

THAT WAS THE WEEK THAT WAS - BY VERMEER PARTNERS

Week ending 1st May 2020

Macro

- US GDP shrank 4.8% (annualized) as the global pandemic shattered large parts of the country, marking the steepest contraction since the Great Financial Crisis and ending the longest economic expansion on record in the U.S.
- In the UK, the government raised their guarantee on SME loans from 80% to 100%, which will give banks a lot more confidence in making loans. This is important as the UK is still lagging other countries in terms of loans made as a percentage of GDP
- Diageo continued the trend of large companies borrowing at attractive rates by issuing \$2.5bn of bonds in three tranches with coupons ranging between 1.875% and 2.875%, not much higher than they were able to borrow at a year ago
- The recent warm weather means that the UK broke a new record in going 18 days without using coal to generate electricity. This is the longest Britain has gone without burning an ounce of coal for power since 1882

Statistic of the week

A UK equity fund manager we spoke to over the week has carried out some analysis in response to the furloughing scheme which estimates that the current wage bill for the UK government is running at £14.5bn per month.

Company news

The “Famous Five” – Apple, Alphabet, Amazon, Facebook and Microsoft – all reported quarterly earnings this week. Shell’s historic dividend cut marks, arguably, the most significant event for UK income investors in a generation.

- **Alphabet**, the owner of Google, saw a downturn in advertising revenue as Coronavirus hit in late March but were surprisingly upbeat about their performance in April
- As expected, **Amazon**, saw a huge spike in sales but this did not all translate to the bottom line as they elected to spend excess revenues on hiring new staff and protecting existing staff from the pandemic
- **Microsoft** released stellar results with revenues up 15%. Although optically expensive at a p/e of 30x they have demonstrated the strength of their franchise and even areas like LinkedIn are doing very well despite the recruitment slowdown.

- **BP** elected to maintain its dividend while **Royal Dutch Shell** cut theirs (by two thirds to 16 cents) for the first time since the Second World War.
- **Visa** and **Mastercard**, barometers of global consumer spending, both said that transaction volumes bottomed a few weeks ago and that activity was now picking up

Small-cap news flow

Venture Life (VLG) is an AIM listed company we follow within the health care sector. They buy unloved healthcare products and reinvigorate them mainly through new marketing. VLG bought Dentyll mouthwash in 2018 and they have just announced that they are relaunching the product in China using their established contacts. For a £50m market cap company this €168 million deal gives it a firm footing for the next 15 years and enables them to use the cash received on other products in their stable.

Funds

We took a conference call with the manager of a successful investment trust in the global healthcare space who was telling us how increasingly the data is showing that those people that catch the Coronavirus have around a 99.8% chance of survival.

This week in history

1926: Britain's first ever general strike in support of coalminers takes effect.

2009: Chrysler, one of the "Big Three" car makers in the US, filed for bankruptcy

Lockdown lowdown

Given the circumstances, it doesn't come as a huge surprise that the video game industry had a very good March, a time when it usually faces a post-holiday sales slump. According to industry data in the US from the NPD Group, total spending on video games amounted to \$1.6 billion in March 2020, the highest March figure since 2008, when Nintendo's Wii was flying off the shelves.

Market Data

% returns	1 Week	1 Month	1 Year	5 Years
UK Equities (% return GBP)	0.18	5.00	-19.67	-1.65
World Equities (% return GBP)	-0.74	11.62	-1.82	49.52
10 Year US Treasury Yield (%)	0.64	0.61	2.52	2.04
GBP / USD (fx rate)	1.25	1.24	1.31	1.51

as at 1st May 2020. Source: Financial Express

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