The MGTS Downing Fox Funds

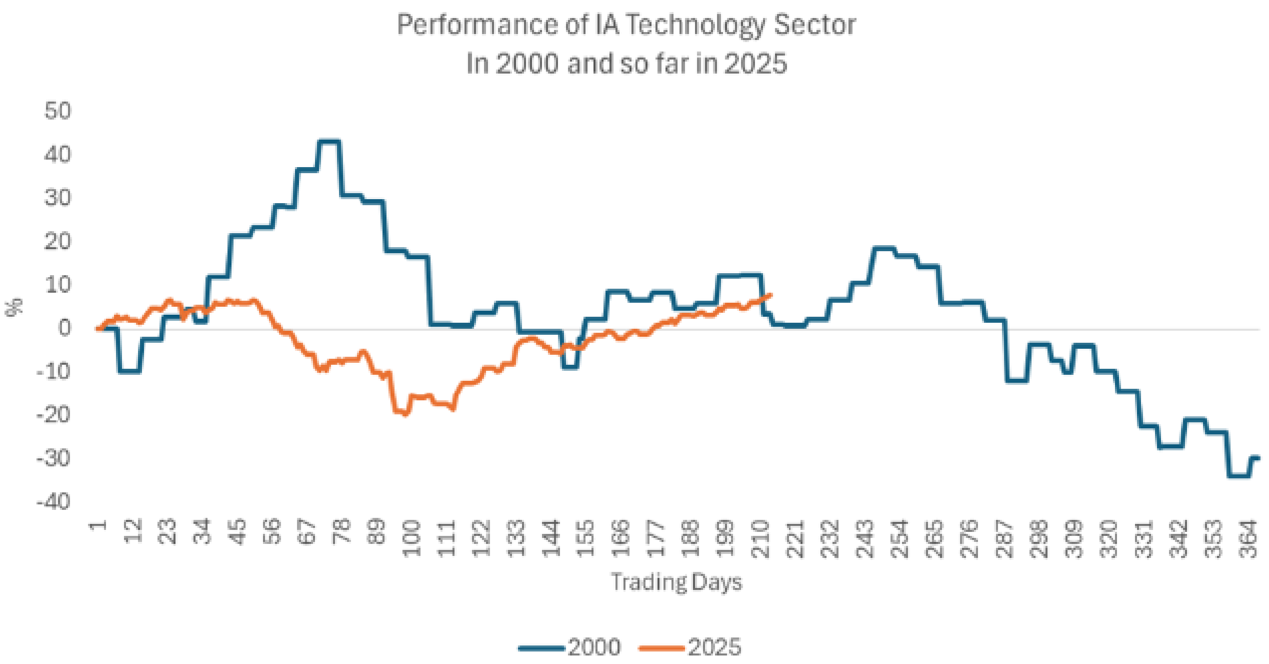
July 2025

July commentary

For active managers like us, there is the dreaded sense of "here we go again". What was a broad recovery has now narrowed significantly, with recent stock market gains being driven by high growth areas, particularly in the US.

This market feels a lot like Q4 2024, when the global market was up but it was really due to a small set of technology related names in the US, while most of the market outside of those companies fell. Anyone who was following us during that time will know those sorts of market conditions don't suit our active, diversified approach.

In truth, equity markets are following a very similar path to what we expected. These non-scientific expectations are, we admit, based on our eerie sense that markets are recreating what we saw in 2000, specifically the wild ride tech investors experienced that year (which, coincidentally, was when the last US-led mega-trend topped out).



Source: Morningstar, 31.07.2025 in GBP

Past performance is not an indication of future performance.

Just like in 2000, so far this year we have seen an early rally in the popular theme, followed by a nasty and worrying reversal later in the first quarter, which has since been partly erased by a persistent summertime rebound. If 2025 follows the 2000 script (which, of course, it may well not), this rally should drift on for a while, before we see a second nasty sell off, again led by the markets' previous winners.

Compounding this is our sense that sentiment appears to be overly buoyant, valuations are high once again, and most of the issues that bugged markets in March and April have yet to be resolved (the economic impact of tariffs being one of those).

