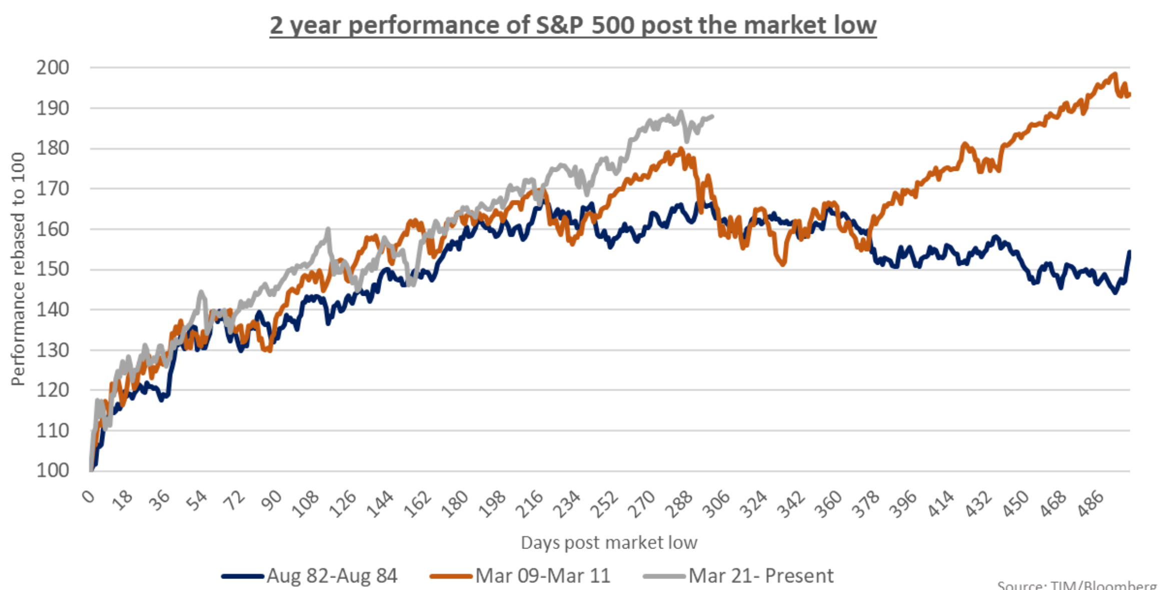
"Education is what you get when you read the fine print; experience is what you get when you don't" - Pete Seeger.

"Sell in May and don't return until St Leger's day" is one of the better-known market guidelines, however, since the Global Financial Crisis in 2008, only on three occasions, 2010, 2011 & 2015, have global equities delivered negative returns between the start of May and St Leger's day on 11th September. However, in the period of 1980-2019, September has been the worst month for market returns, with an average of minus 0.7%.

