December Review

The Fund's F Acc share class units returned 3.68% compared to the S&P 500 Index ETF return of 4.33% in sterling terms.

December was another good month for markets with both the equity and bond markets performing well. Investors welcomed the prospect of falling CPI and falling bond yields which have been the main reason that stocks have performed so well in the last two months of 2023. Dovish commentary from the Federal Reserve has also calmed investors who can now see the rate rising cycle as over and the market is already pricing in interest rate cuts as soon as May 2024.

Best performers from an attribution point of view were in the Consumer Discretionary sector. New holding Elf Beauty was the top contributor, followed by Tidewater in the Energy sector and then MGM Resorts, the casino company. New additions to the fund included Foot Locker, the retailer of sports shoes. This stock is a turnaround story and as such goes into the tactical part of the portfolio. It has been disadvantaged over the last year or so by Nike's decision to go direct to consumer with its marketing strategy, reducing the amount of Nike stock that Foot Locker received. This we believe is about to change. By reducing its shelf space in key retailers, Nike has allowed other brands to take that space, particularly running brands like Hoka and On. One of the easy wins in taking the fight to these new brands, is reclaiming shelf space and wallet share with retailers who serve its core customer, and Foot Locker is one of those key retailers. The current percentage of Nike stock that Foot Locker carries is 50%, and it's been as high as 76% two years. Assuming a level of 65% would imply a doubling in EPS, and margins going from around 2% to 9% over the next two years. The stock is also priced cheaply, and trades on a 2025 PE ratio of 4.7x and trades on 2024 EV/Ebitda of 4.4 times. As the market continues to broaden out, we are on the lookout for other opportunities like this.

Market Outlook

Whilst some consolidation is likely in the near term due to the fact that the market has been so strong in the last two months, we continue to be bullish. We are encouraged by the broadening out of the market and the fact that different sectors and different market cap profiles are beginning to perform better. 2023 was undoubtedly the year of the mega caps and the benchmark indices with their huge weightings to these stocks benefitted from that. 2024 is likely to be less influenced by those stocks and as we see markets returning to a more normalised state, we believe the opportunity lies away from the mega cap tech stocks and in the less well explored corners of the market.

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

Data sources: Bloomberg. Hedgeye Risk Management

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