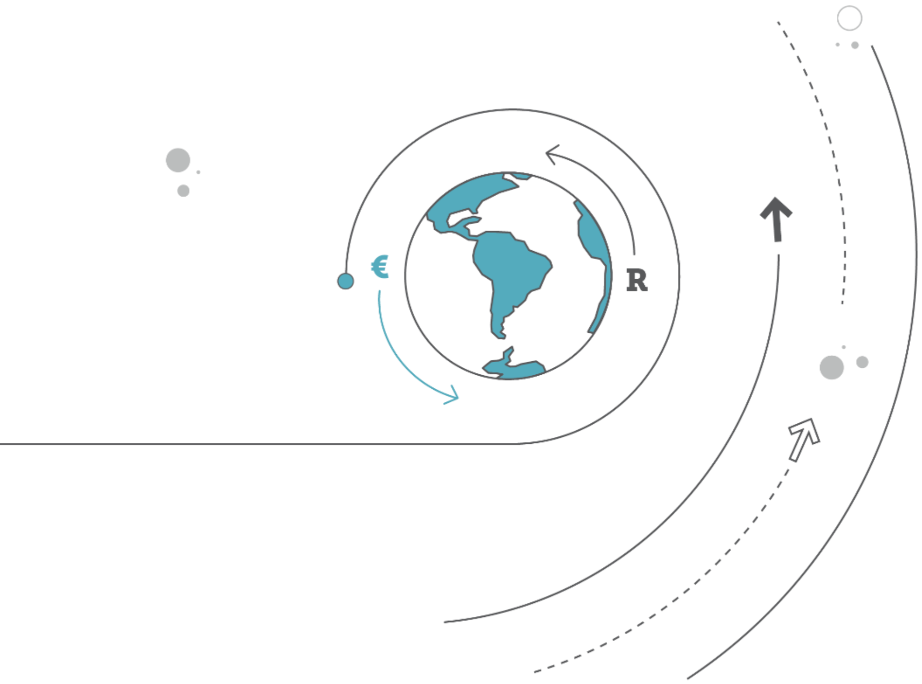
Nick's Global Newsletter

February 2021



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Market Commentary

Global equity markets ended the first month of 2021 in negative territory following a volatile period of trading activity. The MSCI All Country World Index, a broad measure of global equity markets, ended the month down 0.5% as news surrounding the state of the pandemic, the rate at which vaccines are being deployed, and the quantum of fiscal stimulus packages continue to drive the trajectory of markets. Adding to the volatility of markets has been the ever-increasing impact of retail investors on the market as they band together to challenge the Wall Street elite.

It was an eventful month for US equity markets. It began with **Democrats winning two key election runoffs in Georgia** which effectively gave the Democratic Party control of the US Senate. This would have been the main talking point of the day but instead it was overshadowed by scenes of thousands of pro-Trump supporters storming the Capitol Building in Washington. Ordinarily, one might expect markets to react quite negatively to such an event, but they were quite unfazed.

Instead, the **ability of the US government to control the spread of the pandemic**, specifically the rate at which vaccines are being rolled out, as well fiscal stimulus plans continue to drive US markets. Newly-elected US president, Joe Biden, is looking to add to the $900 billion stimulus package that was agreed to by US lawmakers in December. President Biden is seeking an **additional $1.9 trillion which would see direct stimulus checks of $1,400 paid** to eligible participants – this would be in addition to the $600 checks that have already been sent out. Despite democrats controlling both the House and Senate, he may have to comprise on this package as centrist lawmakers may not back the package in its current form. Assuming it is successfully passed into law, **US fiscal spending since the start of the pandemic will reach nearly $6.0 trillion**. Such a significant rise in the supply of money in such a short space of time is likely to lead to higher inflation in the future with yields on longer-dated US treasuries echoing this possibility as they edged higher during the month.

US stocks were well on course to end the month on a positive note, but an event occurred that not many would have foreseen - and it significantly increased the volatility in markets. The word "GameStop" is not something many would be familiar with unless you were an avid video game player in the US. **GameStop is a bricks-and-mortar US retailer that had been struggling for a number of years** as video games are increasingly downloaded online as opposed to purchasing a physical disc in a store. Those that do still purchase physical discs (and gaming consoles) have increasingly shifted to e-commerce retailers such as Amazon for the gaming requirements, much to the detriment of

GameStop and its string of over 5,000 retail outlets.

