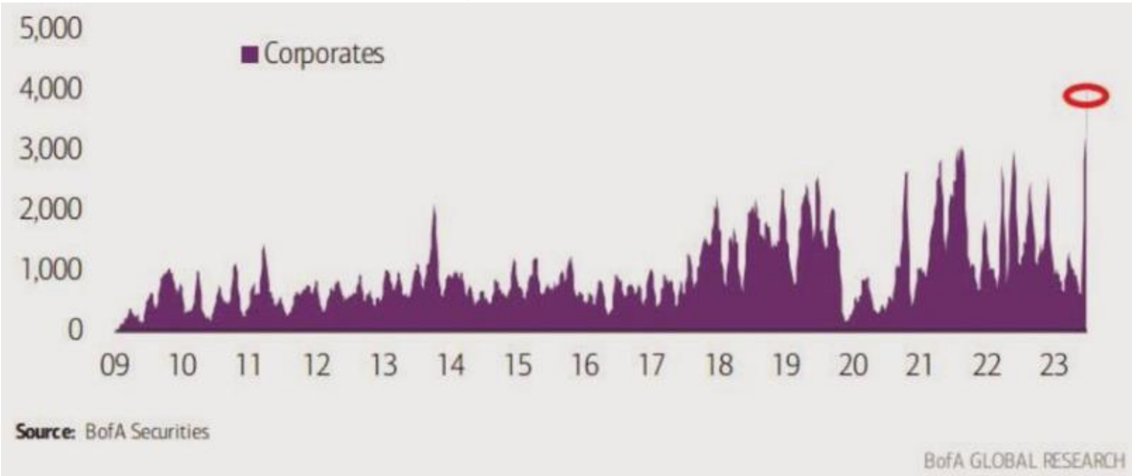
"To be prepared is half the victory" – Miguel De Cervantes

November's animal spirits continued apace in December, providing a welcome relief into the calendar year-end. Both investor flows and corporate buybacks helped to see a healthy flow of money into the security markets over the last quarter, despite the amount of cash parked in Money Market funds remaining at all-time highs. As a percentage of the S&P market capitalisation corporate buybacks rebounded demonstratively towards the end of year, having declined since the third quarter last year, and buy the year-end the weekly percentage was the highest since the weeks leading up to the pandemic lockdown, and in dollar amount, the chart below shows that they reached an all-time record.

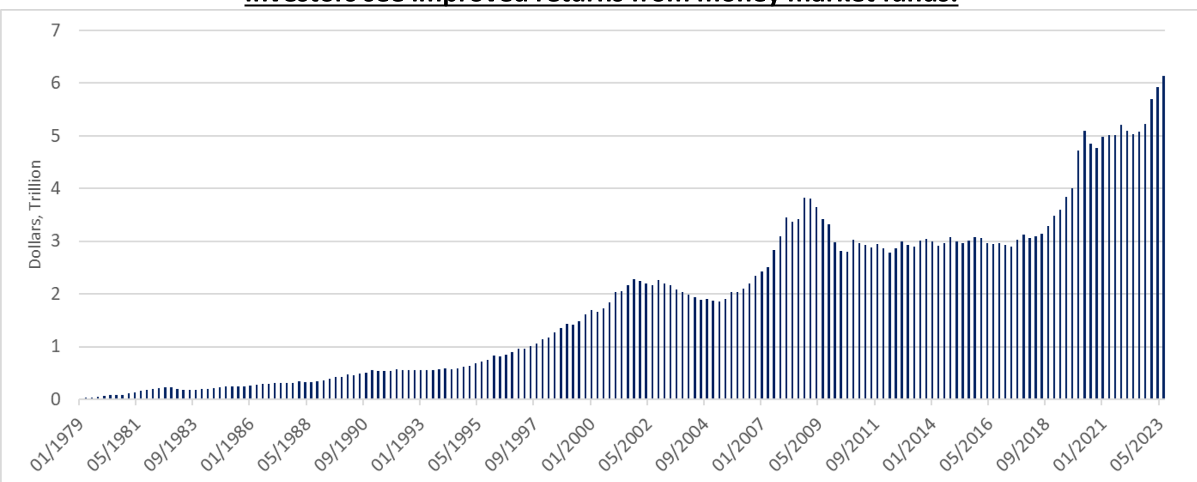
4-week average of corporate buybacks ($m).



