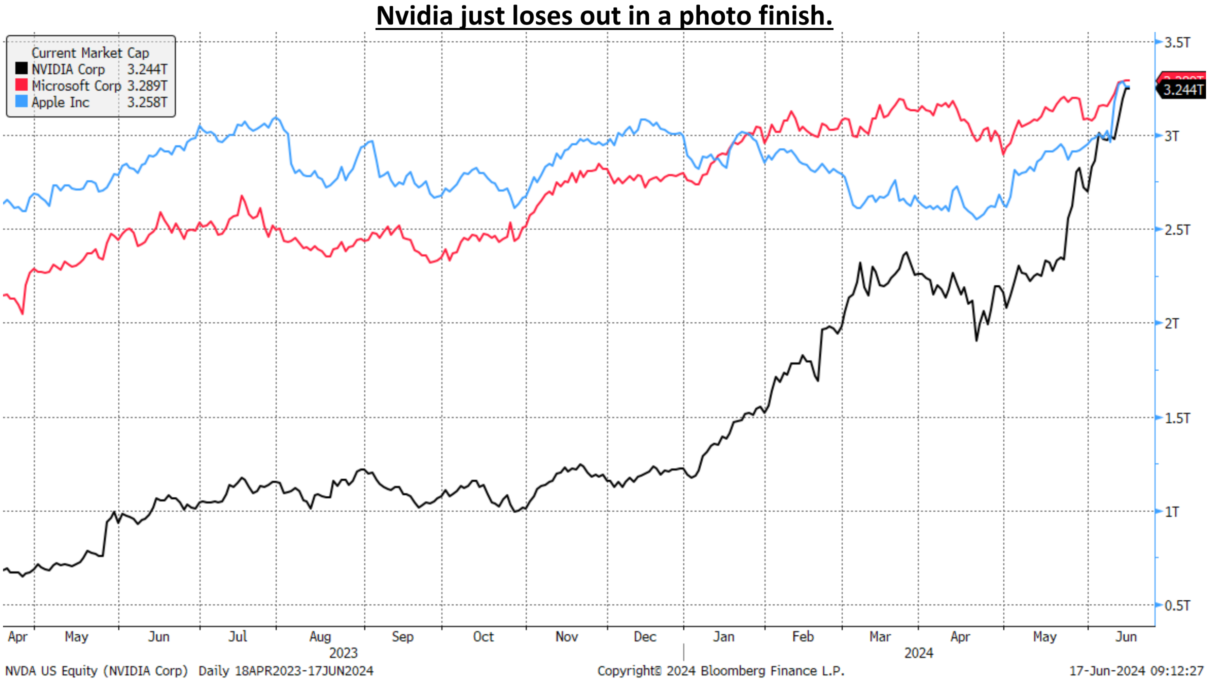
"The greatest ideas are the simplest" – William Golding

After a few months out of the headlines, the Technology sector came back with aplomb this month, headed by Apple, which had been dismissed by many in the investment arena as a company that had missed the AI boat. At their annual World Wide Developers' Conference (WWDC) the vision for AI, which they decided to rename 'Apple Intelligence', included embedding ChatGPT into their products through a partnership with Open AI, and this led a belief that perhaps they hadn't missed the boat after all; the shares reacted accordingly.

Meanwhile, elsewhere in the Technology sector, Nvidia overtook Microsoft to become the World's largest company; its share price having risen >865% in the past 18 months. One of the problems facing passive investing became apparent this month, with the world's largest Technology ETF, the $80bn Technology Sector SPDR Fund (XLK), choosing 14th June as the date for its quarterly rebalancing. Due to concerns about concentration, the ETF has clauses in its market capitalisation weighting methodology that restricts three companies accounting for more than 50% of the index, and any single company accounting for more than 25% (which they cap at 23% on rebalancing). Prior to rebalancing Microsoft and Apple had weights of 22% and Nvidia 6%, and as the chart below shows on the date of rebalancing Nvidia missed out on a top two position by 0.4% of its market cap.

