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Manager's Commentary

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26 January 2022

Recently the market has continued to fear a reset of Fed policy because inflation is the main concern. Therefore the highest multiples have done worst and anything with a higher multiple than the market has been on the underperforming side of things. Consequently, the biggest wipeouts have been no-earnings tech, biotech, memes, crypto and SPACs. The big 8 tech stocks are down a bit more than the market because their multiples are a bit higher than the market, they have good free cash flow and no debt but they are going wobbly. Not only that, but the one that actually does have debt, NFLX, wiped out. Not good if subscriber growth falters and you need financing but interest rates will rise. Why did Bill Ackman buy 3 million shares today? Well, it was $700 two months ago so $355 feels like a good punt (whatever excuse he makes).

Fear has manifested with the highest put buying for years, beating the March 2020 peak and the bulls/bears ratio at its most negative in over a year (meaning everyone is bearish and few are bullish).

So, you may say, if we have P/E of 9, how are we down 5.14% MTD in $ this morning versus -8.60% for the S&P 500? Two reasons: wealth effects and recession trepidation. Everything with new investor profits is hit so down goes anything else they may own as margin calls must be paid. Therefore down goes Uranium, Build-A-Bear, Yeti. These are the type of things that ARKK owners may also own. How can we prove it? Well, note that energy and community banks have remained at their highs but only the old guard would care about one group that peaked in 1981 and another that peaked in the 1990s. Small point: gap opening up in the relative valuation between oil and uranium. Secondly, all this loss may make consumers worse off and in comes recession. Our consumer durables (Great Outdoors), although already cheap, got hit too.

This evening the Fed confirmed the market’s worst fears that inflation is persistent, supply chains are not getting better and that interest rate rises are coming from March. Expectations now up to 5 hikes this year and the killer line from Powell that there is “quite a bit of room” to raise interest rates before it would affect the labour market. Yikes!

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But all is not lost and with good earnings out from TSLA and MSFT, expect continued bifurcation between the better and stronger big tech. But just remember, Apple is 30x and will grow earnings at 9% if you're lucky in the next few years (because they're coming off the high pandemic WFH base), so they'd better report wondrous numbers because they will have to paddle very hard to stand still in a rising interest rate environment. Double rates, and have earnings just 30% higher in 3 years' time should put the stock lower in 2025 than it is now. Some players have already cashed in: Branson sold hugely in Virgin Galactic, Musk cashed $12 billion of Amazon, Bezos left CEO of AMZN for other interests, Benioff sells every day at Salesforce.com & hundreds of other examples.

Will there be a recession? No. Will the stock-market price for it? Looks like it, so has learned nothing from 4Q 2018. Will we be OK? Yes, new money is not going into recession risks.

Expect a bounce from these extremes. It may be deceptively strong in NASDAQ because that's already down 13.4% MTD which is massive as this index is the low-beta tech proxy. (Which is why the futuristic funds are down double that MTD). Financials, industrials & commodities will be the relative strength this year as inflation remains stubbornly high. We've got substantive weightings here so we'll wangle out of too much trouble. We may just bounce in line with the market but should continue to show good traction in future declines.

Important Information