GameStop happens to be a listed on the New York Stock Exchange and couple of hedge fund institutions looking to capitalise on the plight of the video game retailer held short positions in the stock. Shorting a stock is the opposite to buying a stock. When one “goes short” they essentially sell the stock and look to buy it back in the future at a lower price for which it was sold. One might wonder how someone could sell a stock if they did not buy it in the first place. Without going into the technicalities, when a participant shorts a stock, they need to borrow the stock from someone that does currently own it, normally a broker. One key difference that is worth pointing out, is that this is normally done on margin. This means that the amount a participant would put into a margin account would be less than the actual value of the stock they are shorting, essentially leading to a leveraged or geared position.

Moving back to the matter at hand, those hedge funds that were shorting GameStop’s stock hoping to profit as its price slid further down, found themselves under siege from “Robinhood’s Merry Men”. A group of Reddit users – Reddit is a social media message board where users can post and discuss content – gathered under a subreddit called “WallStreetBets” – a chatroom or message board where stocks and options are discussed – and collectively decided that they would purchase stock as well as options in GameStop in an effort to bid up its price. Similar to how Robinhood and his Merry Men would targeted the wealthy in Sherwood Forest, these Redditors had their own terrain for laying siege to the wealthy hedge find elite - namely zero-fee online brokerages, with the Robinhood brokerage used as their primary source of “attack”.

Their plan led to a massive surge in GameStop’s stock price and for those that were short the stock, a short squeeze. In the space of a couple of days, GameStop’s share price went from $18/share to $325/share, an increase of more than 1500%! GameStop was not the only stock that traders from WallStreetBets pounced on. Other stocks that had large short positions that were targeted included AMC entertainment (an American movie theatre chain), Blackberry and Bed Bath and Beyond – all rose significantly during the month, creating tremendous volatility in the market. The combination of increased volatility, stuttering stimulus efforts and disappointing vaccine news ultimately **led the S&P 500 Index to give up gains from earlier in the month and end the period down 1.1%.**

In Europe, harsher lockdowns continued to delay an economic recovery among European nations as weak economic data points weighed on European equities. European equity markets were also dragged down over concerns of vaccine shortages in Spain as well as a dispute between the European Union and AstraZeneca (a European drugmaker) which led to a delay in the rollout of the vaccine. Both the STOXX Europe 600 Index and the FTSE 100 Index, broad measures of European and UK equities respectively, ended the month down 0.8%.

For those that were still on, or rather near, the beach during the first week of January, they would have missed the JSE All Share index rising 6.7% in just one week. **The local index did give back some of those gains but still ended the month up 5.2%.** The majority of the gains during the month can be attributed to companies with strong links to China. These include **Naspers**, which benefited from the strong performance of Tencent, as well as **Richemont**. The luxury goods company sells a large portion of its products to the Chinese consumer. Diversified miners **Anglo American** and **BHP Billiton** were also significant contributors – the majority of their sales are made to China, the largest consumer of commodities in the world.

And turning to commodities finally, the **price of oil continues to cautiously climb higher** as it oscillates between hopes of recovering demand pinned onto the vaccines against news of harsher lockdowns. The price of Brent Crude eventually ended the month around $56 a barrel, a gain of nearly 10%. Following its lows during March last year, **the price of gold has risen steadily and even briefly traded above the $2,000/ozt level**. It has since fallen back slightly, and in January it ended the month at $1,847/ozt, a decline of 2.4%. A recent bounce in the US dollar and a slight tick-up in US treasury yields are the likely reasons for January’s decline.

Company Updates

ASML (ASML)

ASML Holding, an essential supplier of equipment to computer chip makers, posted **better-than-expected sales for the fourth quarter of 2020** and said it had seen a strong order intake for 2021.

Fourth quarter net profit was €1.4bn on sales of €4.3bn, compared to €1.1bn and €4.0bn in the same period a year earlier.

