

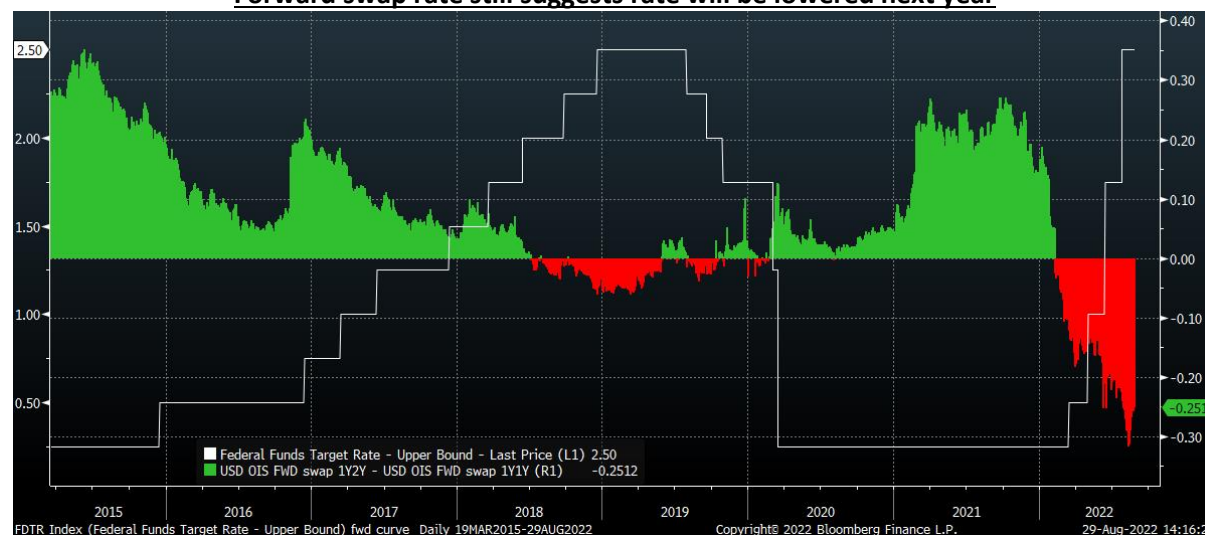


“The curious mind embraces science; the gifted and sensitive, the arts; the practical, business; and the leftover becomes an economist”- Nassim Nicholas Taleb.

The legendary manager of the Fidelity Magellan fund, Peter Lynch was quoted as saying “if all the economists of the world were laid end to end, it wouldn’t be a bad thing” in stark contrast to the market adage of “don’t fight the Fed”. This month saw the world’s central bankers, most of which are economists, not business leaders, convene at Jackson Hole and pronounce such a hawkish message that the market lost most of the month’s gains in a matter of minutes; The S&P 500 saw \$1.2 trillion of market cap wiped out that day and has failed to finish any day up since then. The ECB members announced that a 75bp move should be discussed at their next meeting and Jerome Powell, the Chairman of the Federal Reserve, said that the US central bank will keep on raising rates and will keep a restrictive period of monetary policy until they are confident that the job of keeping low and stable inflation is done; the market expects a further 75bp move by the Fed at their next meeting.

The irony is that most of the factors that have driven inflation to the current extreme levels are outside the control of central bank monetary policy. The market still doesn’t believe that the Federal Reserve will not have to back track on their course of raising rates as their actions are likely to add to the cooling of a struggling economy and destroy much the wealth of many Americans’ which is tied up in the stock market; the latest data from the Pew Research Center shows that 52% of US families have either direct or indirect investments in the stock market with a median holding of \$40,000.

