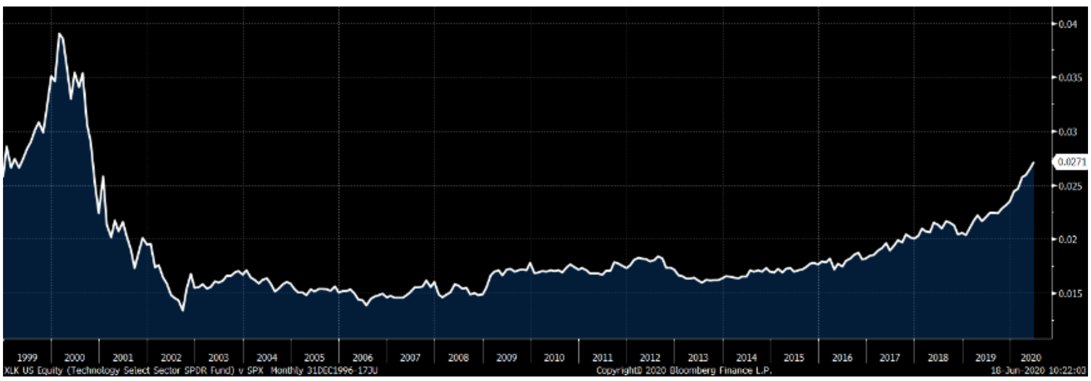
One of the important aspects of looking at markets is to remember that observing the daily number, which represents the index level, can be as misleading as it is informative. On any given day the level of the S&P 500 index can hide a myriad of realities happening underneath that aggregate number. We've just had a period of extreme volatility in the last few months, with the 'waterfall' collapse of the market in March to the recovery which broke records for its speed and percentage gain. But there are important messages in all of this around leadership and what investors are really willing to pay for.

The Technology sector has been leading the pack as markets recovered, with many stocks in this sector having outperformed in the crash and outperformed post the crash. In fact the Technology sector, and its mega cap stalwarts like Microsoft and Apple, have been one of the reasons that the US has performed so much better than other global markets over the last several years. What's interesting to see too however, is that there are many parts of the market that have not fared as well. This is important when we consider where the market is now, trading at a level that many commentators are surprised at and believe cannot continue.

But this is not a recovery that has floated all boats, not all sectors or factor exposures have risen at the pace of Technology stocks. This is a positive sign because it shows that investors are still being discerning in what they buy, and are not treating all equities as the same. Consider Financials; this sector has not made a new high vs the S&P 500 since 2007 and has consistently underperformed the market since then. The Energy sector peaked in 2008 and has been a huge relative underperformer since that time.

Small Cap stocks have shown a similar profile, underperforming the Index since 2011, as has the equal weighted S&P 500, indicating that the average stock in the index has underperformed the wider market; again showing the strength of the Technology sector in the index. The Technology sector itself has outperformed but, as you can see in the chart below, it still has some way to go before making a new all time high vs the index, which it made in 2000.

Tech Relative to the S&P 500 Monthly Since 1996:



This shows that although we see the index levels quoted every day, there is a great deal of context we need to think about. Big bear markets like Energy and Financials, as well as big bull markets like Technology and Consumer Discretionary, are the real story.

This is why an active approach to the US market is so important. To be able to overweight and underweight certain sectors and factors and do so with conviction is a key part of our strategy.

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Source: Bloomberg

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