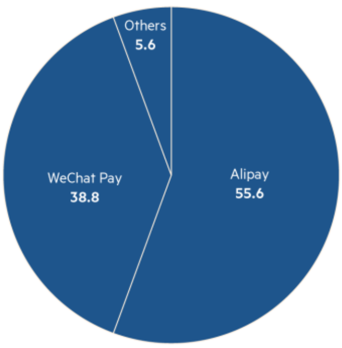
Alibaba (BABA)

Jack Ma is back. The Chinese billionaire's re-emergence in a video after a three-month absence reassured investors concerned over his fate and prompted a rally in the shares of Alibaba, the e-commerce group he founded.

Mr Ma had not been seen publicly since 24 October when he criticised Chinese financial regulators at a forum in Shanghai. Ten days later authorities cancelled Alibaba's payments affiliate's (Ant Group) $37bn stock market debut, which would have been the world's largest.

China's third-party mobile payments market

Q2 2020 (%)



Source: iResearch
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Draft rules issued by the People's Bank of China (PBoC), which have not yet been enacted, make it clear that regulators are now **targeting Ant's core Alipay payments service as a monopoly** that might have to be broken up. The central bank had previously suggested that it might be content if Ant "returned to its roots" as a payments provider, while placing its fast-growing lending businesses into a new holding vehicle that would face more stringent oversight. Internet group Tencent's WeChat Pay, China's second-largest payments service after Alipay, could also be targeted.

Source: Financial Times

LVMH (MC)

LVMH's biggest brands, Louis Vuitton and Dior, finished off last year strongly, delivering double-digit sales growth in the fourth quarter, despite Covid-19 lockdowns. The strong demand for LVMH's biggest brands provides further evidence that even as the Covid-19 pandemic rages, **people with means are still treating themselves to luxury goods** as other types of spending, such as travel or restaurants, remain off limits.

The better-than-expected performance of the group's fashion and leather goods division, its largest, which grew 18% on a comparable basis in the fourth quarter, helped **offset steep declines at its duty-free shopping unit and in wines and spirits**. Overall, group sales fell 3% on a like-for-like basis in the quarter to €14.3bn.

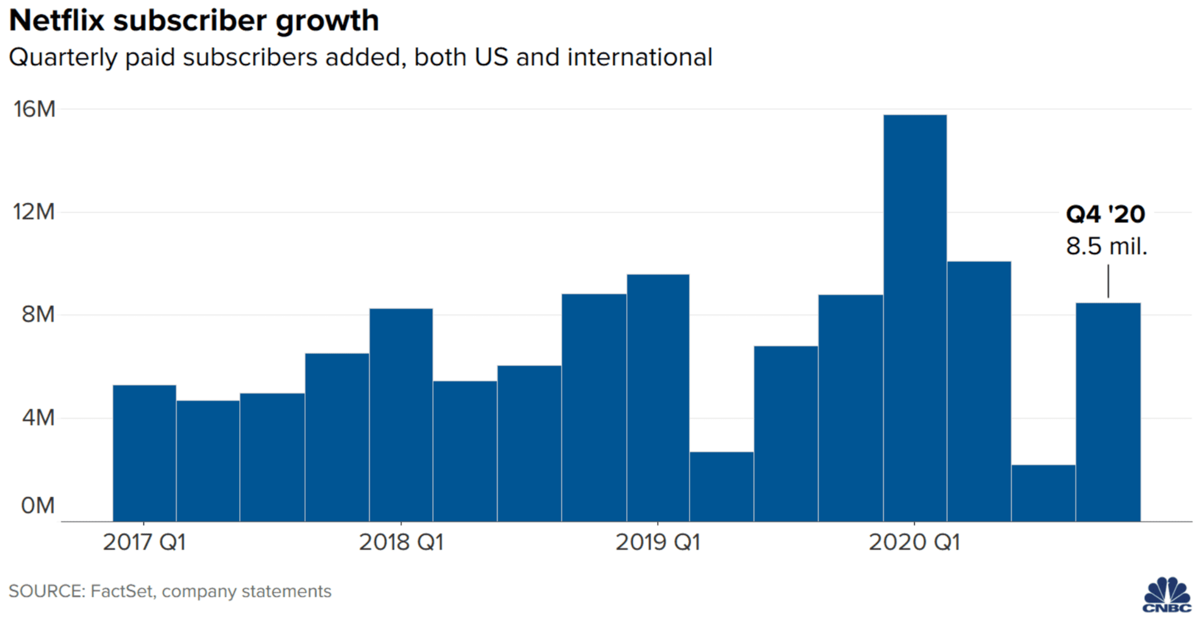
However, the pandemic has shaken the luxury goods sector by exposing its **dependence on free-spending Chinese consumers**, who often used to shop for handbags and jewellery while on trips to Europe's fashion capitals.

