VT Tyndall North American Fund

Monthly Commentary | August 2024

TYNDALL

Review

The Fund's F Acc share class units returned 1.46% compared to the S&P 500 Index ETF return of -0.42% in sterling terms.

Volatility has picked up over the last couple of months, with markets correcting quite sharply at the beginning of August. This was due in part due to forced selling of equities by hedge funds as the Bank of Japan raised interest rates. This caused a reversal in the yen carry trade, whereby investors borrow in yen and invest in higher yielding securities elsewhere with leverage. A lot of those flows ended up in growth stocks and this is what propelled the correction. However, this has quickly passed, and the S&P 500 has bounced back quickly, regaining all the lost ground in record time.

What has been interesting about the recovery is that it has not all been tech led. Whilst tech has participated, the market's recovery has been much broader, including almost all sectors. Some sectors are benefiting from the fall in interest rates combined with improving fundamentals - REITs and Utilities would be examples of this theme. Financials, Industrials and Healthcare have also been at the forefront of performance, whilst technology has lagged. This is in part due to underperformance of mega cap tech stocks. We have been broadening out our exposures in the fund, and have added to Financials, REITs and Utilities as we see these sectors continuing to lead. We have reduced our tech weighting and have sold our Nvidia position. This stock has been a big winner for the fund, and we feel now is a good time to take profits and see how things go from here.

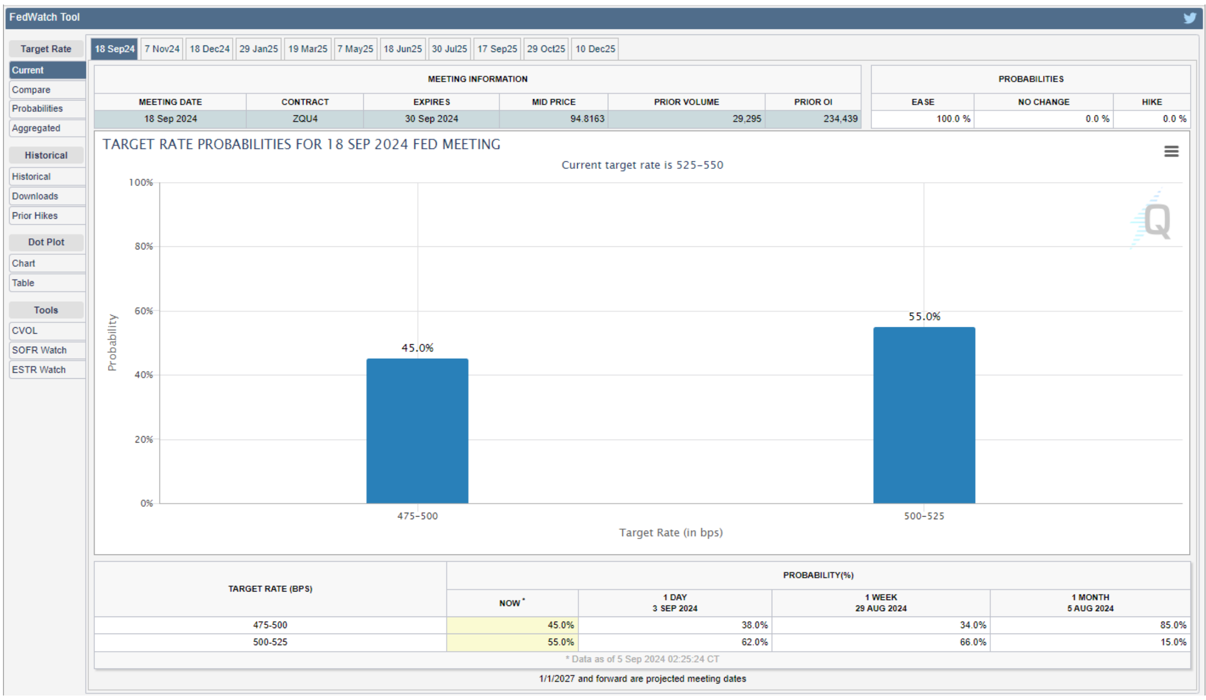
Other good performers in the fund this month would include two much newer holdings: Cava and Shark Ninja. Cava is a Mediterranean fast food restaurant chain which is right at the beginning of its expansion phase, and it surprised the market with much better than expected eps of 17c vs consensus of 12c, made possible by strong traffic growth of 10%. Traffic has been a problem at some of its competitors, so it was pleasing to see Cava buck this trend. The stock rose 19% on the day. Shark Ninja also beat expectations on their quarter and raised guidance and that stock rose 17% on the day. Both these stocks are recent IPOs, and we find that often it's the new companies to the market that can have the most exciting growth prospects so we are pleased to see them perform well.

Industrials also proved to be a strong area, and this sector is now our biggest weighting. Axon Enterprise, formerly Taser, had a very strong quarter and the stock was up around 18% and has continued to perform well. We are finding lots of new ideas in this sector, particularly in the Aerospace and Defence sub sector; GE and Howmet Aerospace have been recent additions to the portfolio.

Market Outlook

We continue to be bullish on US equities and believe that now is a particularly good time for active management to come back to the fore. The parts of the market that have led for a long time and are widely held have lost some momentum and other parts of the market are showing leadership qualities and this is a big positive for the health of the market.

The probability of an interest rate cut in September is currently at 100%, as can be seen by this chart from FedWatch, which shows the odds of a 25bps cut in September at 55% and the odds of a 50bps cut at 45%.



If this is the beginning of a rate cutting cycle it will likely benefit equities as a whole and may well shine a light on the mid and small cap areas of the market, and this is an area we are watching very closely.

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

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

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