Woodhill

VT WOODHILL UK EQUITY STRATEGIC FUND
Managed by Woodhill Asset Management LLP

NEWSLETTER JANUARY 2023

Bloomberg ID: VTWARNI LN **SEDOL: BMTRT64** **ISIN: GB00BMTRT641**

Fund value at midday 31st January was 79.7526

Assets under management: £24.7m

	Feb-22	Mar-22 *	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22 *	Oct-22	Nov-22	Dec-22	Jan-23
Total Return	2.29%	2.03% *	1.07%	-1.40%	-0.50%	-0.44%	0.58%	0.29% *	0.34%	0.67%	0.16%	1.15%

*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

We had a quiet start to the year with the fund rising just over 1% in January. Markets were a little more enthusiastic, but we have stayed relatively cautiously positioned for a few reasons. QT* is continuing both sides of the Atlantic and we believe that corporate earnings forecasts are still too high. On top of this central banks are still in the process of tightening policy, and, if their rhetoric is to be believed, they are not going to be cutting rates in a hurry. Sentiment has also rebounded so it can no longer be characterized as being excessively negative. With all this in mind we ended the month in a fully hedged[1] position.

This cycle is very strange, and it is hard to get a clear picture of what is happening to the world economy. On the one hand the labour market still appears to be tight, even after all the interest rate increases we have seen. At this point, in a more normal cycle, it might have been the case that unemployment would be rising. So far nothing material has happened to employment levels both in the UK and US. This resilience may be either that employment is a 'lagging indicator' or that something is different, and the strength of the labour market argues for a soft landing. In this regard it is also the case that inflationary pressures are easing. This soft landing / no recession in 2023 outcome is clearly what equity market investors believe is happening.

1 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.

While the waters look calm if an investor is looking at employment levels alone there have been a growing number of quite shockingly weak data points in other areas. In the US the housing market is now clearly in recession and the UK housing market appears to be heading down the same path. Manufacturing is also weak. Credit card balances are soaring, and at the same time as that, the interest rate that credit card borrowers are paying has been steadily rising.

However, a statistic that really stood out to us was recent data on real disposable income in the US. Real disposable income is income after tax and adjusted for inflation. It is a good measure of how much money individuals and households have available to spend in real terms. After adjusting for inflation, real spending power of the US consumer has had its largest decline since the Great Depression.

On the one hand, it seems that unemployment is steady, and that inflation is falling. However, on the other hand something bad on the scale of the Great Depression seems to be happening to real incomes. What is going on? Just the lack of clarity here and the extreme dispersion in the nature of the economic data makes us cautious. This is especially as investment markets seem to want to have their cake and eat it. Equities are clearly excited about what they see as the avoidance of a recession and by the likely continued decline in inflation. At the same time bond markets are implying that interest rates are going to be cut in the second half of the year. It does seem that one of these two asset classes must be wrong. If interest rates are going to be cut dramatically this year (as implied by the bond market but repeatedly denied by central bankers themselves) then unemployment will have to rise sharply and something recessionary will have to emerge. If this does not happen, then interest rates will have to stay higher for longer than is currently expected. Our feeling is that the economies of the developed world are going to weaken notably and that although something unusual and demographic may be happening in the labour market, that ultimately, unemployment will rise. In fact, we suspect that it will be a weakening in employment data that will give the signal that the central bank tightening campaigns are over. So far, we are not seeing anything like this in labour market data.

We also note the stock markets continued desire to take a positive view whenever it seems it can do so. This itself is not the sign of a market bottom when more usually a pervasive and long-term pessimism emerges. It is possible that stock market investors have been so fixated on what central banks will do next and on short term inflation data that they cannot see the wood for the trees. The reality may well be that concerns about inflation may be about to give way to concerns about notably weakening economies. If this happens the corporate earnings estimates are going to be too high, and it is likely that equity prices will fall to track the potential decline in earnings. Until we get some sort of clarity here, a notable fall in sentiment and a reconvergence in what bond and equity markets are saying we are likely to tread carefully.

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

**QT; quantitative tightening*

TOP FIFTEEN EQUITY HOLDINGS 31st JANUARY 2023

Shell	7.4%
AstraZeneca	7.1%
HSBC	5.5%
Rio Tinto	4.4%
BP	4.0%
Diageo	3.7%
BATS	3.1%
BAE	2.7%
Compass Group	2.7%
National Grid	2.6%
Relx	2.5%
Glencore	2.3%
Unilever	2.3%
Prudential	2.1%
GSK	2.0%

Fund manager: Paul Wood

2nd February 2023
www.woodhillam.co.uk

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