# Nick's Global Newsletter

May 2021

FINANCIAL JUNCTION

INVESTMENTS

# Contents



# About me

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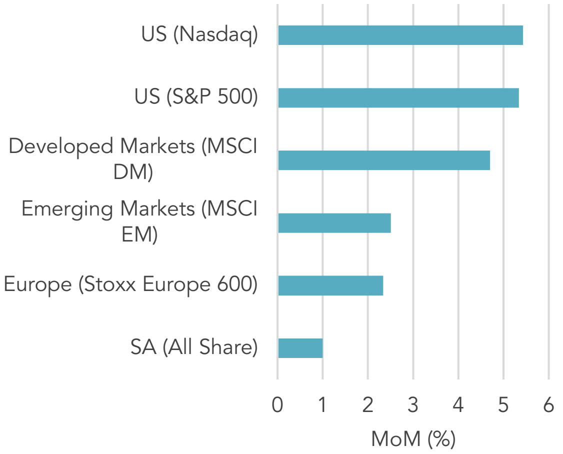
I joined Sasfin in 2016 as a Global Equity Analyst, focused primarily on analysing technology and consumer shares.

I am currently a Portfolio Manager at Sasfin's Cape Town branch, managing offshore portfolios for private clients, and the Assistant Fund Manager on the Sasfin Global Equity Fund. I'm particularly interested in innovative and disruptive global companies that are transforming the world.

I hold a Bachelor of Business Science in Mathematical Statistics and Economics as well as a Master of Commerce in Financial Markets from Rhodes University.

# Market Commentary

The momentum behind equities is showing no signs of abating as global equity markets once again pushed higher during the month. Improving economic data points, accommodative monetary policies and more recently, strong corporate earnings, were key drivers behind global equity market performance as the MSCI All Country World Index gained a little over 4% during April.




*Source: Factset*

**In the US, there is a lot to be positive about.** During the first quarter of 2021, the US economy grew at an annualised rate of 6.4% and is now within 1% of the peak that it reached in 2019, just prior to the onset of the pandemic. Over 100 million US citizens have been vaccinated, a little over 40% of the nation's adult population. US household income increased by more than 20% during March with much of the increase attributable to the $1,400 stimulus checks that have landed in consumer bank accounts along with a reluctance to spend on services due to fear or lack of availability. As a result, consumer spending only rose 4% during March, though it is the largest month-to-month increase in close to a year.

As the US economy continues to reopen, it is likely that much of this saving will flow into the economy to satisfy the pent-up demand which will be a boon for stocks associated with the services industry. **Demand for equities by the US public has soared to elevated levels.** Equities now account for 45% of total household financial assets, surpassing the level reached prior to the dotcom bubble.

**Most companies in the US reported stronger than expected earnings for the first quarter of 2021**. Results from technology stocks, specifically Big Tech names such as Alphabet, Amazon, Apple and Microsoft were incredibly strong, outperforming the broader indices during the month. The astounding numbers put out by Big Tech reminds us just how much more influential they have become following the onset of the pandemic. Combined, the above factors continued to lead the S&P 500 Index higher.

**President Biden has shown that he is not afraid to loosen the purse strings**. In his first 100 days as president, he has passed a $1.9 trillion spending package and has plans to spend a further $4.1 trillion on infrastructure as well as family and education. These plans have of course been met with strong resistance from Republicans - especially with the administration's preferred method of payment for the spending coming from increased taxes for the wealthy and corporations. As a compromise, the GOP has proposed a much smaller plan, around $500 billion. It is likely the final bill will come somewhere in between the two figures.

Whilst the US Federal Reserve (the "Fed") did acknowledge an improvement in the economy, the Fed Chairman Jerome Powell noted the economy remains a long way from the central bank's goals and therefore it would not reduce support until substantial progress was made. **The Fed thus continued to reiterate its stance of keeping interest rates unchanged** whilst maintaining the pace of its asset purchases ultimately ensuring that accommodative monetary policy remains in place.

