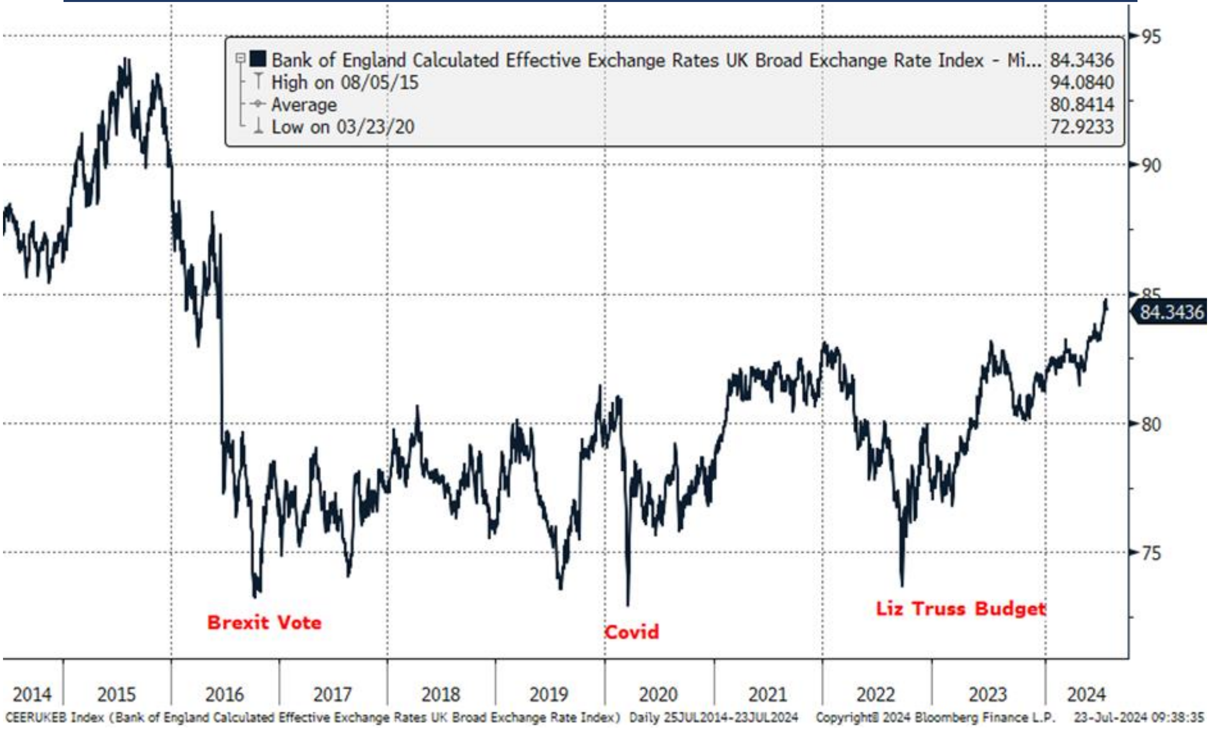
"Great things are done by a series of small things brought together" – Vincent Van Gough

July proved to be an eventful month, and one where the European leaders were forced to postpone their usual summer trips to the Mediterranean as the French (and British) faced general elections; both spectacularly backfiring on the incumbent parties. With political stalemate in France and a Labour party super-majority in the UK, ironically the UK has become seen as the most stable government in the G7, and Sterling has seen a sustained period of strength. The Bank of England effective exchange rate is now approaching levels not seen since before the Brexit referendum.

Despite the Truss/Kwarteng budget, Sterling is no longer the pariah of the G7 currencies.