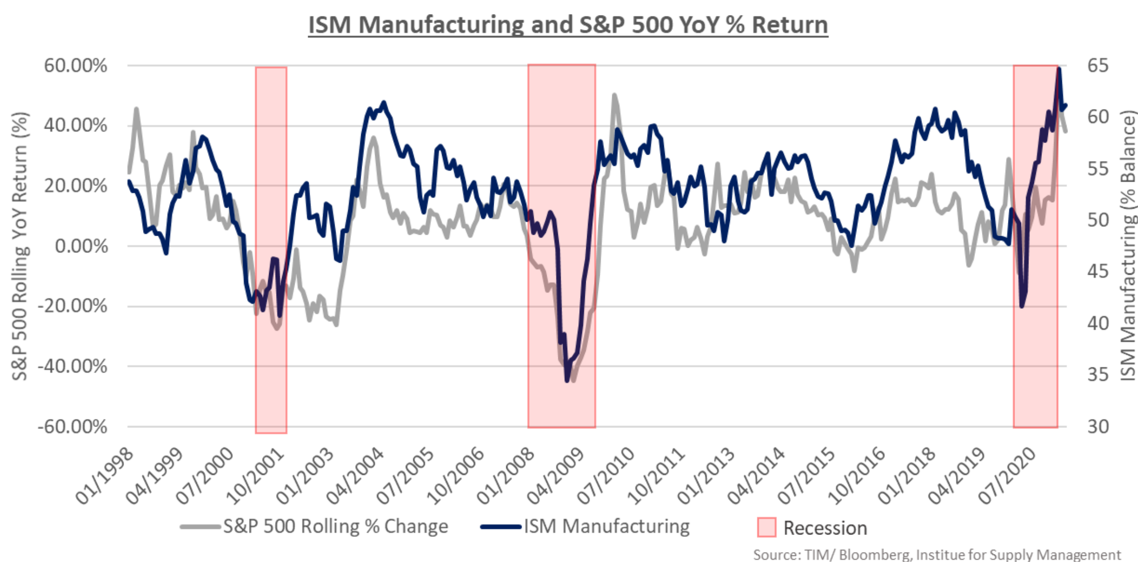
With over 96% of the S&P500 index members trading above their 200-day moving average earlier in the month, one could be mistaken for believing that the market had become an 'everything' market and that active management is no longer needed; in reality, the situation could not be more different. underlying stocks has been quite marked. Since last summer, the FAANG stocks have no longer been the key drivers of market returns, albeit Alphabet has since regained some of former supporters, and the market leaders are markedly different to the past three years.

With the year-on-year earnings comparisons about to become more challenging, as June 2020 marked the nadir last year, the question is whether the 'easy' returns in equity markets have already been made. Looking at the returns in the S&P 500 in three previous post-recession environments, the current one has outperformed thus far, but not by as much as the economic data might have had you believe. More importantly, is whether it will follow the pattern of 1983 & 2010, with the coming year providing a more challenging environment for market returns.



In the chart below we show the correlation between the Institute for Supply Management (ISM) survey for Manufacturing and the year-on-year change in the S&P 500. The correlation is such that it gives a strong idea of what the returns from the S&P 500 are likely to be and therefore any correction in direction of travel should be watched closely; the Survey also has a high correlation to the 10-year yield. The chart below shows that the ISM has just made its first significant change in direction since

April 2020, and thus although it shows that the S&P is still likely to make positive returns, it suggests that returns going forward may become harder to come by.



Most of the multitude of global economic indicators still show an economy running close to full throttle and this provides a support to investor and consumer confidence. However, with the ISM on the turn and the rate of change in earnings improvement slowing, there are warning signals starting to flash. The shortage in semi-conductor chip supply has been flagged as a critical bottleneck in supply chains across multiple industries, as products and services become more digitalised, and the lead time between ordering and receiving a chip has expanded from 13 to 17 weeks this year; this is likely to increase even further as the world's largest foundry (TSMC) is facing power outages and a new COVID related lockdown in Taiwan where it produces 95% of its chips.

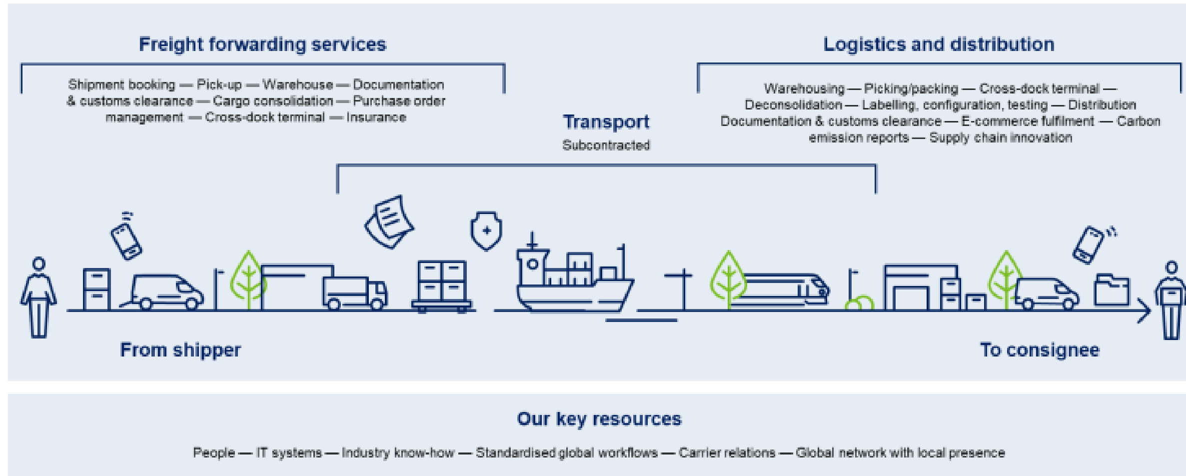
We believe that companies that have invested, and have the visibility provided by reliable free cash flow will continue to take share in the coming months and the change of leadership that has occurred since November may start to falter and the more durable quality business with strong free cash flow, proven business models and high returns on invested capital should start to prove their worth.