Source: Bank of America

One of the key trends of 2023 was amid the uncertainty of the macro-economic and geopolitical outlook, investors sought haven in money market funds which started to optically generate better returns as interest rates around the world increased. The assets under management continued to grow throughout the year, easily surpassing previous records.

Investors see improved returns from money market funds.

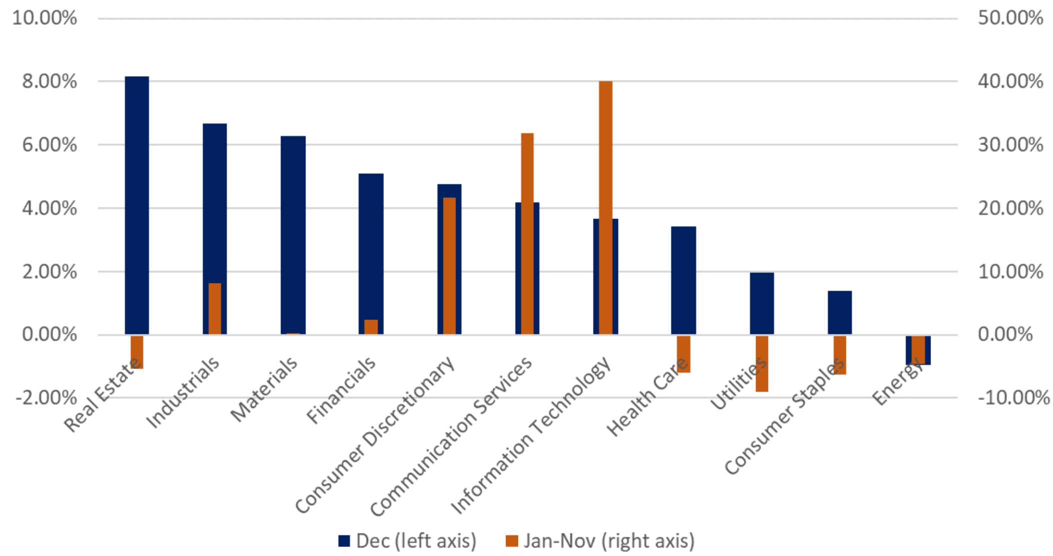


Source: TIM/St Louis Federal Reserve

The irony of this trend is that after allowing for inflation, the stated returns from money market funds, despite their low volatility, are very paltry indeed, and that global stock markets would have delivered investors much better returns on their investments. For those invested in the stock markets, the amount invested in these funds is a positive sign as it indicates a phenomenal amount of dry powder left on the sidelines that could be put to work in the markets should sentiment improve. Despite the powerful rally in the past two months, the weekly date shows continued inflows and that the record $6.14 trillion of assets in money markets recorded at the end of the third quarter has grown even further.

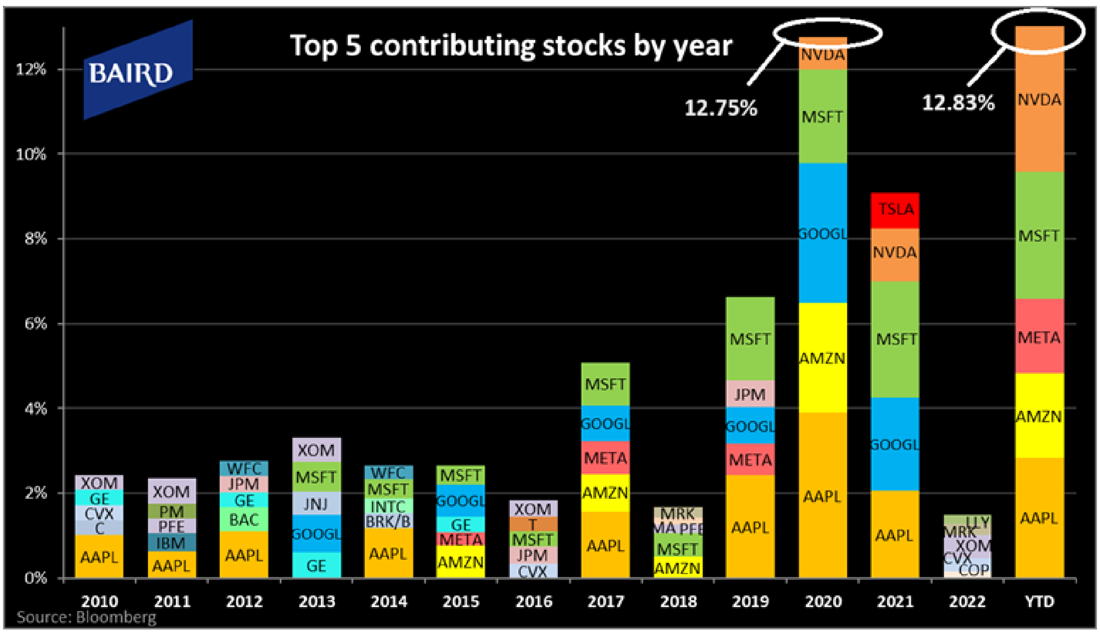
The breadth of the market improved significantly during the month, with the laggards being amongst the best performers as investor sentiment turned from fear (and belief that AI and obesity drugs were the only stories in town) to greed.