Nvidia just loses out in a photo finish.

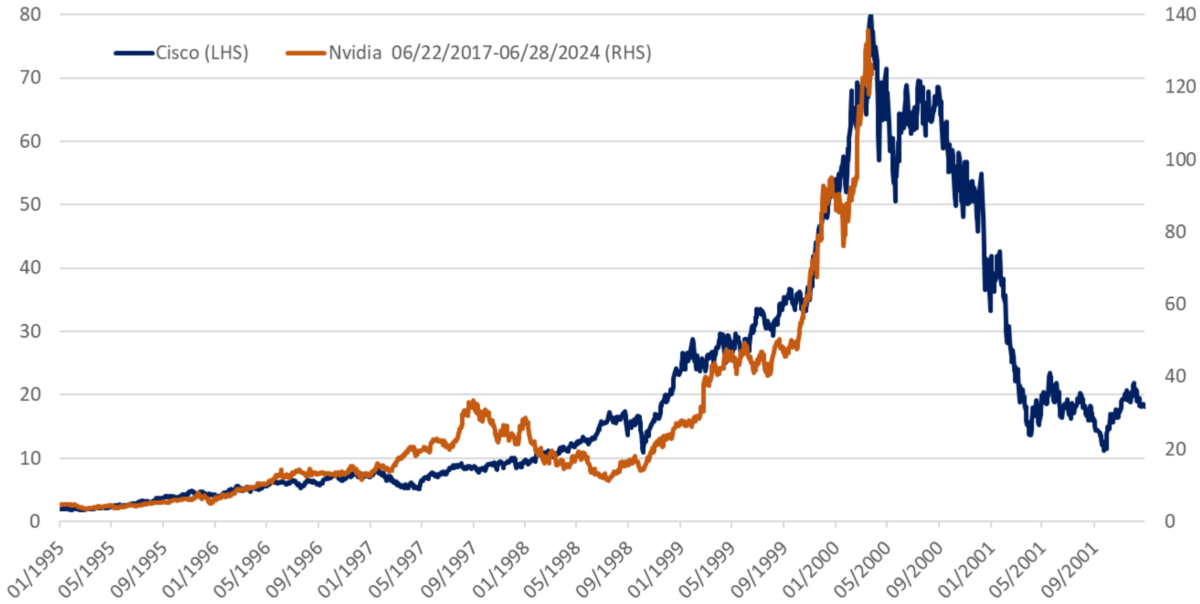


Source: TIM/Bloomberg

Three days later it took the top slot, however on the rebalancing it will remain ¼ of the size of the other two. The potential ramifications of rebalancing should this situation remain on the next review date is significant as should Microsoft or Apple weights have to be reduced to 5% and Nvidia's increased to 23% then there will be a large amount of buying and selling for no more fundamental reason than index positioning, which given the size of this Fund is likely to have significant market impact.

As an aside, and not based on fundamentals, the market has been looking at the similarities between Nvidia's share price appreciation and that of Cisco in the Dot Com boom. The point that Cisco overtook Microsoft to become the World's largest company marked the top, and the shares subsequently fell by 89% over the next two years, and 24 years later they are still 43% below that peak. We do not hold much sway by analogues, and expect Nvidia can continue to climb higher, but include it as an example of what the Nvidia bears point out.

