May Review

The Fund's F Acc share class units returned -0.27% compared to the S&P 500 Index ETF return of 3.1% in sterling terms.

May was the month that AI dominated investors' imagination. A blow out quarter from Nvidia set the tone, as they raised guidance by 53%, the most I can ever remember seeing from a mega cap stock, and the share price was +24.4% on the news, adding around $200bn in market cap, the biggest addition of market cap ever. This helped other AI related stocks and Tech in general and the sector was one of the few bright spots during the month. In fact, as can be seen below, there are few corners of the market that are performing on a relative basis. The table shows the relative performance by sector vs the S&P 500, and the month to date, quarter to date and year to date show quite clearly that Tech, Consumer Discretionary and Communications Services have been the only sectors that have outperformed.

	Ticker	Price	1-Day % Chg	MTD % Chg	QTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$152.99	0.67%	2.61%	-0.03%	8.92%
Financial Select Sector	XLF	$32.10	-0.03%	-4.09%	-2.50%	-15.67%
Health Care Select Sector	XLV	$126.74	-0.62%	-5.95%	-4.44%	-16.24%
Technology Select Sector	XLK	$165.66	0.53%	8.97%	7.36%	23.59%
Consumer Staples Select Sector	XLP	$72.59	-1.15%	-7.13%	-5.18%	-12.16%
Industrial Select Sector	XLI	$98.19	-0.15%	-2.67%	-5.30%	-9.55%
Materials Select Sector	XLB	$75.83	-0.54%	-6.72%	-8.33%	-11.91%
The Energy Select Sector	XLE	$77.96	-1.03%	-9.29%	-8.22%	-20.41%
Utilities Select Sector	XLU	$64.34	-0.39%	-7.59%	-7.29%	-18.27%
Real Estate Select Sector	XLRE	$35.81	0.31%	-6.00%	-6.54%	-12.57%
Communications Services Sector	XLC	$62.26	0.16%	3.08%	5.06%	20.20%

We have increased our weighting to the Communications Services sector with the purchase of Meta and Alphabet. After a bear market in online advertising in 2022, there has been a clear uptick in spend and these two companies are the best way to play this theme. Not only are there easy comparisons, the war in Ukraine brought about a slump in online advertising, but there is also a notable pick up in big brands wanting to spend money on marketing. Many of the big consumer package companies have raised prices, but that can only go so far, the next leg is marketing spend and that benefits Meta and Alphabet enormously. Both companies have also got religion on cost cutting and both have announced huge stock buyback programs, Meta $40bn or 8% of market cap when announced and Alphabet $70bn or 5% of market cap when announced. We think both these stocks are well positioned now and they both go into the tactical part of the portfolio.

They also are interesting plays on the AI theme and have AI tools for advertisers that help increase ROIC on advertising spend, and Alphabet has Bard, the competitor to ChatGPT, which has been well received post its full fanfare launch this month. We do like the AI theme and note that part of the excitement around Nvidia's quarter was the capex build out required to upgrade the data centre architecture to accommodate AI. They called it a $1tr opportunity and there are many other companies set to benefit from this multi-year trend. We own Lam Research, AMD and Super Micro Computer which all play to this theme and may yet add Nvidia, should it correct in price.

As can be seen in the performance table overleaf, the market is narrow. But just because there is not much breadth doesn't mean there is nothing else to play for. We continue to like themes like Housing, where there is this interesting rate lock dynamic at play. Most mortgages in the US are at 3%, but with rates now north of double that, potential home movers are rate locked; they cannot afford to move if it means paying double the mortgage. This is proving a boon for the homebuilders, as demand for housing is still there, but the existing home market is all but closed off. We own two homebuilders and may add further exposure.

Market Outlook

The market continues to favour the mega caps but there are some exciting investment themes going on under the radar. The earnings season has been bifurcated and whilst there has been pressure amongst many of the retail exposed stocks, other areas have been much more robust. We continue to look for these opportunities and note that a timely resolution to the debt ceiling crisis now looks very likely and this should go some way to improving sentiment which is still pretty bearish.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 31 May 2023

Data sources: Hedgeye Risk Management & Bloomberg

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