Global equity markets were turbulent in May as the reporting season provided multiple examples of strong growth from most areas of the economy and a very high level of companies beating market expectations. The VT Tyndall Global Select Fund B Acc (GBP) fell by 1.29% during the month, bringing the year-to-date returns to 4.39%.

Fund Activity and News

We added to our holding in the Danish haulage company, DSV Panalpina (DSV). The strong management. DSV has consistently delivered high quality growth, while at the same time consolidating the sector, completing 7 major acquisitions in the past 20 years. The consistency of its healthy Free Cash Flow enables the financing of these acquisitions, as well as regular returns to shareholders in the form of dividends and buybacks.

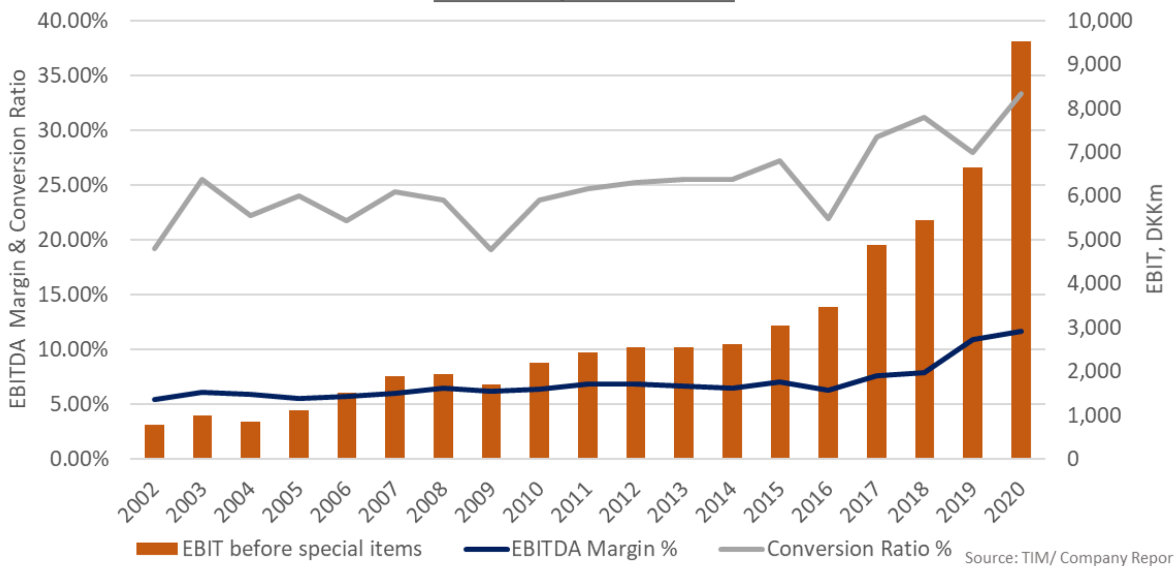
Creating value in the supply chain
From A to B and much more



29 | DSV Panalpina – Q1 2021 results DSV

In the past 15 years the company has transformed itself from a European road haulage company one of the top three global freight forwarders with a 21.7% market share; DHL Logistics and Kuehne + Nagel are the larger peers. It operates an asset-light integrated model, combining air and sea with European and North American road operations and a strong supply chain management business. The recent acquisition of Agility's Global Integrated Logistics business (GIL) will significantly increase its Asia Pacific footprint, making it a truly global business. The strong management team have a good track record at integrating acquisitions peers, and doing so improving the overall group margins, die to synergies and economies of scale.