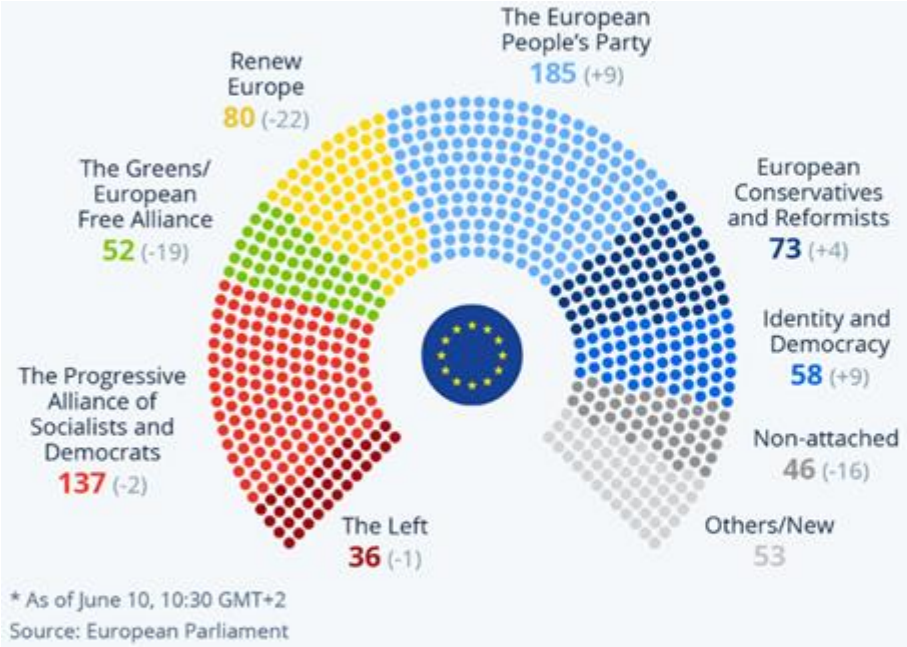
Nothing to do with fundamentals, but does AI mean that this time it is different?



Source: TIM/Bloomberg

Life in Europe is never boring. Only weeks after Rishi Sunak surprised the UK with what was seen as a political gamble by calling a General Election earlier than expected, the EU member countries went to the polls to elect their representatives in the European Parliament for the next five years. Just as Nigel Farage is disrupting the voting patterns for both Labour and the Conservatives in the UK, the Far Left and Far Right in Europe are causing havoc in Europe, with Marine Le Pen's Rassemblement National (RN) winning 31.4% of the votes in France, compared to President Macron's party only getting 14.6%. This result was even more stark when one looks at the results by commune, where the RN won 32,613 out of 35,015 communes across France (93.1%) and all but four departments.

Not to be out done, Shultz's ruling SPD coalition in Germany tumbled into third position, behind the Far Right Alternative fűr Deutschland party who gained 15.9% of votes cast. In Italy, the Meloni's ruling right -wing Fratelli Italia party gained 14 seats with a leading 28.8% of the votes. As a result, although the European Parliament remains centralist, the right wing parties have a far greater say than in the past.



These results had little effect on the markets until President Macron inexplicably called a French General Election to have their two respective rounds either side of the UK General Election. This has caused horror around Europe and accusations in France that this decision was on a par with "Cameron's decision to hold a referendum on EU membership" and that France faces a "Liz Truss moment". In the light of the decision, the Far-Left and Far-Right parties have looked at forming coalitions within their respective wings, and there is a very real prospect that Macron's party does not make it through to the second round of the election. French parliamentary elections have rather peculiar rules; in the event that no party gets 50% of the vote in the first round, the top two parties go head to head in the second round, unless another party gets 12.5%, at which point they can (but are not obliged to, also run; Macron is thinking of withdrawing candidates from seats where he thinks they are unlikely to win as this risks splitting the vote and increases RN's chances of an absolute majority. Although Macron has two years left as President, if the RN wins the most seats, it is likely that he will be forced to appoint the 28 year old RN leader, Jordan Bardella, as Prime Minister.

Macron's gamble wipes out all of 2024's return thus far.