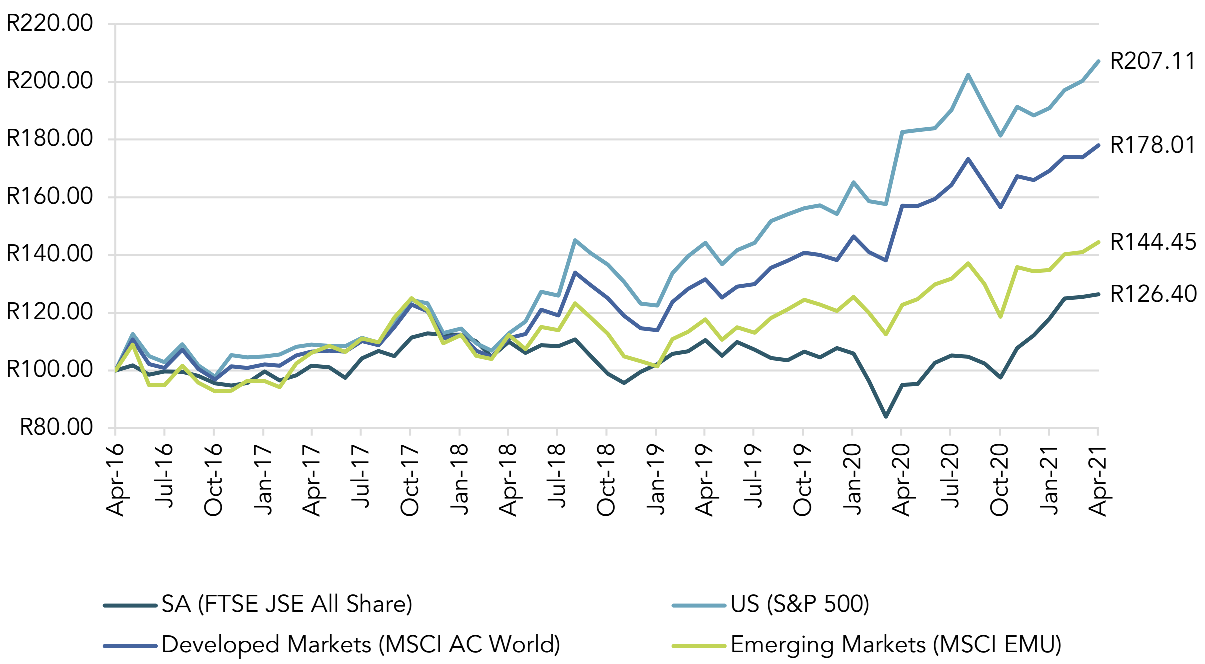
**Economic data in Europe has not been as strong as that of the US, with strict lockdowns continuing to impact negatively.** The Euro-zone GDP for the first quarter of 2021 declined 0.6% from the previous quarter, with Germany one of the harder-hit regions in particular. Despite the decline, European equity markets climbed higher during the month also supported by better-than-expected earnings as well as the continued roll-out of the vaccine across the continent which is likely to lead to an improved GDP number in the second of quarter. The gains seen in global equity markets were fairly broad-based though the commodities-heavy materials sector once again showed strong performance. Commodity prices have been on a tear of late due to strong demand from China, clogged-up global supply chains, government spending (or anticipation thereof) on infrastructure and demand for raw materials that are consumed as part of the growing "green" revolution. Copper, a key material used for renewable energy generation as well as in the production of electric vehicles, briefly traded above the $10,000/ton level for the first time since 2011 before closing at $9,949/ton, a gain of 12% for the month. Even metals associated with internal combustion engines (ICE) have maintained their upward trajectory as palladium and rhodium gained 12% and 13% during the month. Chinese demand for certain agricultural commodities as a well as lower than expected production in the US has led to a sharp increase in prices with the S&P GSCI Agriculture Index rising 15% during the month.

The increase in commodity prices is expected to flow through into the manufacturing cost of goods which in turn will lead to higher prices. Combine this with the surplus cash currently sitting in bank accounts courtesy of government fiscal spending, and you have a perfect storm of ingredients for higher inflation. While an increase in inflation over the short term is more likely than not, it may well be transitory in nature. For starters, the surplus cash that would go towards relieving pent-up demand, specifically on services and travel is likely to be a once-off event rather than a sustainable trend. There are also structural forces at play which have led to lower inflation and are likely to persist. These forces include aging populations and technological innovations. Advancements in technology lead to efficiency gains which in turn should be deflationary in the long run.