DSV Panalpina's Growth

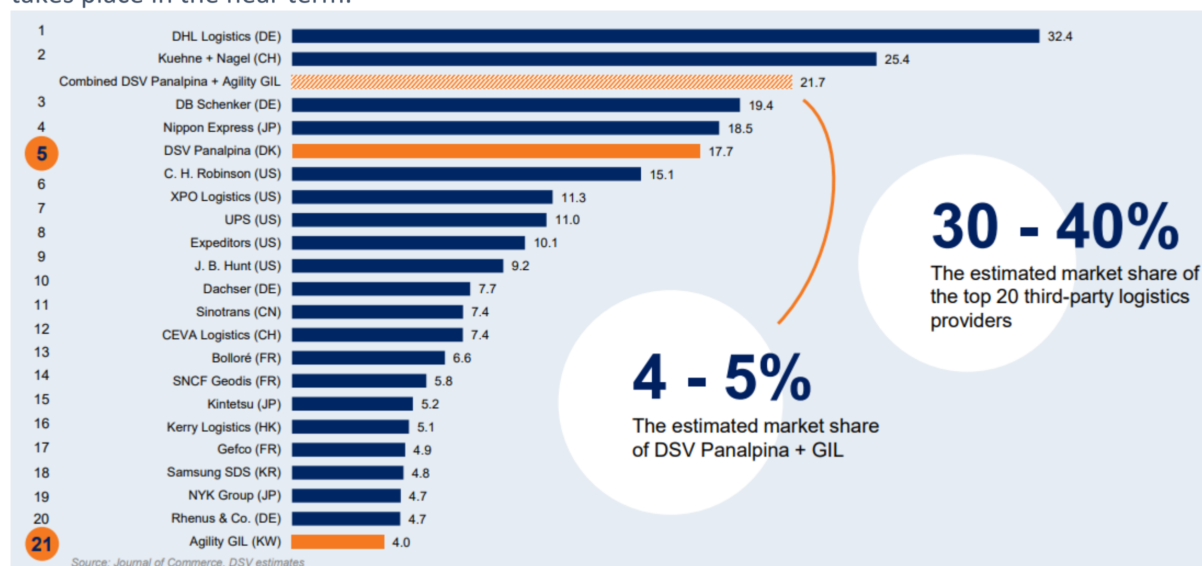


*Conversion Ratio = EBIT before special items/Gross Margin

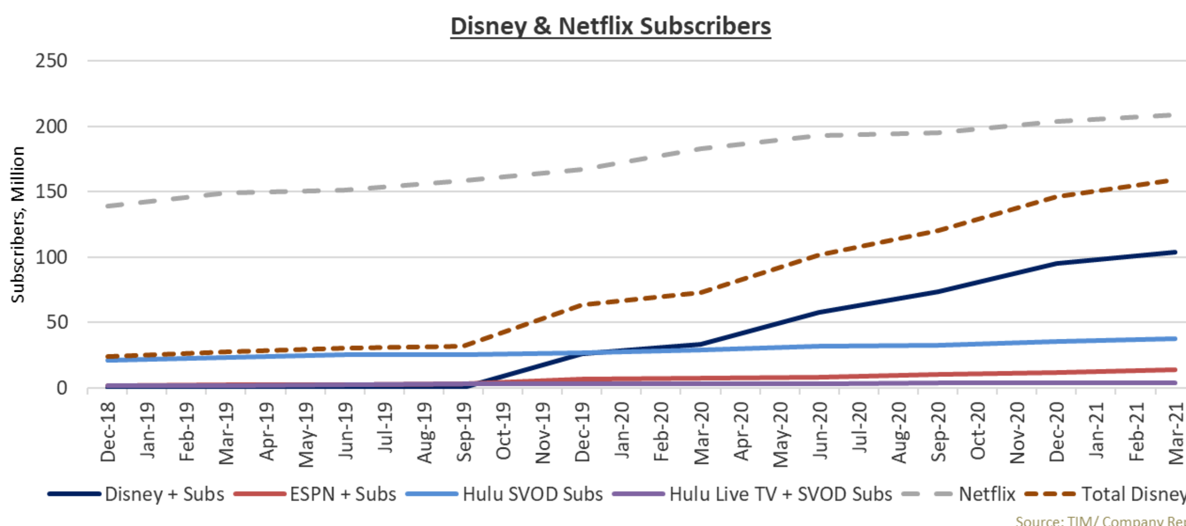
DSV's transformational deals were the acquisition of Uti Worldwide in 2015 and Panalpina in 2019 which increased its global footprint, but more importantly, scale. Since this time operating margins and conversion ratios have no longer been steady but increasing. By 2025, post the integration of GIL, DSV expects the conversion ratio to be in excess of 40%, and the returns on capital employed to

increase from 14% to greater than 20%; we also expect that operating margins will also increase as GIL is integrated and this increase will be sustainable on a through the cycle basis.

Towards the end of the month Manager Magazin ran a story that DSV is looking to buy Deutsche Bahn's Schenker unit, which prior to the Agility deal was the 3rd largest third-party logistics company worldwide. Deutsche Bahn has significant debt issues, so the sale of this unit could be on the cards, although despite DSV's history of creating shareholder value through acquisitions, they normally finish integrating one before undertaking another, so we would be surprised, but not alarmed, if this deal takes place in the near term.



This month also saw the war for an increased share of consumer wallets in video streaming reach boiling point. The Fund is exposed to this theme through its holding in Walt Disney, which disappointed this month as the new subscribers to Disney+ came in below expectations, adding 8.7 million new members since December. The subscriber total continues to close the gap on Netflix, however owing to increased investment in content the company left its breakeven date unchanged which was also seen in a poor light.



Source: TIM/ Company Reports

With theme parks reopening and being the cash cow of the business, once numbers are such that they cover the fixed costs, we continue to like the outlook for Disney and expect investors to focus on more than just subscriber numbers once travel recommences.