Source: TIM/Bloomberg

Value of investments can fall as well as rise and you may not get back the amount you have invested

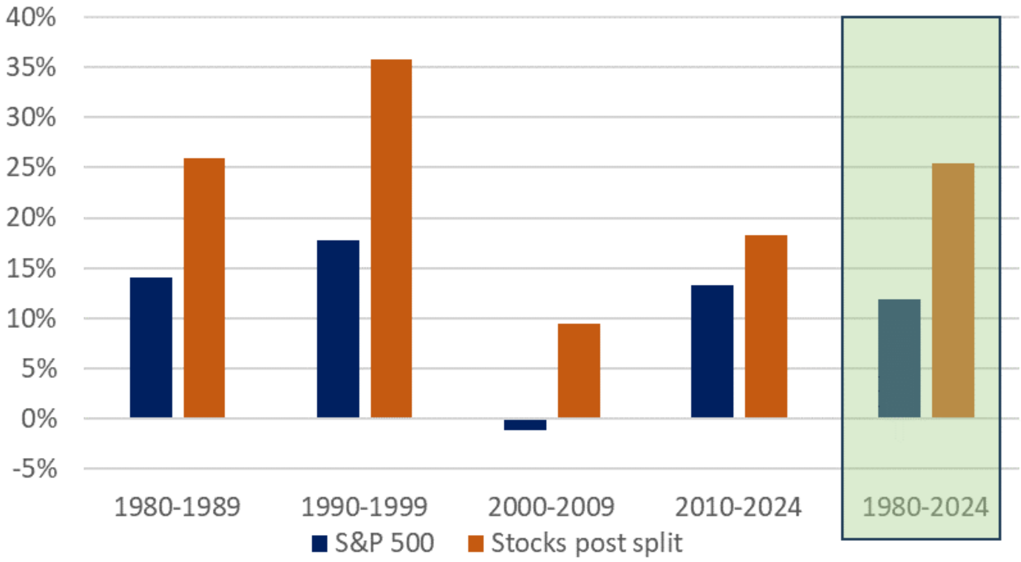
All this uncertainty has caused havoc in Europe and especially in France, where the CAC index has turned negative for the year, the spread of French bonds over Bunds and Credit Default Swaps spiked significantly higher, as bond and equity markets alike came to terms with the new narrative. Although the 43% move in the price of 10yr CDS to $55.6 this remains small when compared to the Euro crisis when CDS ballooned to $258, it is close to the levels seen at the height of the pandemic. The spread over Bunds is now at the same level seen during the Mélenchon/Le Pen scare during the 2017 election.

<u>Despite the SDP having problems France has bigger ones.</u>

Source: TIM/Bloomberg

With many equity valuations close to all-time highs last year we are seeing many more companies undertaking stock splits than normal. Within the Fund we have had three companies undertake such actions in the past month alone. Theoretically this type of corporate action should have little effect on valuations, except for increasing liquidity and reducing the price of an individual share, thus creating more access for the retail market. The evidence, however, is somewhat different as shown by the chart below, with companies that perform stock splits outperforming those who don't by an average of 13.5% in the twelve months after such action.

<u>When more shares are worth having.</u>



Source: TIM/Bank of America

This is phenomenon is partly explained by the fact that most of the companies that feel the need to split their shares are normally undergoing a period of strong operating profit growth, but also a degree of momentum investing has its part to play. We expect that stock splits will continue to occur during the year, and may even surpass the record 512 companies that underwent a corporate action to change their shares in issuance last year.

Of the 10 largest companies in the world (Alphabet has 2 share classes in the top 10), only Meta (formerly Facebook) has never undergone a stock split, and only Nvidia and Broadcom have undertaken one in the past year. However, given their history and share price performance, we would not be surprised if Microsoft, Apple or Amazon announced that they plan also to do so.

