Review

The Fund's F Acc share class units returned -7.38% compared to the S&P 500 Index ETF return of -1.33% in sterling terms.

July was a tough month for the fund as markets cooled off and some of our holdings corrected. Stocks in the Consumer Discretionary and Tech sectors were the main areas of weakness with Celsius, the energy drink maker, the worst performer, falling just under 18%, on concerns around growth expectations. This stock, which we like as a long-term core holding, had a great start to the year, but has since given much of that advance back as investors have had concerns over its growth trajectory which has slowed a bit, but we believe is set to reaccelerate in the coming quarters as its international expansion starts to ramp.

The tech sector has come under some selling pressure in July, and more specifically the semiconductor subsector, which has been the strongest part of tech for some while now. Our holdings in Lam Research and Cadence were hit this month, both around 13%. We have been trimming our tech positions back a bit over the last several weeks as the market begins to rotate away from the areas that have performed well in 2024.

On the positive side, Foot Locker was one of the best performers in the month, rising 16%. This stock is in turnaround phase; it is one of the key distribution partners for Nike, and as that brand seeks to regain its dominance in the running category, Foot Locker is set to be a beneficiary. Rounding out the top 3 positive contributors were Fair Isaac, up 7.5%, which is a stock that continues to outperform the tech sector and Make My Trip +11.3%.

Over the course of the month, we have been making more sells than buys as the market leadership has begun to wane and we are cognizant of the fact that there is significant concentration risk in the mega cap tech stocks, and we do not necessarily believe that this dip is an opportunity to add to stocks that have already performed so well. For the most part, second quarter earnings have been greeted with a lack lustre sigh more than excitement for the future and this is a notable departure from recent quarters. We continue to scan the market for new leadership at both the stock and sector level.

Market Outlook

As noted above we have started to reduce position sizes and keep proceeds in cash as the market goes through a weaker patch. Our macro process is highlighting a likely quad 4 period for the next two months, which means that both growth and inflation slow at the same time, and this has historically meant correction territory for equities. In recent years, investors have flocked to mega cap tech when the market has been volatile, but tech doesn't typically perform well in quad 4, which is why we have increased our cash weighting.

Bond yields have fallen quite precipitously this month, which is another signal that the market is more focused on the economy slowing down than on inflation, which is new. On a more positive note, it looks very likely that interest rate cuts are coming over the next couple of Fed meetings, which will help ease financial conditions and indicate beginning of a rate cutting cycle.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 31st July 2024

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

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