Forward swap rate still suggests rate will be lowered next year

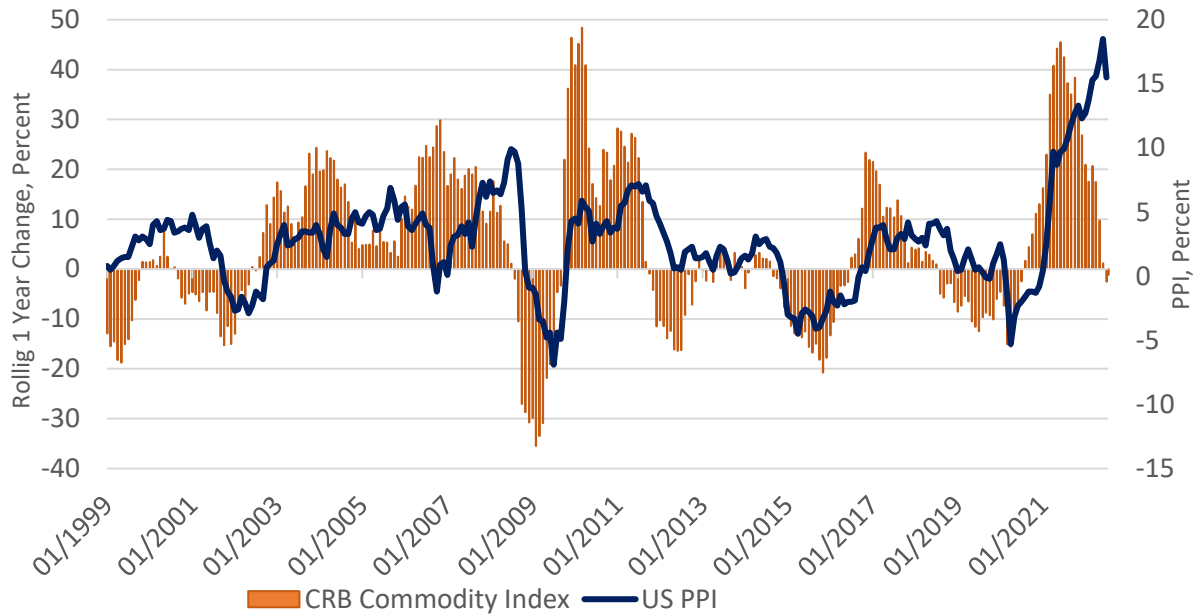


Source: Bloomberg

In total energy and commodities account for over 30% of the CPI reading, and what is important is not the headline figure, but the rate of change over the past year, when determining the actual level of inflation. Both the headline figures, as well as the rate of change for commodities, have fallen recently with the past two months seeing negative year-on-year moves. The recent ISM report of prices paid registered the lowest reading since July 2020, and has fallen considerably since March, also suggesting that inflation is easing.



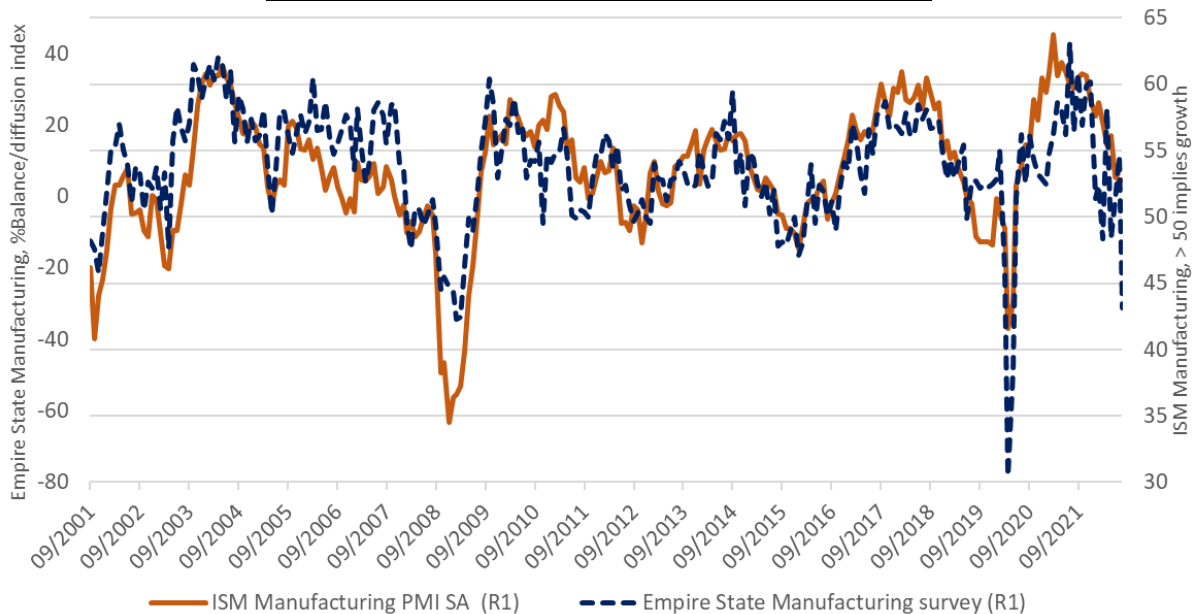
Commodity prices not Central Bankers will bring down PPI