The local equity market continues to push higher. Gains were once again underpinned by companies benefiting from higher commodity prices with particular strength shown by diversified miners Anglo American and BHP as well as the likes of Kumba Iron Ore and Sasol. The gain in the JSE All Share Index was, however, pared back by the underperformance of Naspers during the month. Through its subsidiary Prosus, the internet and media group reduced the size of its stake in Tencent to 29% while investors continue to grapple with management over how it intends to unlock value for shareholder

***Commentary by Jonathan Wernick, CFA***

**Value of R100 invested in the JSE vs other global equity markets over the past five years**




*Source: Factset*

# Company News

## Alphabet (GOOGL)

| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | $ | 1535.8 |
| **Share Price** | $ | 2291.75 |
| **1-month return** | % | 0.9 |
| **1-year return** | % | 65.5 |
| **YTD return** | % | 30.8 |
| **52-wk high** | $ | 2431.38 |
| **52-wk low** | $ | 1323.30 |

*Source: Factset*

**Why I like the share**

Google dominates the search market, processing over 2.5 million searches every minute. The company has a 90% market share of global search, with no other competitor having more than 10% of the remaining market share. With Google as its highly-profitable and cash generative foundation, Alphabet has built an impressive portfolio of products and services, many of which form an integral part of its users' daily lives.

Google's results, showing a surge in ad sales related to travel and retail, offered a glimpse of online spending in a post-pandemic world: Businesses are boosting digital marketing to capture a public eager to resume something resembling normal life again.

Alphabet reported first-quarter sales of $55 billion, an increase of 34% from a year earlier when advertising sales plunged as the coronavirus crippled the global economy. Profit more than doubled. YouTube ad revenue surged 49% to $6 billion, and YouTube Shorts, its competitor to TikTok, logged 6.5 billion daily views as of March, up from 3.5 billion at the end of 2020.

*Sources: Company results, Bloomberg, Wall Street Journal*

## Amazon (AMZN)

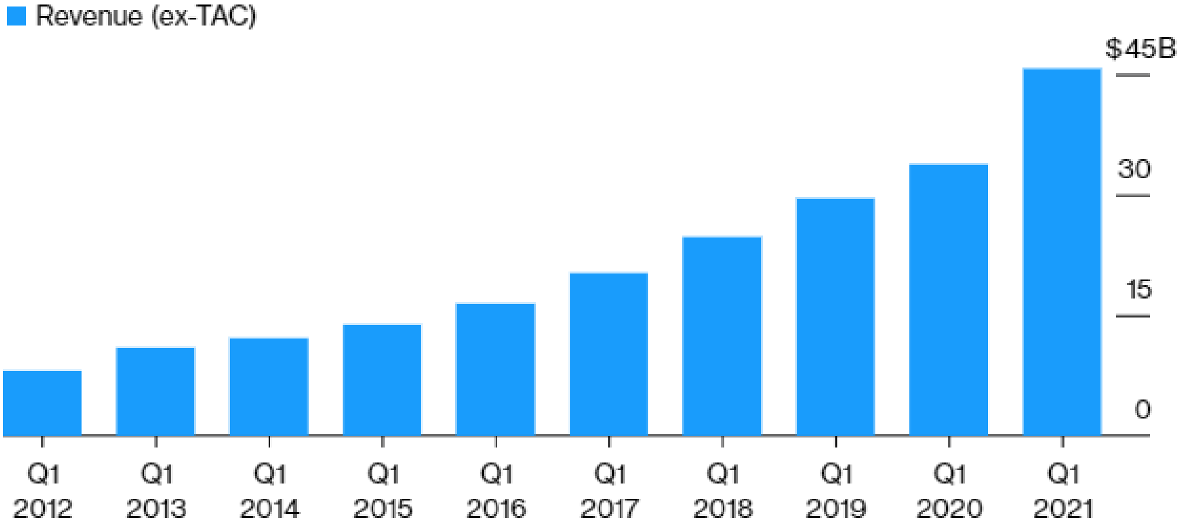
| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | $ | 1609.0 |
| **Share Price** | $ | 3190.49 |
| **1-month return** | % | -5.4 |
| **1-year return** | % | 34.1 |
| **YTD return** | % | -2.0 |
| **52-wk high** | $ | 3554.00 |
| **52-wk low** | $ | 2330.00 |

*Source: Factset*

Amazon reported its second straight quarter of $100 billion-plus sales, comfortably beating Wall Street's targets as it continues to reap the rewards of changes in behaviour driven by the pandemic.

**Ex-TAC Beat**

Google parent Alphabet's sales excluding payments to distribution partners gain 35%



With people around the world now hooked on online shopping and video streaming, and the shift to homeworking boosting Amazon's cloud computing business, the company posted net sales of $109 billion in the first three months of the year, up 44 per cent on the same period a year ago. Net income more than tripled to $8.1 billion.

Jeff Bezos, Amazon founder, is due to move to become executive chair, with current AWS head Andy Jassy replacing him as chief executive. The company has said the handover would take place at some point in the third quarter of this year.
*Source: Financial Times, Company results*

**Why I like the share**

Amazon's dominant market position provides it with the ability to better leverage its vendor relationships in the retail space. Amazon is not only the top player in online retail on a global scale, but also the market leader in cloud computing infrastructure thanks to its Amazon Web Services division.

