August Review

The Fund's F Acc share class units returned -0.89% compared to the S&P 500 Index ETF return of 0.12% in sterling terms.

The market oscillated during August, as it often does in the summer months. The S&P 500 started brightly only to sell off during the middle of the month, and then recovered to almost unchanged in the last two weeks of the month. A notable development was the ongoing weakness in the bond market, with the ten-year yield continuing its rise during 2023. Since the 3.0% CPI print on 12 July, yields have gone up, signalling that the market expects inflation to reaccelerate over the next few months. It's also interesting to note that even though CPI has gone from 9% to 3% over the last 12 months or so, bond yields have remained elevated, and have actually gone up over that time frame. It is not that historically uncommon for yields and inflation to diverge, and as the bond market is a discounting mechanism and CPI data is reported on a lag, the bond yield is a much better signal for where inflation is likely to go.

We've added back to our Energy exposures in our tactical book as this sector is the main beneficiary of the inflationary backdrop. We are finding plenty of Energy companies that are reporting their business conditions as the best in a long time or, in some cases, ever. We added a company called Tidewater to the portfolio which contracts out supply vessels to the offshore drilling industry. They described their market on the Q2 earnings release as *"as compelling a long-term backdrop for our business as we have ever seen".* This again speaks to the complete lack of any kind of investment in the oil and gas industries over the last several years and now, as demand returns, those companies that are still in the game can reap the rewards.

Nvidia reported their much-anticipated Q2 earnings, which it felt was going to be the deciding factor in how the whole technology sector was going to perform. They delivered another blowout quarter with revenue and guidance beating even the most bullish expectations. We still own the stock but have trimmed the weighting as the stock is so closely watched and has performed so well. Other stocks that performed well in the month included Eli Lilly which is very much in focus given the excitement around its weight loss franchise. It reported excellent Q2 numbers and was +22% for the month. The main detractors to performance were to be found among tech and homebuilders. Fortinet, a cyber security company disappointed on its quarter and fell 25% on the day, although it has since recovered some of that move. Homebuilders have been weaker due to rising rates.

Market Outlook

Market participation has begun to broaden out and this is a positive development for the fund and the market as a whole. Investors are still focused on the Federal Reserve and what lies ahead for interest rates. The outlook is for rates to remain on hold at the next meeting on 20 September, but this may change as the data comes in. We are focused more on the company fundamentals at this stage and are looking for companies that can grow despite what the Fed does.

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

Data sources: Bloomberg

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