Source: TIM/Bloomberg

Of the non-commodity related items in the CPI calculation only medical care and food have seen a positive rate of change over the past three months, while the more important sectors such as shelter, and transportation have seen improvements in their headline rates. With headline inflation looking like it is starting to roll over, the Fed may resort to a 'soft pivot', raising rates by less than the rhetoric currently suggests at the next meetings, however, if the current trajectory of input data to CPI continues the real pivot still seems to be on course for 2023.

The Empire State Survey and ISM Manufacturing Index

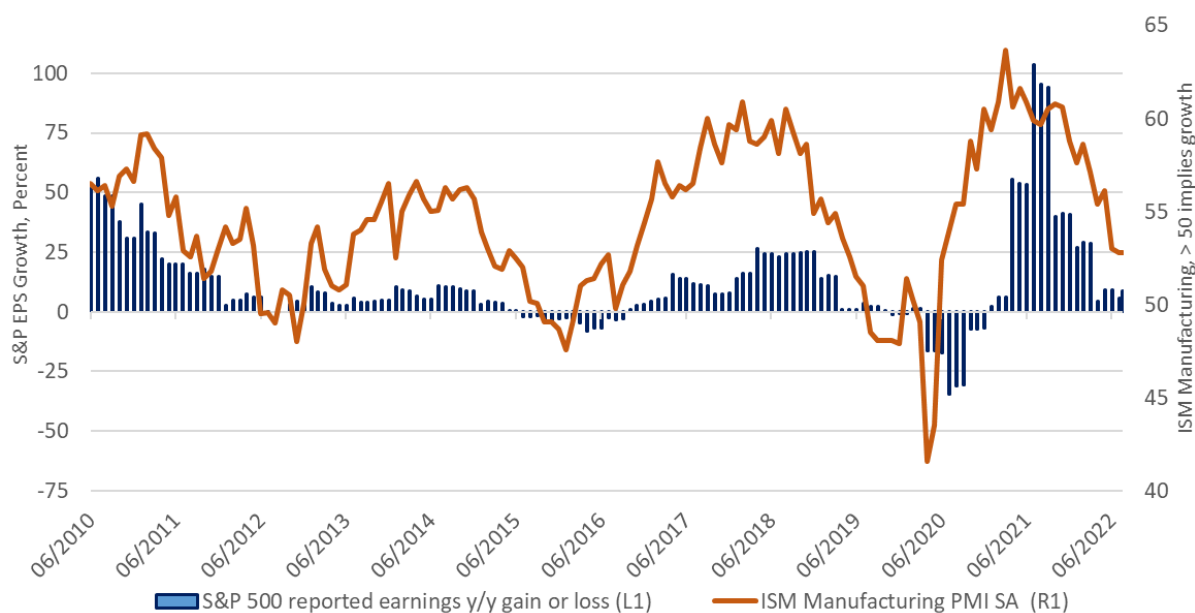


Source: TIM/Bloomberg

The result of continued hawkish rhetoric, is that company management and investors reduce their confidence in the economic outlook, reducing orders and slowing the growth of the economy. The Empire state survey of manufacturing executives in New York has a strong correlation with the Institute for Supply Management's PMI index, and although the latter is still above just 50, the level that represents growth, the former has fallen well below 0, suggesting that the ISM index is likely to drop below the critical 50 level.