Global Index returns in December show signs of the market broadening.



Source: TIM/Bloomberg

The mega-cap stocks that that have contributed a record 12.83% to the S&P 500 returns failed to make much headway.

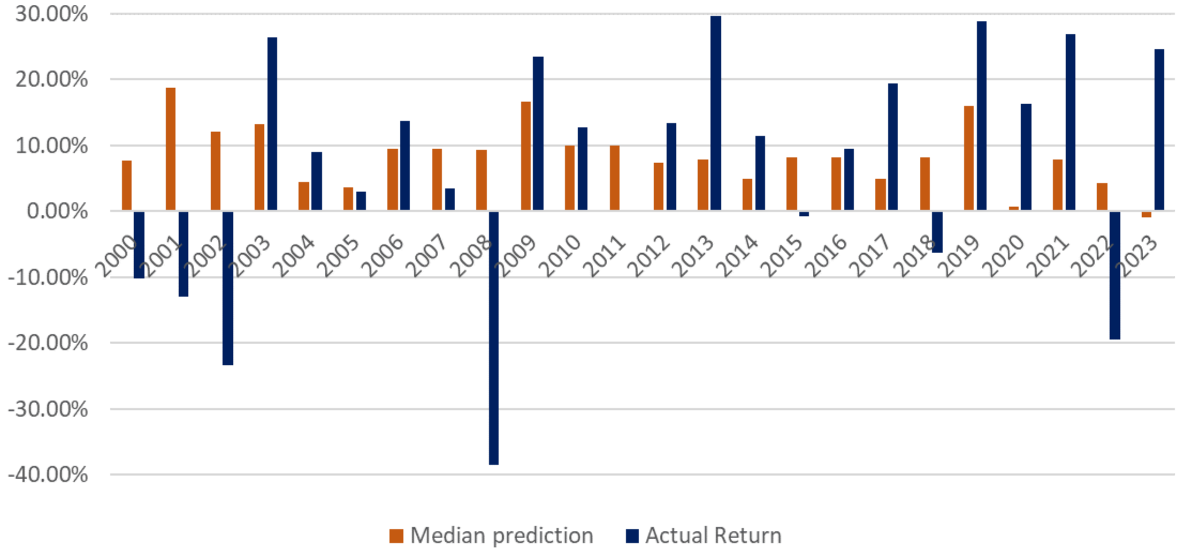


Source: Baird

The top seven stocks by weight in the MSCI global index (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta), now account for more of the index than all the stocks from Japan, the UK, China, France, and Canada combined.

The market strategists are notoriously poor at predicting the year ahead (in 2023 the median estimate was -1% vs +24.6% achieved), and 2024 looks no different with the range of predictions for the end level of the S&P ranging from +6.6% to -12.2% and a median of 0%!

Don't try and predict the future- Wall St. strategists are paid to do so.



Source: TIM/BMO/Bloomberg

We do not try and outsmart them, rather to stick to company fundamentals and cash flows to select those companies with quality characteristics, that are likely to outperform the wider market and withstand the volatility that the coming year might throw our way.

The VT Tyndall Global Select Fund B Acc (GBP) rose by a further 6.72% helped by a variety of holdings such as United Rentals, Rational, Zebra Technologies, Sika and Costco. The only holdings not to increase in value over the month were Nike (see later), Nestlé, Canadian Natural Resources, and Microsoft, which offset some of these gains. Over the quarter the best contributors to performance were American Express, United Rentals, Sherwin Williams, Intuit and Assa Abloy, and over the calendar year, Intuit, Booking Holdings, United Rentals, Novo Nordisk and Costco. The Fund has risen by 15.77% in the year-to-date.

