BARRANTAGH Investment Management | 1995 | 2020 25 Years

Q3 2022

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT
Global Equities

An encouraging rally in July could not sustain momentum through the duration of the quarter as The Fed continued to rapidly raise rates and reiterate a commitment to rein in high inflation. An absence of positive surprises related to pre-existing issues such as the war in Ukraine did little to lessen growth concerns and general sentiment remained subdued.

Worries about the economy have dominated the narrative of late and are readily apparent in market psyche. The American Association of Individual Investors measures negative sentiment at levels not witnessed since the time of the Global Financial Crisis. Interestingly, past peaks in bearishness have often coincided with market bottoms.

Despite a slowing trajectory of revenue growth, most companies retain a relatively optimistic outlook for the remainder of the year while acknowledging certain headwinds. Forecasting uncertainty has increased as the sustained pass through of cost inflation could test elasticity of demand, though industries with healthy order backlogs are less at risk. Companies with greater exposure to cyclical end markets that have come off peak conditions have been less sanguine in their commentary and in some cases have pre-emptively reduced guidance eliciting weakness in their share price and peer group. Inflation has been a broad-based source of margin pressure for companies over the past two years.

While expected to persist in the near term, there are some pockets of improvement that have recently started to surface. Logistics costs, supply chain constrains, and commodity prices are examples of this, which should help offset other areas that are exhibiting worsening inflation trends. Companies that have been disproportionally hurt by these items may get some relief in the near term. More broadly, we are always on the lookout for businesses with leadership positions that could emerge from a period of macro uncertainty with increased market share or greater competitive advantage and interesting value opportunities have opened up in the current environment.

Global companies with greater exposure to European and Asian economies have experienced a higher level of concern over growth rates. China continues its struggle to move beyond Covid lockdowns and Europe is faced with critical questions regarding availability of natural gas. As a result, companies with more exposure to these regions have seen their share prices fall much more than average, not to mention the weakening currency pressures as well. This has also dragged down the share prices of certain high-quality companies with global exposure, even if their revenues are not as tied to the economic cycle. This is one area where we are currently finding more attractive opportunities.

An example of this would be in our long-term holding of Thermo Fischer which has operations all over the world. They are a key provider of tools for pharmaceutical companies to create new drugs as well as analytical instruments used in a variety of industries. Their revenues have become increasingly less cyclical than the average company and are well positioned for long term structural growth despite near term uncertainty in the economic environment.

Buys

None.

Sells

VF Corp (VI)

Disappointing growth in Vans continued to linger as the brand turnaround has been delayed. Risks remain in the retail environment regarding inventory in the channel and consumer demand, along with China's growth remaining challenged.

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