The reason why we pay particular interest to the ISM level is that it acts as a guide to earnings growth of the overall S&P 500 Index, and a number lower than 50 would suggest that earnings, and therefore probably the index, are likely decline in the coming months.

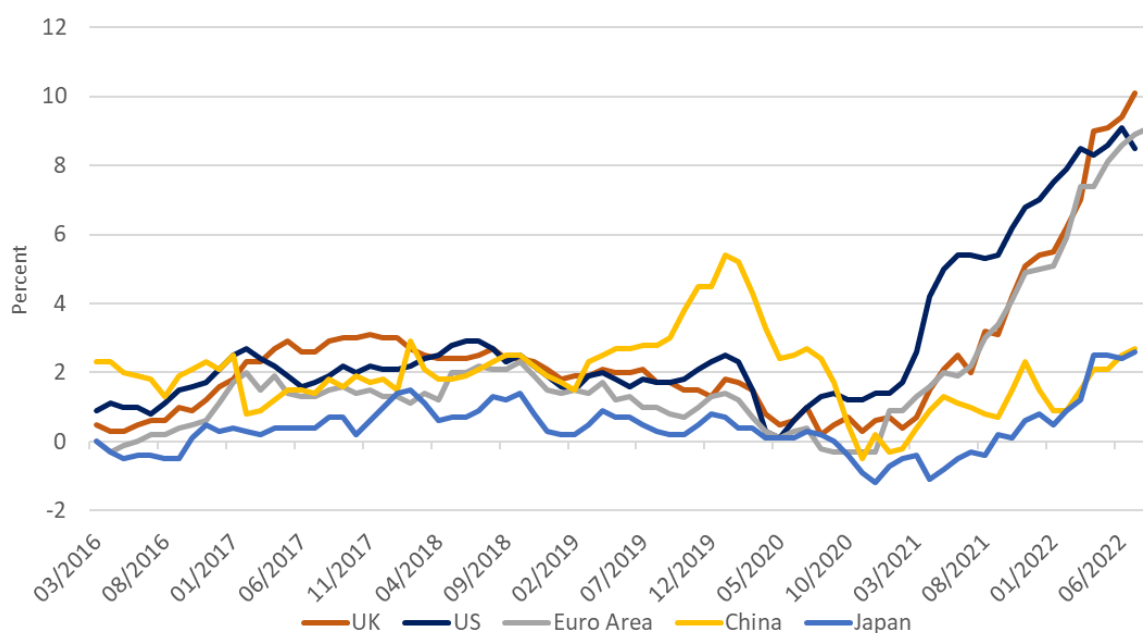
Where the ISM goes so does earnings growth



Source: TIM/Bloomberg

Across the Atlantic, Europe and the UK appear to be a few months behind the US, as factors such as energy prices continue to rise, suggesting that peak inflation may yet be some months off. Goldman Sachs trumped Citibank's estimate of 18% with a prediction that inflation in the UK may peak at over 22% next year, which topped 10% last month. European leaders announced that they are likely to intervene in the energy market to try and dampen the effect of soaring energy prices after Germany experienced, prior to the announcement, an increase in natural gas futures of over 650% since the start of the year. Meanwhile, the UK saw the energy price cap rise from £1,971 to £3,549 per year for a dual-fuel average household, primarily due to the 131% increase in wholesale prices.

Consumer Price Inflation in the US ticks down



Source: TIM/Bloomberg



Businesses and consumers alike in Europe are struggling with the lack of power security, storage capacity and inability to import sufficient quantities of LPG, leading to talk of rationing during the winter months, which in turn is dampening company and consumer confidence.