Disney, Netflix and Amazon Prime all have commanding positions with premium content that gives them a significant advantage over the other players in the market. We do not see it as a winner takes all situation, as all three have slightly different propositions and access to different libraries of content that appeal to different demographics, and most households will take more than one service. For the other players in the DTC market the barriers to having a credible offering are becoming higher.

The competition, however, is not sitting still, and the other players have been active this month. AT&T announced that it intends to spin out WarnerMedia from its misjudged acquisition of TimeWarner, which it bought in 2018, and merge it with Discovery, bringing together the largest unscripted content provider with a dominant scripted one. The market, after initially welcoming the news, quickly changed its mind once the step up in investment was announced. The company is effectively taking the gamble that Disney took 18 months ago with a weaker content library. Compounding the competitive environment, rumours that Amazon may buy MGM Studios for an astounding $9bn circled around the news wires on the same day.

MGM has a limited amount of premium content, with the James Bond franchise being the jewel in the crown, however Amazon has the balance sheet to add the content to its Amazon prime subscribers' library; Apple and Comcast apparently walked away from the deal. We do not expect, however that Comcast will sit idly on the side-lines, and may well make a counter bid for WarnerMedia as the alternatives are becoming scarcer. As we saw with its battle over Fox and Sky with Disney, Comcast is prepared to go on the offensive to acquire premium content and distribution. When the bidding war over Sky left Disney deciding that the economics had become unfavourable, thus walking away, Comcast was prepared to pay up to complete the acquisition.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st May 2021

Data source (unless otherwise stated): Bloomberg.

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