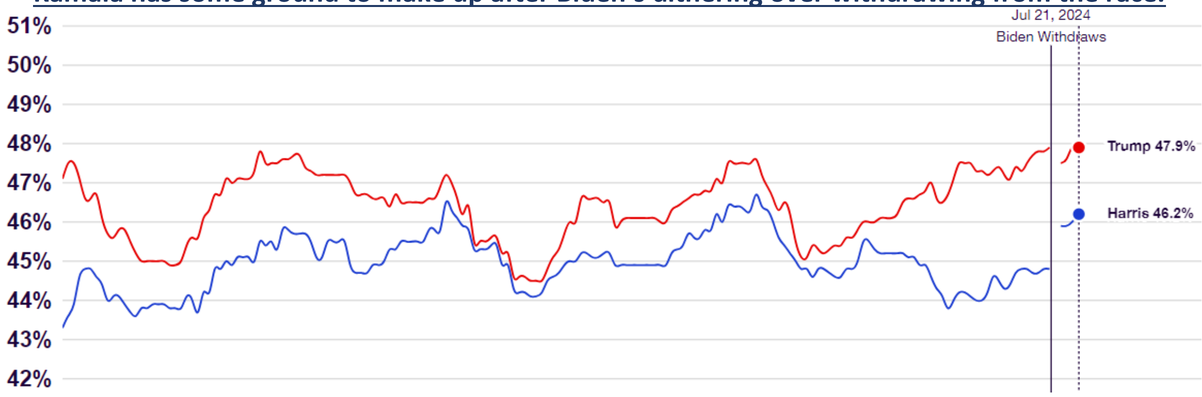


Source: TIM/Bloomberg

The much-maligned UK equity market has also had a period of better performance, and there are nascent signs that the performance may be widening from the top 100 companies to the mid-market as well. We maintain the belief that valuations in the UK remain at some of the most attractive levels seen for many years and should the Labour party flesh out the details of their headline policies in a pro-business manner there could be some very interesting opportunities to be looked at.

Not to be outdone, the US political stage has been anything but normal, with ex-President Trump narrowly avoiding an assassination, accepting his party's nomination and President Biden finally realising that his attempt for a second term was a futile ambition and thus paving the way for Kamala Harris to try and halt the Trump bandwagon.

Kamala has some ground to make up after Biden's dithering over withdrawing from the race.



Source: Real Clear Politics

The commanding Republican lead, which is especially important in the swing states, has led to many strategists suggesting ideas for a Trump trade. Although it is important to analyse his proposed policies, these baskets have proven no better than the market in the past; there is still over three months until the election, and much can change between now and then, and there are tentative signs that Kamala Harris is starting to garner some support in the swing states. With the selection of D.J. Vance as a running mate I would recommend investors read Hillbilly Elegy (or watch the film adaptation on Netflix) to get an idea of his journey from poverty to possibly Vice-President; whether a President Trump would countenance ideas from anyone else is debatable, but his running mate has some quite right-wing and isolationist views, and they are worth being aware of.

Remaining in the US, the prospect of a Trump presidency combined with expectations of rate cuts coming earlier than previously expected the Russell 2000 Index of small US companies has been exceptionally strong compared to the S&P 500 Index this month, after an almost 20-year period of underperformance; Two of the mean reversion days where of a scale in rate of change terms not seen since the Dotcom crisis catching many investors offside.

The Russell 2000 can no longer be ignored.

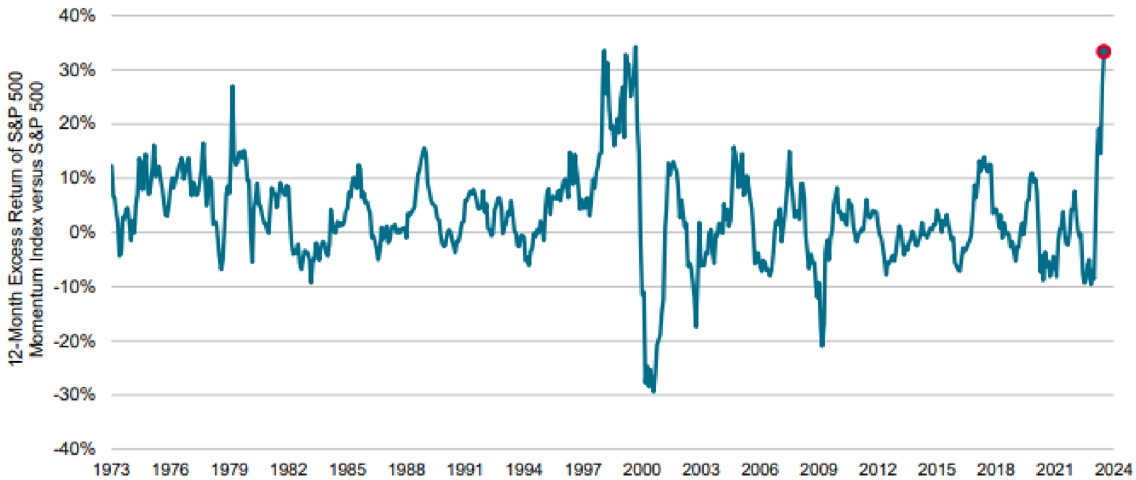
Source: Bloomberg

The pair trade with the Russell 2000 was the semiconductor space as increased China sales restrictions were aired by the Trump campaign. As restrictions on Chinese competition is a vote winning strategy has been unsurprising that President Biden continued with his predecessor's policies in this field and Kamala Harris is unlikely to argue against further restrictions. ASML, the maker of lithography machines and the second largest company in Europe was the canary in the coalmine, falling 11% of the day of its results which coincided with news of proposed China restrictions, but many of the semiconductor related plays, that have been the standout performers of 2024 so far, quickly followed suit. At the end of the month the US rolled back the restrictions on their 'allies' exports to China increasing the volatility in these companies.