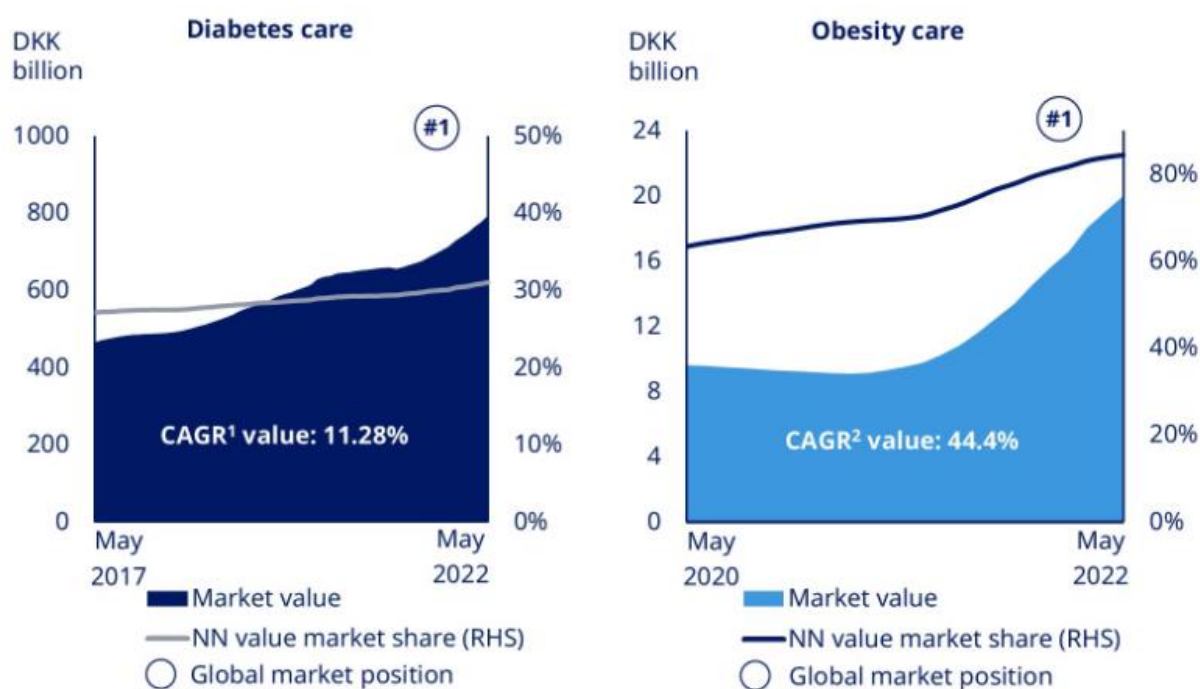
In times like these, we believe investors are best served by investing in companies that generate enough cash to be able to continue to invest, take market share and exhibit strong recurring revenues a degree of price inelasticity. Therefore, we continue to seek quality companies to whom these attributes are part of their DNA.

The Fund fell by 0.71% during the month. As a result, the VT Tyndall Global Select Fund B Acc (GBP) loss for 2022 thus far was -12.21%.

Fund Activity and News

During the month we added to our holding in Novo Nordisk after a rare share price correction, post the publication of its half-year results. The fundamentals of the company remain as strong as they have ever been, with the company raising its full-year sales, margin, and free cash flow guidance, as it takes share in the GLP-1 market for diabetes. The disappointment came from the continued issues surrounding the global roll-out of its market leading obesity drug, Wegovy.

Both diabetes and obesity have large and growing unmet patient populations. The International Diabetes Federation estimates that there are currently 537m people with diabetes and that over 764m people have obesity issues, and Novo Nordisk is the market leader in both areas; the diabetes market alone is expected to grow to 784m (32% CAGR) and obesity treatment is still in its infancy, with only 2% treated with an anti-obesity medicine.



Source: Novo Nordisk

The research and development required to compete in the diabetes market, which also involves a large up-front CAPEX investment and lengthy trials means that it is difficult for biosimilar companies to enter the market. Most of Novo Nordisk's leading treatment drugs are protected by patent portfolios that last up to 10 years, and the company is continually bringing new therapies to the market, solidifying its position, and increasing the barriers to entry.