Fund Activity and News

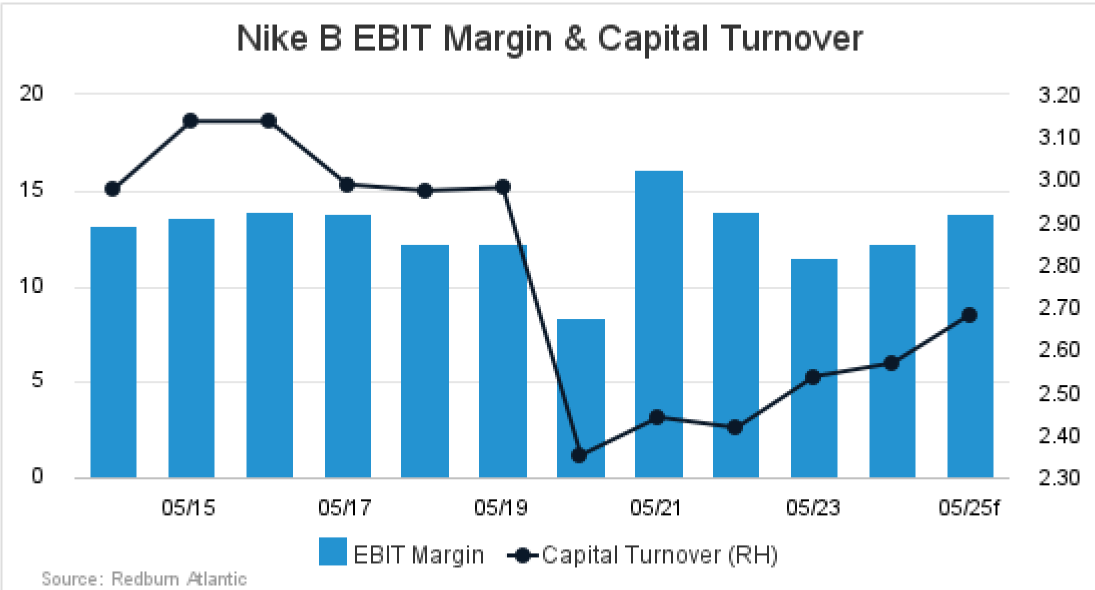
We only made small changes in position sizes during the month and did not exit or initiate and positions.

Although we had numerous outsized moves in many of our underlying positions, our position in Nike underperformed after reporting disappointing headline half-year numbers, and the share price fell over 10% on the day as a result.

The disappointment came from EMEA sales falling by 3% and China only growing by 8%, both of which were below expectations and the company talking about a cautious consumer in both regions as well as higher promotional competition and digital growing slower than expected outside key selling periods; however, the company reported its best ever Black Friday & Cyber Week sales numbers.

Weighed against this, the company announced $2bn of cost savings to be taken over the next three years and added that most of these savings will be reinvested to fuel future growth, by streamlining the business, improving speed to market, and increasing innovation. All these measures should increase profitability in the future and build upon the inflection in EBIT margins witnessed in the quarter; EBIT increased by 15% versus this point last year and gross margins increased with lower operating expenses all contributing to an increase in operating margins. We generally applaud management teams that forgo short-term profitability by investing in long-term growth, and although the next quarter will have abnormal costs in the region of $400m-$450m related to the restricting, we see these as very much a one-off cost that will result in improving underlying metrics going forward.

Other positive developments were the continued improvement in working capital with inventories reducing as the company works to reduce the number of models in the market, improving the lifecycle management of their key franchises. The balance sheet remains very strong returning to net cash despite the company buying back shares 11.9m shares for $1.2bn in the quarter. Going forward, 2024 is an Olympic year, with Paris hosting what usually provides a strong tailwind for the company given its heritage in track and field, and we see further opportunity from the UEFA football Championship competition in Germany, which also occurs next year, as well as growth in the Women's and Jordan divisions on top of the Olympic opportunity.



Source: Redburn

Nike remains a key holding in the Fund, as we continue to believe in the long-term growth story of the company, the quality and depth of the management team, and the best-in-class products and desirability of its franchises. We see this weakness as an opportunity to increase positions for the longer-term investor who is prepared to withstand a period of volatility over the coming months.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st December 2023

Data source (unless otherwise stated): Bloomberg.

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vadevalor
AAA Rated Fund Manager

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