Review

Although markets hate uncertainty, they have performed well during the month. They have managed to brush aside the issues of trade deals, rumours of Jerome Powell being replaced at the Federal Reserve and the President of the United States being sidetracked by the Epstein files aside, and have looked ahead to rosier times.

The current reporting season has been the first quarter where we have seen an insight as to how companies have been coping with a tariff environment and what levers they can use to mitigate the effects. Encouragingly, although none welcome the 'new normal', most have either taken measures to reduce cost bases or have raised prices to offset these costs. For the end user the policies are undoubtedly inflationary and, combined with the skewed distribution of the President's Big Beautiful Bill, we are concerned about the effects on lower income American consumers.

Unabashed by the geopolitics, the AI exposed companies continue to commit large sums to building out AI infrastructure and improving software to support it. Prior concerns about returns of investment turned into a Field of Dreams mindset of 'Build it and they will come'. Companies exposed to these fields performed particularly well during the month.

Fund performance / Activity

July saw the Fund be slightly more active than previous months as one tariff deadline passed, and another approached, with deals being done and threats for countries and sectors that decided not to fall into line. We continued to add to our position in Broadcom as we increased the Fund's exposure to artificial intelligence. Broadcom is a leading supplier of hardware and software used in datacentres, smartphones, networking, and broadband, all of which are core to the digital economy and have multiple strong tailwinds from the growth in AI adoption and buildout.

After a strong rebound in Thermo-Fisher Scientific, we took some profits and reinvested it into Nvidia. The lifting of export restrictions of the previously written off H20 chips releases a large pool of 100% margin products and should significantly boost sales even further over coming years. We also took some profits from our positions in Amphenol and JP Morgan where performance led them to breach our self-imposed maximum position size.

In terms of performance, the biggest contributor to the Fund returns over the month were Thermo-Fisher Scientific, AstraZeneca, United Rentals, Assa Abloy and Johnson & Johnson, all of which returned over 10% during the month. Conversely our holdings in Novo Nordisk, Fiserv, Otis, Sika and Nestlé all fell during the month. The Fund returned 2.98% during the month, reducing the loss for the year to -0.25%.

Novo Nordisk, which is the smallest position in the Fund, uncharacteristically issued a profit warning about the effects of unregulated compounded copies of their Wegovy and Ozempic weight loss drugs and price pressure in the diabetes space in the US. We see this as the new management taking the opportunity to kitchen sink all the poor data.

They did emphasise that the secular growth in their end markets remains intact. Once management can convince the market that all the headwinds are now in the public domain and that they are taking steps to address them, the valuation will be seen as very compelling for what remains a leader in both the weight loss and diabetes space.

Market Outlook

With the ‘hard deadline’ of August 1st about to be in the rearview mirror, we can look forward with greater clarity as to the costs and tariffs imposed on all the US’s major trading partners. The exception being China, which has an extension to work out the specifics of their deal. For what was almost universally seen as a negative for the US, can now be argued to have not necessarily been the case, as the strength of the negotiating power of the US has seen many countries impose zero tariffs on the US while excepting a ‘deal’ rate on their own exports; it is little wonder why many European leaders are complaining about their deal, especially as former allies are now in the position of having higher tariffs than adversaries.

Encouragingly, Companies that have thus far been hesitant to invest in Capex due to the uncertainties of their cost bases will be able to work out their potential returns on capital employed and will look to find opportunities for growth in a world with higher costs. The bargaining power of companies over their customers and consumers will play out over the coming months as we see who is to bear the brunt of the increased costs of international trade. Thus far corporate profit margins appear intact, suggesting that the end user is losing out as a result of the new order.

A positive for the US, however, is the commitments by many companies and countries to on-shore more of their production facilities in the US, which although will take many years to come to full production, should create jobs and also reduce the transactional costs of importing goods to the US from offshore. In-turn this should be beneficial for those overseas corporations with US operations, although they will have a huge upfront increase in Capex, diminishing Free Cash Flows, in the near term.

We remain optimistic on global equity markets that have proved remarkably resilient to the weekly proclamations from the White House, and we look forward to finding companies that can safely navigate what may well prove to be calmer waters ahead.

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 31st July 2025

Contact Details:

Fund Manager – Richard Scrope: rscrope@tyndallim.co.uk
Head of Distribution - Theresa Russell: trussell@tyndallim.co.uk

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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JS.