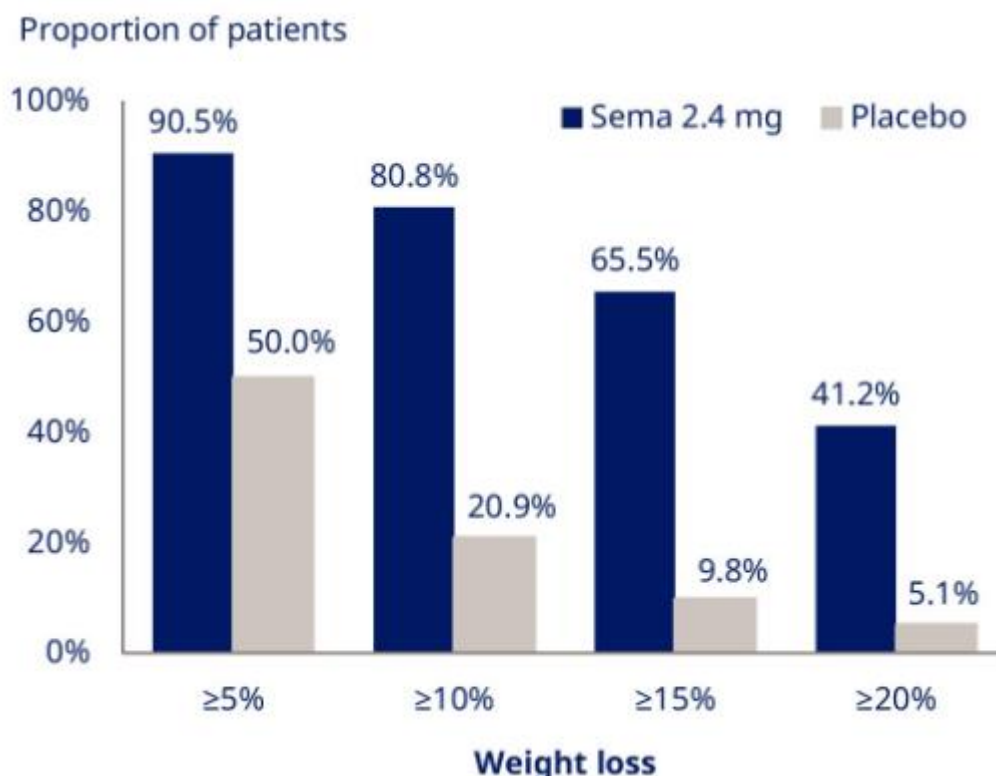


Currently the obesity treatment market is dominated by Novo Nordisk's Saxenda, however Eli Lilly's Mounjaro is also expected to compete in the area. Novo's next generation obesity drug is Wegovy, which has better outcomes than Saxenda, and has already been approved for sale in Europe, Japan and the US. However, as disclosed last year, an issue in filling syringes at its contract manufacturer has limited supply, enabling it only to supply those US patients that have already been subscribed Wegovy, thus postponing the full roll-out and the near-term growth potential. The company also released Phase 2 data on CagriSemi this month, which has better weight loss than Mounjaro, which suggests Novo's pipeline will enable it to make further gains, in terms of market share, in type 2 diabetes and obesity.

Despite the supply issues, Wegovy's US sales grew by more than 110% in the past year, as commercial production and inventory build resumed in the past quarter. On top of the resumption of production at the CMO site, Novo Nordisk has moved away from single source production of Wegovy and several new production facilities are due to come on stream. including a new \$2bn active pharmaceutical ingredient manufacturing site in North Carolina.; the company now expects to start rolling the drug out globally in 2023. Given that obesity leads to a disproportionately large number of health issues and almost 40% have three or more co-morbidities, the impact on health budgets is significant and the savings potential from treatment is invaluable for cash strapped governments.

In one of the most recent trials for Wegovy the potential for transforming obesity problem was highlighted, with over 40% of patients experiencing a sustained weight loss of greater than 20% after using the once weekly injection.

Wegovy Semaglutide STEP 4 trial results



Source: Novo Nordisk

We expect Novo Nordisk to continue to go from strength to strength in its core diabetes products and positions in rare diseases, however the potential uplift from obesity management is significant. Wegovy is a potential blockbuster therapy, and once global rollout and full production is up and running the profitability and free cash flows from the company should similarly increase.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st August 2022

Data source (unless otherwise stated): Bloomberg.

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