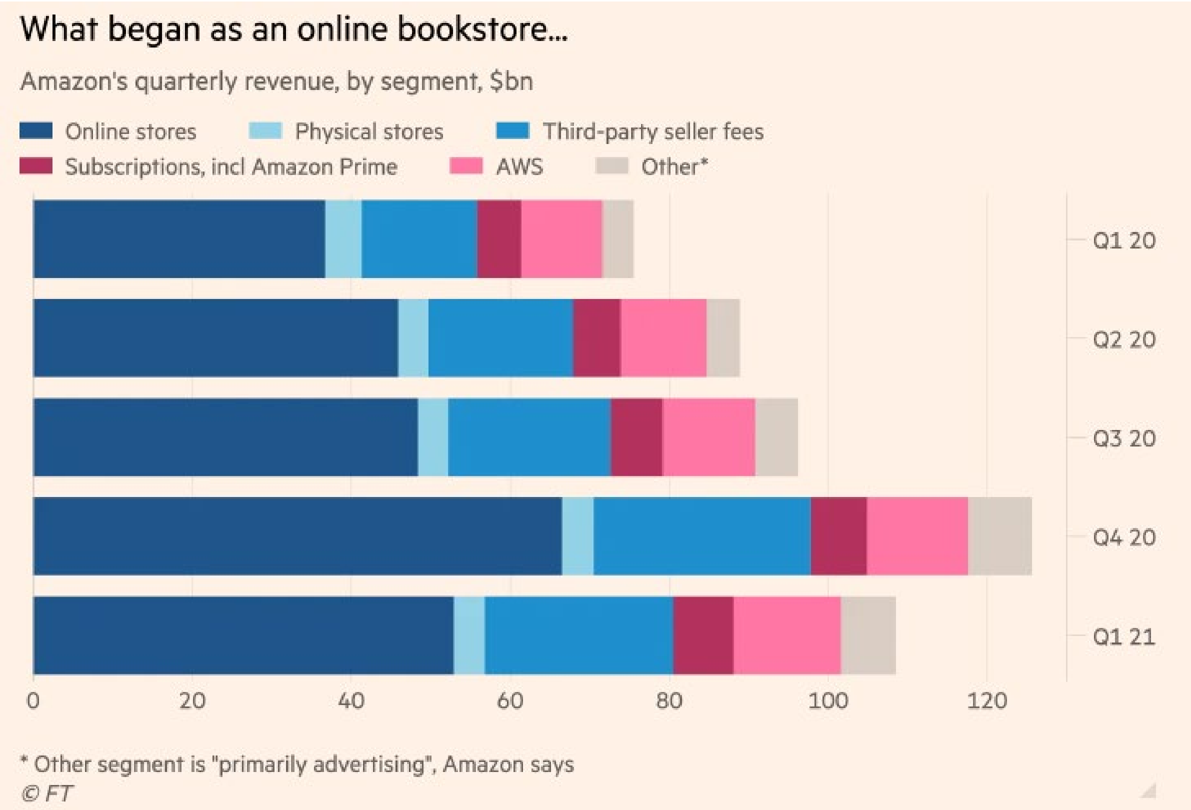
## Microsoft (MSFT)

| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | $ | 1861.7 |
| **Share Price** | $ | 247.18 |
| **1-month return** | % | -3.4 |
| **1-year return** | % | 35.2 |
| **YTD return** | % | 11.1 |
| **52-wk high** | $ | 263.19 |
| **52-wk low** | $ | 175.68 |

*Source: Factset*

Microsoft extended its pandemic-fuelled run of strong quarterly earnings that have bolstered investor enthusiasm in the software giant, bringing the company near a $2 trillion valuation. Microsoft has seen massive growth across its professional and consumer businesses with people stuck at home and remote work and distance education becoming the norm for many.

That has driven rapid uptake of its cloud-computing services and supercharged the company's videogaming sales. Xbox content and services revenue increased 34% in the latest quarter aided by the recent release of two new consoles, Xbox Series X and S. Xbox hardware revenue more than tripled from the previous year. "Over a year into the pandemic, digital adoption curves aren't slowing down. They're



accelerating," Microsoft Chief Executive Satya Nadella said in a statement.

Microsoft also was able to popularize during the pandemic its Teams workplace collaboration suite. Teams usage rose from 20 million active users before the pandemic in November 2019 to reach more than 145 million today, Mr. Nadella said.