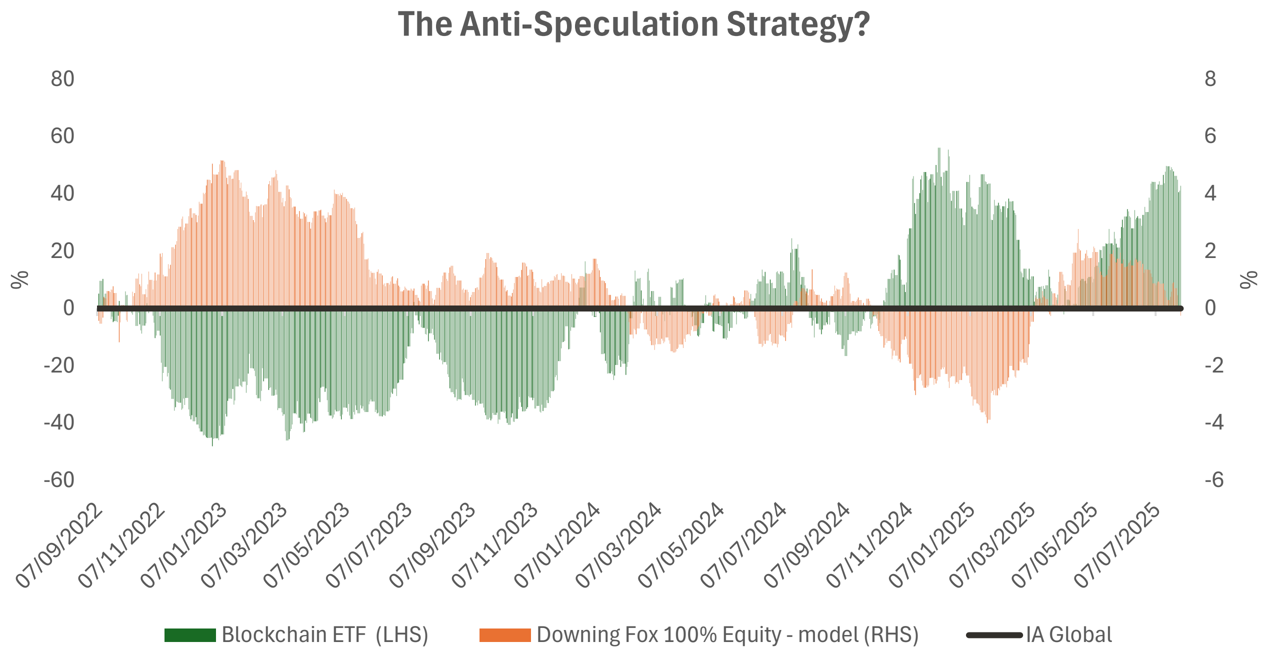
Importantly, our argument here isn't that you should avoid the US, technology names and the Magnificent 7 altogether. Our point is, having large exposure to them (to the extent that their fortunes will dictate the future success of your portfolio) feels risky at this moment. So, despite not having worked for years, diversification might once again be the best policy. Be that across different geographies, styles or market caps, or ideally all of those, as no one knows what is around the corner.

The Anti-Speculation Strategy?

Back to 2025 now, and this recent rally feels speculative in nature.

We could be wrong on this of course, but there is anecdotal evidence that it's been fuelled by retail buying in the States, while the fact that meme stocks and crypto have soared only adds to that feeling. This is illustrated by the list of the best performing funds in the IA Global sector over the past month, with ETFs such as Invesco Solar Energy, L&G Battery Value Chain and WisdomTree Blockchain topping the list.

The latter is an interesting one, given it only invests in stocks that are heavily involved in the blockchain and cryptocurrencies. This is, we'd argue, a decent proxy for speculative fervour. And if it is, its performance confirms our growing suspicion that we have effectively been running an anti-speculation strategy: which is to say that, when this fund is top of the performance tables, we're usually lagging. And when it sells off, the Downing Fox equity portfolio starts to perform relatively well. The chart below is telling in that respect.



Source: Morningstar, 31.07.2025 in GBP. The Downing Fox 100% Equity model performance is simulated and based on the target allocation model for the MGTS Downing Fox 100% Equity Fund.

Simulated and past performance are not a reliable indicator of future performance.

The graph illustrates the relative performance of our 100% Equity model and the Blockchain ETF versus the IA Global sector since 2022 (we've expanded the scale of our own out/underperformance on the right-hand Y axis to illustrate the point more clearly, as we're not swinging as wildly in either direction as the Blockchain ETF).

There are two things to note from this data. Firstly, it clearly shows how we outperform at the opposite time to speculative areas of the market (the correlation of those relative returns is -0.7).

Secondly, you can see how strongly the ETF has performed over recent months, roaring back to similar levels seen when the market peaked in January.

Does this mean speculative areas are about to crash? No, not necessarily. But it is interesting to see we are almost back where we were before DeepSeek/tariffs caused the steep sell-off.

Also, it's worth noting our negative correlation to speculation is an output of the process, not something we target. It makes sense though. We effectively employ active managers to manage money on behalf of our investors. There are lots of things we expect from them, but rule number one is to not do anything stupid. And more often than not, speculating, rather than investing based on fundamental analysis, turns out to be a stupid thing to do.

I don't think there is anything to suggest this negative correlation won't continue, either. Therefore, if the recent market trends continue, you should expect us to lag. However, if you are nervous about the recent direction of travel in equity markets, then Downing Fox might offer something a little different within your portfolio.

Thanks for your continued support.

Alex Paget – Fund Manager, MGTS Downing Fox Funds

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