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

NEWSLETTER MAY 2022

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

Fund value at midday 31st May was 79.2897

Assets under management: £24.6m

	Jun-21	Jul-21	Aug-21	Sep-21 *	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22 *	Apr-22	May-22
Total Return	0.62%	1.99%	0.01%	-2.36% *	-0.08%	-2.42%	3.81%	-0.08%	2.29%	2.03% *	1.07%	-1.40%
*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 difficult May but, we think, for reasonable reasons. Towards the start of the month, the sentiment of the market started to feel very wrong. Equity investors, and UK Sterling were becoming panicked about the Bank of England being far too dovish in relation to UK inflation. At the same time, UK measures of consumer confidence had fallen to record lows. This data series has been running for over forty years. The UK consumer feels less positive today than it did in the recession of the early 1990s (including our exit from the ERM), less positive than at the lows of the dot com bubble, less positive than at the worst points of the 2008/9 financial crisis, and, even more negative than in the worst moments of covid lockdowns. We think the potential for a recession has risen significantly. Historically, readings of consumer confidence at these levels have always been accompanied by a recession that is either coincident or imminent. Putting this together with a central bank that might have a lot more to do in terms of tightening policy felt like a very troublesome mix. In this circumstance we felt it was only prudent to hedge[1] and protect the portfolio. This meant a small loss for the month but felt it was prudent to protect the gains we had made so far this year.

In all bear markets there are at times, notable and even violent bounces. Most importantly is the fact that bear market bounces generally retrace less of the previous near-term loss than previous, bull market ranges would suggest. In other words, the environment changes from buying the dips to selling the bounces. As historic bear markets have unfolded each bounce has tended to be smaller and shorter than the previous one. This is the process of a psychological shift taking place on the part of market participants. A move, that takes time, from

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.

ingrained and learned bullishness, into something more pessimistic. If the bounce that the market has been enjoying in the last few weeks rolls over, without a new top being made, then we would expect the next bounce to be smaller. This pattern could confirm the existence of a bear market.

If this occurs, the first shift will be to a mindset that aims to preserve capital as the primary focus. Also, in a bear market the path that the market takes has a different driver. In both the year 2000 bear market and in the 2008 bear market the key determinant of the duration and depth of the bear market, as well as its ultimate end, were economic lead indicators. We have a few favourite data sets we like to look at here. If lead indicators show clear economic deterioration, then this is key and strongly informs the direction of equity markets. Inflation numbers, politics, or what central banks are doing are less important. At the moment, our favourite economic lead indicators are turning down and any further declines from here might be serious. We will continue to watch this closely.

As a final note the current bounce in equity markets appears to have taken place out of a mixture of an oversold position and a hope that there will only be two more interest rate increases in the US. Many market analysts believe that the current tightening cycle will then be over. This would mean short term rates peaking out at around 2%. In past cycles it has taken a move in short term interest rates from negative in real terms to positive in real terms before inflation was defeated. Even if current inflation halves ‘by itself’ from its current levels this would still mean that real interest rates would be negative if rates rise to 2%. We believe that there are only two ways out of this situation. Either interest rates are going to have to rise much more than is currently hoped for, or demand will have to fall sharply (i.e., a true recession). Neither of these outcomes are good for equity markets. Many participants appear to hope for something in the middle – a small amount of economic weakness, but not too much. This could happen but would it be enough to bring inflation back to target?

Given the equity markets are no longer oversold on any measure we want to remain cautious here. As always, we would like to thank everyone involved with our fund.

TOP FIFTEEN EQUITY HOLDINGS 31st MAY 2022

Shell	7.7%
AstraZeneca	7.1%
HSBC	4.9%
BP	4.4%
Rio Tinto	4.1%
Diageo	3.9%
BATS	3.5%
National Grid	3.0%
Compass Group	2.5%
BAE	2.4%
Relx	2.4%
Glencore	2.3%
GSK	2.2%
Unilever	2.1%
Reckitt Benckiser	1.9%

Fund manager: Paul Wood

6th June 2022

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