	Date of Split and Ratio								
Microsoft	2/03 2:1	3/99 2:1	2/98 2:1	12/96 2:1	5/94 2:1	6/92 3:2	6/91 3:2	4/90 2:1	9/87 2:1
Apple	8/20 4:1	6/14 7:1	2/05 2:1	6/00 2:1	6/87 2:1				
Nvidia	6/24 10:1	7/21 4:1	9/07 3:2	4/06 2:1	9/01 2:1	6/00 2:1			
Amazon	6/22 20:1	9/99 2:1	1/99 3:1	6/98 2:1					
Meta									
Alphabet	7/22 20:1	3/14 2:1							
Eli Lilly	97/10 2:1	12/95 2:1	5/89 2:1	1/86 2:1					
Broadcom	6/24 10:1								
JP Morgan	6/00 3:2	6/98 2:1							

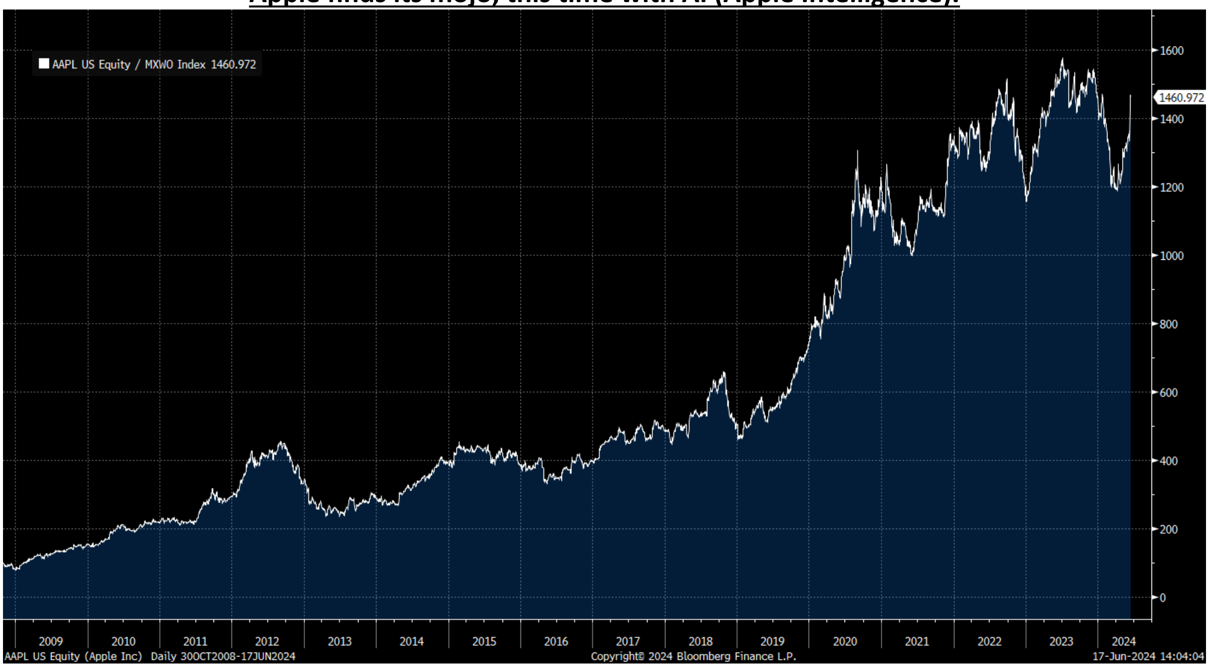
Source: TIM/Bloomberg

The VT Tyndall Global Select Fund B Acc (GBP) rose by 1.99%. Strong results during the month from a variety of holdings such as Nvidia, Apple, Amazon, Novo Nordisk and Microsoft as the mega-caps had a strong resurgence during the month. Detracting from performance were Nike, L'Oréal, Canadian Natural Resources, Sika and Diageo, all of which failed to make gains as consumer and European stocks struggled in the midst of the geopolitical shenanigans. The year-to-date return now stands at 6.26%.

Fund Activity and News

During the month the Fund cut back the size of its position in Novo Nordisk as it breached our self-imposed 5% maximum position size once again. The proceeds where reinvested into our position in Apple, which has been held in the Fund since October 2008. The chart below shows the performance of our holding relative to the MSCI World Index over that period.