*Sources: Wall Street Journal, Company results*

**Why I like the share**

It is one of the few US information technology companies creating an "eco-system" which aims to integrate the different operating segments. This comes with numerous advantages such as: ability to cross-sell products and services, a superior truly-holistic offering which is more attractive to clients which in return makes is very difficult for clients to move over to competitors and it provides cost synergies within the business.

## Nestle (NESN)

| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | CHF | 305.1 |
| **Share Price** | CHF | 108.34 |
| **1-month return** | % | 2.8 |
| **1-year return** | % | 6.5 |
| **YTD return** | % | 3.9 |
| **52-wk high** | CHF | 112.62 |
| **52-wk low** | CHF | 95.00 |

*Source: Factset*

A surge in home coffee drinking helped Nestlé increase sales faster than expected in the three months to March, as consumers snapped up Nespresso pods, Nescafe instant coffee and Starbucks-branded products.

Strong sales of dairy products, helped by a vogue for home baking in the pandemic, and pet food, such as the Purina brand, also drove growth.

The group also said it is in talks to buy The Bountiful Company, the company behind Nature's Bounty vitamins and minerals, in what would be the Swiss food group's latest multibillion-dollar deal to reshape its portfolio. Nestlé has been selling off less profitable parts of its portfolio and pushing into health and nutrition under chief executive Mark Schneider.

*Source: Financial Times*

**Why I like the share**

Nestle is the world's largest food and beverage company with 413 factories, operations in 189 countries, 323 000 employees, CHF90 billion in annual sales, and a portfolio which includes more than 2 000 brands. Nestlé's portfolio of iconic brands has a truly global reach, and the company's size provides procurement advantages, increased shelf space and a difficult-to-replicate distribution network which raises barriers to entry. The company is in the process of divesting non-core brands and will be focussing on higher-margin categories such as coffee, pet-care, nutrition and water.

## Raytheon Technologies (RTX)

| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | $ | 128.8 |
| **Share Price** | $ | 85.04 |
| **1-month return** | % | 8.6 |
| **1-year return** | % | 49.4 |
| **YTD return** | % | 18.9 |
| **52-wk high** | $ | 87.04 |
| **52-wk low** | $ | 51.13 |

*Source: Factset*

U.S. aerospace manufacturer Raytheon Technologies lifted its full-year sales forecast on strong performance of its defense unit and a recovery in commercial air travel.

While demand for Raytheon's aviation technologies and service for aircraft manufacturers slumped during the global health crisis, its robust defense unit that contributes more than half of overall sales continued to lift its bottom line.

*Source: Reuters, Company results*

**Why I like the share**

Raytheon Technologies is composed of United Technologies' historical aerospace businesses and legacy Raytheon, each of which is a powerhouse in the commercial aerospace supply chain and defense prime contracting industries, respectively. The combined entity is fundamentally unique due to its relatively even balance between commercial aerospace and defense prime contracting; most other entities in the industry are heavily skewed one way or the other.

## Samsung Electronics (SMSN)

| As at 2021/5/11 | | |
|---|---|---|
| **Market Cap (bn)** | $ | 431.4 |
| **Share Price** | $ | 1806.50 |
| **1-month return** | % | -0.4 |
| **1-year return** | % | 91.4 |
| **YTD return** | % | -1.0 |
| **52-wk high** | $ | 2070.00 |
| **52-wk low** | $ | 962.50 |

*Source: Factset*

The world's top maker of computer chips and smartphones reported a better-than-expected increase in first-quarter net profit.

The group also forecast that profits from chips would increase in the second quarter on strong demand for servers, although smartphone sales were likely to fall because of the component shortages. Samsung said manufacturing of smartphones, televisions and home appliances has been disrupted by the deepening global chip crunch, and that it was "rebalancing" production in hopes of minimising the impact.

The group has been riding a boom in sales of mobile gadgets and home appliances as people were forced to spend more time at home during the pandemic. The foundry companies that manufacture made-to-order chips have been running at more than full capacity, but analysts expect shortages to extend into next year.

*Sources: Financial Times, Macquarie Research, Company results*

### Why I like the share

In August 2018, management confirmed a $160bn capital expenditure plan which will focus on attractive long-term trends including 5G, artificial intelligence, automotive electronics as well as reinvestment into its semi-conductor business to maintain its leading position. Its strong free cash flow provides investors with an attractive dividend yield, while still providing growth opportunities. Strong demand for Samsung's memory chips is expected over the long term as the global cloud market continues to grow strongly.