

Bloomberg ID: VTWARNI LN

SEDOL: BMTRT64

ISIN: GB00BMTRT641

Fund value at midday 30th December was 78.8437

Assets under management: £24.4m

	Jan-22	Feb-22	Mar-22 *	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22 *	Oct-22	Nov-22	Dec-22
Total Return	-0.08%	2.29%	2.03% *	1.07%	-1.40%	-0.50%	-0.44%	0.58%	0.29% *	0.34%	0.67%	0.16%

\*Inc. Distributed Dividend

## VT WoodHill UK Equity Strategy Fund, dividends re-invested (UK p)



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

In December, our fund was up very slightly again rising by just under 0.2% compared to the stock market which fell 1.6% over the month. We remained hedged<sup>1</sup> for most of the month. For 2022 the total return of our fund is around 5.1% which compares with the UK stock market which was broadly flat over the same period. Given the volatile and difficult nature of the stock market last year we feel that this performance is at least respectable. It is also worth pointing out that compared to other financial assets, the UK stock market has performed quite well (at least in Sterling but less so in US\$). Other financial assets have performed much worse. Broadly speaking stock markets around the world were down around 20% in 2022. Bonds also performed poorly. A 'sensible' portfolio made up of 60% US equities and 40% US bonds saw the worst annual performance since 1932 – i.e., during the Great Depression. Given how hard it has been to make money in 2022, and how easy it has been to lose money, our performance last year illustrates that our strategic risk averse approach does have value.

As the year started to end, we noted some interesting changes. In the US (and in the UK) we do now think that inflation may really have peaked. For the last two months inflation readings in the US have come in cooler than expected. On top of this energy prices and especially oil prices have notably retreated. Supply chains have simplified and if anything, companies are now holding too much, rather than too little stock. It is also the case that because of QT\*, money supply trends are in retreat. There is a strong relationship between money

<sup>1</sup> From time to time, the fund uses FTSE 100 equity futures to protect the value of the fund. When the hedge is applied, net equity exposure is reduced, and the capital should be largely protected.

supply and inflation and this relationship suggests that inflation is heading down. This is a substantial change and does sound positive given that fear of inflation and fear of central bank tightening has been one of the major worries of 2022. It does seem that something different is now at hand in 2023. It feels to us that fear of inflation is shifting to concerns about the economic outlook.

In relation to the economic outlook, it is possible that central banks are getting it wrong again – but in a different direction. A year or two ago the line taken by Western central banks was that inflation was temporary and was a side effect of covid lockdowns. In hindsight it was obvious that the largest monetary expansion in world history on top of furlough programmes, which maintained a labour market at full employment levels, was risky. After waiting for too long to change direction central banks then turned full circle and decided that inflation needed to be dealt with. As things stand now central banks seem determined to push up interest rates further at a time when it is quite possible that inflation has already peaked. When inflation emerged, central banks were far too dovish for far too long. Now it is possible that they are going to tighten too much. If central banks do indeed stay too tight for too long, the result will be a recession or that ‘something’ somewhere will ‘break.’ If either of these two things occur the outcome for markets will be different, at least in terms of timing and volatility.

If central banks stay on their current path, and keep tightening as they say they will, then a rolling, perhaps not very deep but potentially quite long recession is possible. This would be a tricky environment for equity markets. Corporate earnings would come under pressure, and, from a cyclically adjusted perspective, equities are still not cheap enough to ride out a steady decline in earnings. The result is quite possibly a volatile, directionless, and disappointing market. Equities could potentially go nowhere as they gradually become cheaper. There would likely be moments of panic and moments of optimism. For our fund, this is potentially a market environment in which we could continue to make steady, low volatile returns, taking advantage of when markets get overly pessimistic or unrealistically positive.

The other environment, the one in which ‘something breaks’ would be quite different. It is hard to determine what form ‘something breaking’ would take. A financial institution could get into trouble, or the Western economy could weaken much faster and fall much further than expected. Something could still happen in China. If something goes wrong it seems likely that central banks will have to change direction, sharply. This environment would potentially involve a rapid decline in asset prices with the potential for a bounce back. For our approach to investing in this environment, while challenging, could be rewarding.

It is unusual for us to make any sort of prediction in our newsletters, and it is certainly the case that either or neither of the scenarios described above will occur. There is even the possibility of the soft landing that the stock market is hoping for and is priced for. We want to be prepared and to act as sensibly as we can to produce the best risk adjusted return for investors that we can. After doing well in 2022, our strategic and risk averse approach may really come into its own in 2023.

We will continue to proceed with caution and as normal, would like to thank all our supporters.

*\*QT; quantitative tightening*

## TOP FIFTEEN EQUITY HOLDINGS 30<sup>th</sup> DECEMBER 2022

AstraZeneca	7.7%
Shell	7.5%
HSBC	4.9%
BP	4.8%
Rio Tinto	4.1%
Diageo	3.9%
BATS	3.3%
BAE	2.8%
Compass Group	2.7%
National Grid	2.6%
Glencore	2.5%
Relx	2.4%
Unilever	2.4%
GSK	2.1%
Prudential	1.8%

Fund manager: Paul Wood

5th January 2023  
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