

THAT WAS THE WEEK THAT WAS - BY VERMEER PARTNERS

Week ending 8th May 2020

Macro

- The oil price rallied somewhat with a barrel of WTI recovering from around \$18 to \$25
- Credit markets showed that they are still functioning healthily as **Apple** issued \$7bn of bonds at very cheap rates, their first debt issuance since 2017
- Frailties in the Eurozone continue to bubble below the surface as Germany's highest court ruled that the ECB's 2015 bond-buying program could be illegal under German law
- The UK government announced that both it and the US had started negotiating a US-UK Free Trade Agreement (FTA). Robert Lighthizer, the US Trade Representative and Liz Truss, the UK's International Trade Secretary launched the negotiations via video conference to ensure that talks can progress during the Covid-19 pandemic

Statistic of the week

With **BT** joining the list of heavyweight dividend cuts this week, a UK broker showed us that, so far this year, we have seen dividend cuts or deferrals amounting to £37.7bn across the UK market.

Company news

A further insight into the disruption caused by Covid-19 as Disney, Smith & Nephew and Xylem all reported quarterly earnings:

- **Melrose** highlighted that despite its high level of balance sheet gearing and difficult trading conditions over the last few weeks, there is a first-class management team that continue to excel on financial prudence with £1bn of headroom on their debt facilities and £200m of cash
- **Smith & Nephew** saw a 7.6% drop in revenue for the first quarter mainly driven by the orthopedics and the sports medicine & ENT divisions. They warned that performance could be substantially lower for the second quarter as revenue almost halved in April
- **Xylem** released poor numbers, their fourth earnings report in a row to miss consensus estimates
- **Novo Nordisk** announced very robust numbers. Its GLP-1 diabetes drug Semaglutide has racked up some encouraging clinical results that take it one step closer to the finish line.
- **Disney** figures showed that Disney+ subscription numbers have grown well and churn has not been too high; but ESPN has still got no sports to show, the film studios are shut down and the parks are closed (although the Shanghai park will re-open next week)

Small-cap news

It was interesting to note a declarable addition to the **M&C Saatchi** register with Vin Murria OBE and family noted as owning 13.25%. Vin has a strong tech-based CV and investors have previously made very good returns with her as CEO at **Advanced Computer Software Group** and more latterly on the board at **Sophos** (both were taken over).

Funds

A leading US equities manager, with a hugely impressive long-term track record, showed us that the advance of the large US technology stocks over recent years means that, on average, many of them now trade on free cash flow margins of more than 20% showing how resilient they can be in times of crisis. Particularly when it takes the likes of **Walmart** on average nearly three days to receive payment for goods after its paid its suppliers, whereas **Amazon** receives payment about 18 days *before* its paid its suppliers.

This week in history

1886: Coca-Cola was first sold to the general public at the Jacobs Pharmacy soda fountain in Atlanta for 5 cents a glass. It sold on average around 9 glasses a day. Coke now produce more than 1.9 billion drinks a day.

1945: Victory in Europe. The news was largely already priced into markets. The Dow Jones was up only a fraction of a percent on the day, and down a bit the next. However, over the previous 12 months prior to Germany's surrender, the Dow had gained 26.7%.

Lockdown lowdown

Unexpected stock market winners in the UK include: **Halfords** who have seen a spike in sales in cycling equipment as people explore new ways to keep healthy and avoid public transport; **Loopup**, a London-based software company operating in the global conferencing services market which has benefitted from more people working from home; and **Plus500** the CFD trading provider has seen heightened volatility across global markets leading to a significant uptick in customers trading from home.

Market Data

% returns	1 Week	1 Month	1 Year	5 Years
UK Equities (% return GBP)	3.12	4.44	-15.94	0.55
World Equities (% return GBP)	3.65	5.83	2.85	56.69
10 Year US Treasury Yield (%)	0.64	0.76	2.49	1.75
GBP / USD (fx rate)	1.24	1.25	1.30	1.54

as at 8th May 2020. Source: Financial Express

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