VT Tyndall North American Fund

Monthly Commentary | December 2024

TYNDALL

Review

The Fund's F Acc share class units returned -4.74% compared to the S&P 500 Index ETF return of 0.09% in sterling terms.

The US stock market had a very mixed December. It started off in good fettle, carrying on from a strong November, but weakened significantly in the second half of the month, and ended negative in dollar terms, by -2.5%. A negative December is quite rare, since 1950 only 25% of Decembers have been negative, and it was the Federal Reserve's meeting on the 18 December that brought about the correction. The Fed cut rates but guided that they were nearer the end of the rate cutting cycle than some were expecting, and this caused the sell-off, particularly in those stocks that had been performing well. This meant the fund also corrected over this period. We have not made any significant changes to the fund as we believe this was a bout of short-term volatility, which is not too unusual at the end of the calendar year.

The expectation for several rate cuts in 2025 has diminished quite substantially and the 10 year bond yield has continued to rise. In one of the most unexpected macro moves of the whole year, the minute the Fed cut rates in September, interest rates, as measured by the 10 year yield, have gone straight up, from around 3.6% to 4.6%. This is not meant to happen of course, as Fed Funds and rates tend to move in the same direction. It is most likely a sign that the bond market thinks the Fed is making a mistake in cutting rates before the job of killing off inflation is completed. While it is true that the economy is still in good shape, and one would not expect yields to fall too far, the rapid rise does point to fears about inflation re-emerging.

The good news is that the re-emergence of inflation is accompanied by strong economic growth and is moderate compared to recent years.

Market Outlook

As we look forward to 2025 there are many reasons to feel confident about US stocks. Not only is the economy growing strongly but there are some exciting investment themes that are still in the early stages of their growth trajectories. Themes like AI are just beginning and are bringing to life formerly moribund sectors like utilities that will be supplying their energy needs.

With the sweeping changes in many parts of the administration, we can expect a much more business-friendly America. A new head at the Federal Trade Commission (FTC) should mean a much healthier environment for M&A, which has basically been on hold for the last 4 years.

Whole new industries are being created in America as we speak, as AI and technological innovation take hold for the next leg of the fourth industrial revolution. This should also breathe life back into the IPO market in 2025, which has also been somewhat dormant over the last few years. We are excited about what the new year will bring and continue to believe that the US offers investors the most compelling opportunities in the world.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 31 December 2024

Data source: Bloomberg, FE Analytics, Strategas Research Partners

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