Apple finds its mojo, this time with AI (Apple Intelligence).

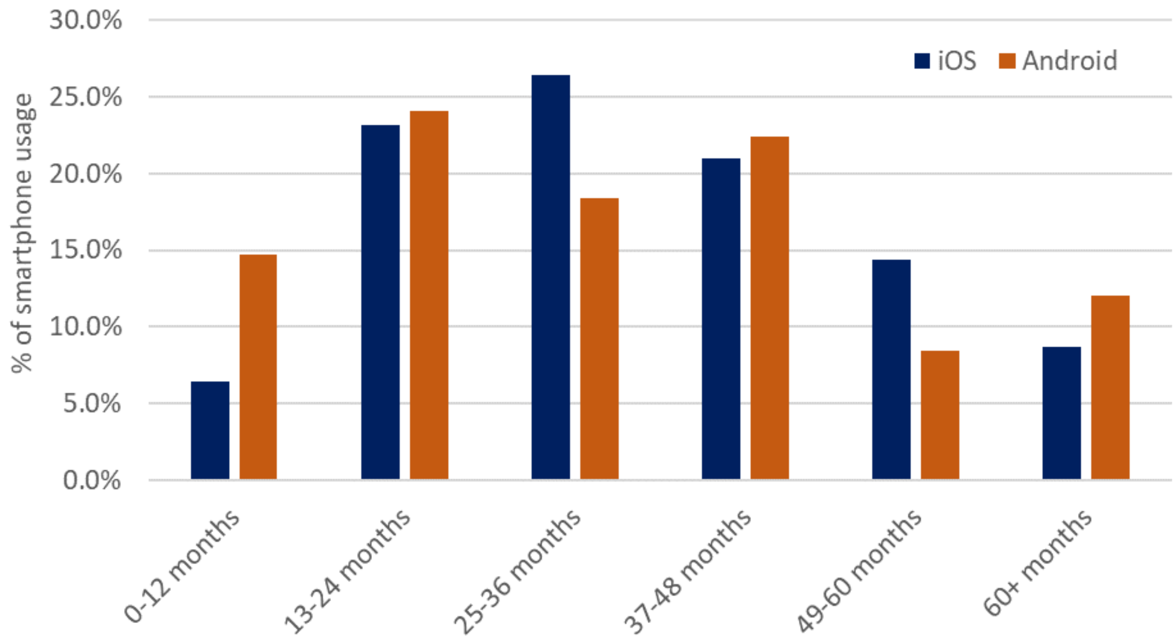


Source: TIM/Bloomberg

Despite Tim Cook's best efforts to shape Apple to be seen as a services (22% revenues) company, the market still looks at the trends on iPhone sales (55%) when assessing the value of the company, as the company has struggled to unveil another new ground-breaking product since the iPhones launch, despite the relative success of AirPods, iPads (6%) and perhaps even Vision Pro.

The last few years have only seen limited changes in the annual upgrade of the flagship iPhone product, but the market now hopes that with the advent of Apple Intelligence, which was outlined at its developer conference this month, that the forthcoming iPhone 16 will be the first to fully embrace AI and drive a new wave of upgrades. Apple has announced that the iPhone 15, released last year will be able to access Apple Intelligence, but that running the large language models (LLMs) requires a lot of computing power, and that it cannot be run on anything older given the speed and power needed to access them.

Apple's iPhone 14 struggled to persuade users to upgrade.