Investors also have started to focus on payback periods for AI related investments as Alphabet poured water on the notion that they would see a return on investment in the near term. Although Microsoft saw a 5% uplift in its intelligent cloud margins, and an 8% contribution from AI sales, investors were cautious over the scale of their future capex and whether the AI contribution from AI sales will justify the increase in spending.

Equity markets proved volatile during July, especially in the US where the performance of AI related plays swung wildly in both directions and the small cap companies had their best month in performance terms since last December. Typically, the Fund does not keep up with the market in times where momentum drives most of the market return, and this has been the case this year. We have warned investors of the risks that occur when the momentum trade becomes over-extended and how quickly it can unwind. Over the years the Fund's outperformance has been driven by compounding the returns from capturing the returns from quality companies and minimising the downside in times of market stress.

Beware the inherent risks of momentum driving too much of the market's returns



Source: S&P Dow Jones Indices LLC. Data as of June 28, 2024. Index performance based on total return in USD. The S&P 500 Momentum Index was launched Nov. 18, 2014. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The VT Tyndall Global Select Fund B Acc (GBP) fell by 0.02%. Holdings in Novo Nordisk, Heineken, Nvidia, Amphenol and Amazon detracted from performance, while our positions in Sherwin Williams, United Rentals, DSV, Zebra Technologies and Thermo Fisher all performed strongly, helping to offset the weak market. The year-to-date return now stands at 6.24%

Fund Activity and News

During the month the Fund reduced our weighting in American Express as, after a period of strong performance, it passed our self-imposed 5% maximum position size limit; a policy that we use to minimise stock specific risk. We also took some profit in our position in United Rentals after the company posted strong half-year results. Since buying a position in the company in 2020, the stock price has appreciated by 340% in a total return basis, benefiting from the large infrastructure projects afforded by the IRA act and reshoring. We reduced our position size in Nvidia again, which we have continually done over the past six months after periods of phenomenal performance, however, still hold a position in the company.

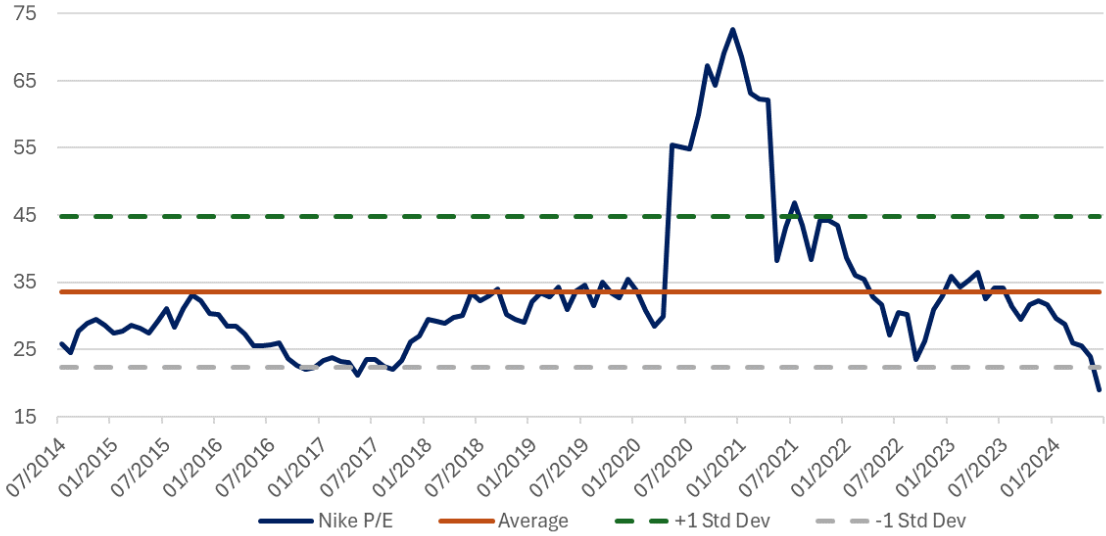
The battle for supremacy between Adidas and Nike continues unabated and will be even more voracious as the Olympics play out. The rules limiting social media posts by athletes have been lifted in Paris, so every victory and medal can be publicised by their sponsors as they attempt to drive demand for their products. Both companies have already been in evidence advertising their players and merchandise across Paris; Nike adorned the entire façade of the Pompidou centre with one of their adverts and even placed statues of some of their athletes in front of the Brongniart palace.