Source: Financial Times

Microsoft (MSFT)

Microsoft reported better-than-expected quarterly results. The company showed **strength across the board**, getting a boost in particular from the accelerating adoption of cloud computing.

"What we have witnessed over the past year is the dawn of a second wave of digital transformation sweeping every company and every industry," CEO Satya Nadella said in a statement. "Building their own digital capability is the new currency driving every organisation's resilience and growth." The company saw business accelerate from the September quarter in all three product segments, where revenue also exceeded forecasts.



Microsoft's quarterly gaming revenue **topped $5 billion for the first time**, driven by 86% growth in hardware revenue for the Xbox, reflecting the launch of a new generation of gaming consoles.

Source: Barron's

Netflix (NFLX)

Netflix reported fourth quarter earnings that beat analyst expectations on revenue and net subscriber additions. The service surpassed **200 million paid subscribers** for the first time in the fourth quarter. The company said it is close to being free cash flow positive and will consider returning cash to shareholders through buybacks. It also said it would no longer need to raise external financing for its daily operations.

The company shared details of some of its biggest hits from the quarter, like "The Queen's Gambit," which 62 million member households watched in the first 28 days on the service. In addition to becoming the "biggest limited series in Netflix history," Netflix boasted its cultural impact, prompting chess board sales.

Source: CNBC

Philips (PHIA)

Philips said it expects a good start to 2021 as **demand for the hospital equipment needed to treat COVID-19 patients remained strong**. Both core earnings and comparable sales increased 7% in the last three months of 2020, driven by a 24% jump in sales at its Connected Care division, which supplies respiratory machines and monitoring and software platforms that allow remote care.

That continues the strong recovery underway in the previous quarter, when the initial shock of the pandemic waned, and hospitals rushed to buy equipment to treat the respiratory disease. However, a **fresh wave of global infections is leading hospitals to delay elective procedures** and the installation of new equipment in other areas again, Chief Executive Frans van Houten said.

He remained upbeat for 2021 though, saying orders were only pushed back, and not cancelled. Total new orders increased 7% in the last three months of 2020, taking order growth for the year up to 9%. "We continued to gain market share in our healthcare businesses, and ended the year with a strong order book," Van Houten said.

Source: Reuters

Samsung Electronics (005930)

Samsung Electronics reported a 26% boost in its fourth-quarter net profit, as the world's largest maker of smartphones and memory chips continues to ride **sustained demand for its products amid the coronavirus pandemic**. However, the company warned of **weaker earnings in the opening quarter of 2021**, though it signalled it expected growth in the first half of the new year.

Samsung also recently launched its **newest flagship phone, the Galaxy S21**, at a marked discount from previous years, trying to capture market share from Huawei.

Finally, **Jay Y. Lee, Samsung's vice chairman, is back in prison** after a retrial on charges of bribing South Korea's former president. Mr. Lee and his lawyers declined to appeal the ruling Monday, which sentenced him to an additional year and a half in prison after time previously served.

Source: Wall Street Journal

Siemens (SIE)

The German engineering conglomerate released preliminary results for the first quarter of its fiscal 2021, which were **ahead of market expectations driven by the digital-industries business**.

Siemens's digital-industries business worked at high capacity in the quarter, driven by the recovery in demand in the high-margin, automation and software businesses. It also highlighted the **better-than-expected growth in China** during the period as a reason for its good performance.

Visa (V)

Visa experienced **strong debit-card and e-commerce trends** in its first quarter, resulting in better-than-expected earnings and revenue. Although, Visa saw revenue slip once again as **international travel spending remains depressed**, the company saw signs of progress in December. Payments volume, transaction growth, and cross-border volume all improved relative to the September quarter, and the company is “actually back to [its] pre-pandemic growth trajectory” in the U.S., Chief Financial Officer Vasant Prabhu said on the company’s earnings call.

Source: MarketWatch