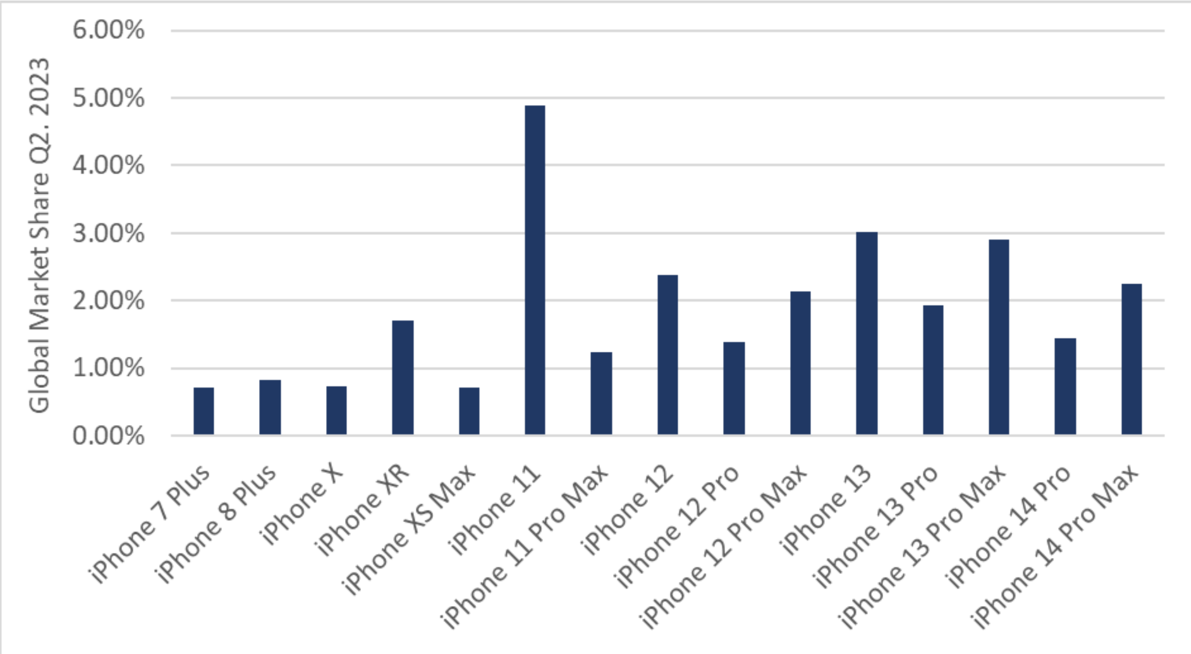


Source: TIM/Scientamobile Q2 2023

A recent survey by Bank of America found that over 75% of respondents owned an iPhone 13 or older, suggesting that most users have not upgraded their handsets for over two years. As any iPhone user knows, after two years, the battery life of the phone starts to degrade significantly, so this suggests that the scale of the upgrade cycle, should the additional features of the new iPhone be material, could be the largest yet.

We expect that the tools Apple is offering with Apple Intelligence will continue to evolve, and that Siri will undergo a welcome overhaul, embracing the power of AI in the redesign. What comes from the rumoured partnership with Google's Gemini remains to be seen, but the company announced that, though a collaboration with Open AI, ChatGPT will be the first third-party app installed in Apple's ecosystem to bolster the AI offering.

Users have been unwilling to upgrade without a good reason.



Source: TIM/Scientamobile MOVR Q2 2023

We remain in the opening innings of Apple's ventures into the AI space, and given that it is playing catch up with the other mega-cap players in this field, leveraging their knowledge in the first place, whilst developing their own in-house solutions, seems a sensible strategy. This is especially true if the size of its installed base enables them to get these third party solutions for free, as appears to be the case with ChatGPT.

Form a market positioning point of view, very few active Fund Managers have significant positions in Apple, as it was seen as the laggard in AI, and thus has been used as a source of funds by many over the past year, which was apparent by the performance of Apple's shares versus the rest of the 'magnificent seven', bar Telsa. Now that Apple has given a taste of what it will be able to offer and that its products that are over a year old will not be able to operate these services, we expect that the shares will start to outperform once more as the upgrade cycle gets underway.

Richard Scrope, Fund Manager, VT Global Select Fund, 30th June 2024
Data source (unless otherwise stated): Bloomberg.

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