Source: Nike

Much criticism has been made of the lack of innovation at Nike, and their products not being 'on message', while products such as Adidas' Samba trainers have been widely popular. Nike cannot afford to be seen behind in innovation as the threats from new entrants, such as On Running and the Chinese are mounting, and if Nike falls behind the curve the width of its defensive moat that is has from its scale and reputation risks reducing breadth and depth.

Equity markets have reflected the lack of innovation and new products over the past couple of years, with the share price of Nike falling almost 60% since its high, reducing its historical premium to the sector.

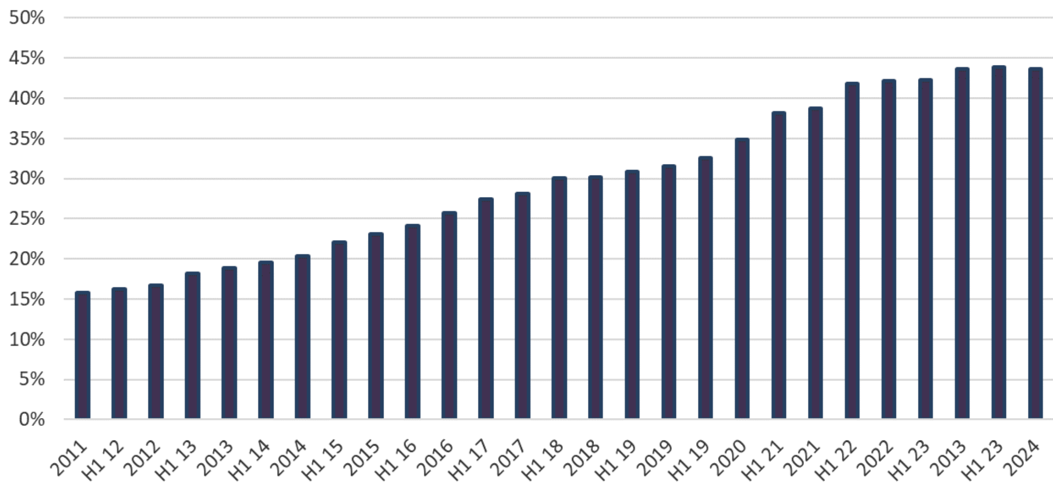
If Nike can revive itself then the valuation is attractive.



Source: TIM/ Bloomberg

Compounding Nike's travails is the shift to Direct-to-Consumer (DTC) that faired it so well during the pandemic. The growth in DTC has been extraordinary, from 15% of sales to almost 45% today, and with it comes a wealth of information on its customer base. The logic of this shift appeared rational as Nike has been able to capture the full sales value of their products, and better manage inventory, however it came at the cost of giving less product availability to their traditional wholesale customers. At 45% of sales, it appears that the pendulum may have sung too far, and Nike might need to rebuild their relationships with its Tier 1 wholesalers, such as Footlocker and JD Sports, to drive sales and promote visual store space for its products; it has been noticeable that the percentage to DTC over the past 12 months has stabilised.

Nike's DTC revenues as a percentage of sales have grown demonstrably.



Source: TIM/Company Data

Nike has recognised the issues and has been telling the market that there will be many new products hitting the market in late 2024 and 2025, some of which will be highly innovative. The correct marketing approach and mix of Tier 0 and Tier 1 customers will be essential to ensure that visibility and availability of these products and is the task that Nike's management need to solve over the coming months if the threats from competitors are to be overcome. Over the years Nike has proved capable of turning itself around from periods of weakness, and Mark Parker remains company chairman should they need advice from the man who ran the company from 2006-2020.

There will undoubtedly be lots of social media and hype created from the Olympics over the coming weeks, with superstars such as Eliud Kipchoge, and LeBron James sporting their products along with hundreds of other athletes, and nine national teams being sponsored by Nike. Notably all four semi-finalists for the UEFA football championship last month were also sponsored by Nike, so this summer might prove to be a bumper year for sponsorship related deals. We believe that the real source for confidence in a sustained turnaround will depend on the company's investor day slated for 19th November, the first one since 2017, where we expect to see whether the company can still properly innovate.

The VT Tyndall Global Select Fund holds a position in Nike, but in full disclosure the Fund Manager not only owns multiple pairs of Nike shoes but also a pair from On Running.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st July 2024

Data source (unless otherwise stated): Bloomberg, FE Analytics

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