"Education is not the filling of the pail, but the lighting of the fire". – W. B. Yeats

The aftermath of the latest banking crisis continues to pose questions in investors' minds. The formerly highly regarded First Republic Bank was forced to allow the US regulators to seize their assets after it saw its customers withdraw $102 billion of its $176 billion deposit base in the first quarter of the year. Six banks offered to buy the majority of their operations, with JP Morgan Chase & Co, winning the battle, thus gaining control of its wealthy client base. With this transaction the 14th largest bank in the US at the turn of the year, joined the 16th and the 29th largest (Silicon Valley Bank and Signature Bank respectively) in falling foul of the rising interest environment and subsequent loss of customer and investor confidence.

Investors remain concerned whether further US banks may yet prove to be at risk of contagion from rapidly increasing interest rates and customers removing deposits. The latest area of interest has become the exposure of small and medium sized banks to the commercial real estate sector, where only 20% of loans come from the larger institutions.

Attention turns to exposure to Real Estate

Source: TIM/BCA Research

Whether First Republic is the last of the dominos to fall or not is difficult to determine, however it seems unlikely to us. Unlike the UK or Europe, according to the Federal Deposit Insurance Group (FDIC), there are 4,844 commercial banks in the United States, and most of these are so small that many investors are unaware of their existence, let alone their financial stability, but most are unlikely to prove a systemic risk to the US economy. The size of the most recent failures is unusual, but with the speed of which investors can move their deposits in the digital age and the prevalence of social media in spreading rumours, we cannot rule out other failures. Jamie Dimon, the CEO of JP Morgan' commented in his recent annual letter that "*While it is true that this bank crisis 'benefited' larger banks due to the inflow of deposits they received from smaller institutions, the notion that this meltdown was good for them in any way is absurd*," highlighting that in these times of uncertainty investors are fleeing to the large institutions which are perceived to be safe custodians of capital and this is a trend that is likely to remain until concerns in the sector abate.

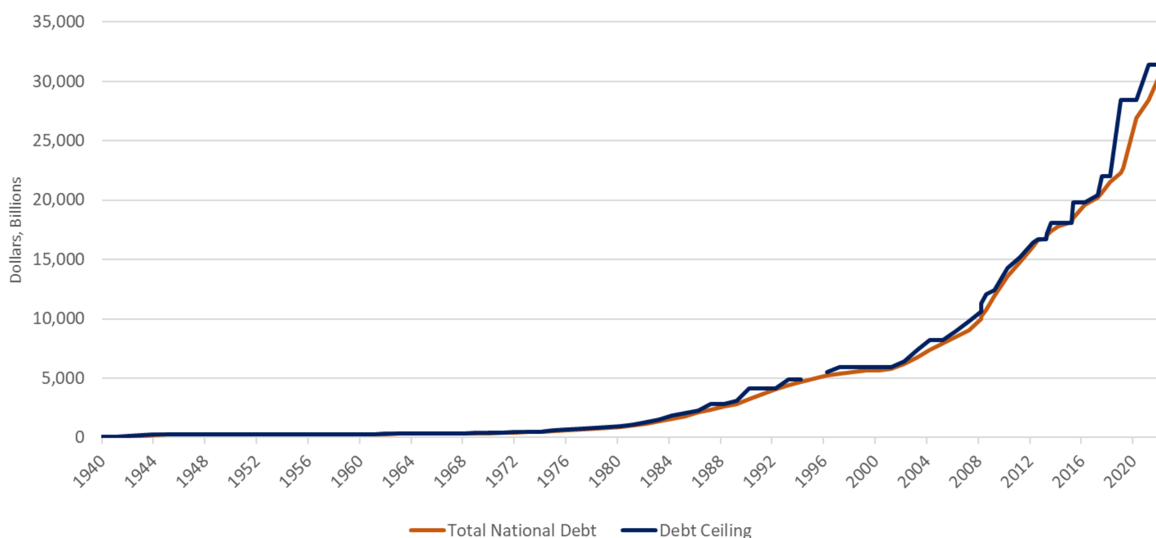
Like the proverbial London busses, the US does not seem to think that having to grapple with one issue in the month is enough and a second one has come to the fore, that of the debt ceiling. It seems that almost every administration has had a stand-off between Republicans and Democrats over the limit that the government may borrow, only at the eleventh hour to come to a deal to lift it, however' the current administration is rapidly approaching the late-summer deadline and the chasm between the two sides seems to be widening rather than closing in on a deal. The risk of the US government defaulting on its debts is best depicted by the 1-year credit default swap market (a guarantee from another investor to reimburse the lender should the borrower defaults), which now stands well above the levels seem during the Financial Crisis of 2008/09.

This time the CDS market is more stressed than in previous debt ceiling debates.

Source: Bloomberg

The public owns over 75% of US debt, and of this the leading counties that are exposed are Japan, China and the UK, which own $1.1 trillion, $860 billion and $670 billion of US debt respectively, so the issue does not apply solely to the US. Historically the stock market is subdued up to a deal being made, however the consequences of a deal not coming though are unthinkable.

The Ceiling that knows no limits.



Source: TIM/US Dept of the Treasury

Despite these problems bubbling away in the background the reporting season, has remained surprisingly upbeat so far. The chart below shows the proportions of companies beating sales and

earnings expectations by sector for the S&P 500 and Euro Stoxx 600; thus far 80.3% of US companies have come in ahead of earnings expectations, as have 62.8% of European ones, most notably, however, is the scale of earnings surprise that has occurred in Europe. While macroeconomic data remains mixed, and business and consumer confidence surveys appear to be picking up from very low levels, company management teams remain relatively robust in their outlook statements, while acknowledging the limited visibility, and that consensual view that the US might face a mild recession in the coming months.

S&P 500 earnings surprise to the upside so far this quarter.

S&P 500 INDEX

Surprise | Growth

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	266 / 500	2.07%	6.80%
12) > Materials	13 / 29	-0.75%	17.17%
13) > Industrials	46 / 68	1.47%	9.34%
14) > Consumer Staples	18 / 37	2.57%	6.71%
15) > Energy	12 / 26	3.83%	7.45%
16) > Technology	35 / 79	2.01%	4.66%
17) > Consumer Discretionary	27 / 53	2.73%	26.59%
18) > Communications	12 / 23	0.60%	5.97%
19) > Financials	47 / 60	1.55%	5.06%
20) > Health Care	31 / 65	2.75%	3.48%
21) > Utilities	9 / 30	2.91%	4.84%
22) > Real Estate	16 / 30	1.79%	0.77%

Source: Bloomberg

As do European ones as well.

STXE 600 (EUR) Pr

Surprise | Growth

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	189 / 442	2.35%	34.74%
12) > Materials	26 / 48	-2.42%	5.40%
13) > Industrials	38 / 86	3.99%	15.58%
14) > Consumer Staples	14 / 35	2.55%	11.32%
15) > Energy	8 / 17	-10.42%	10.53%
16) > Technology	18 / 31	2.79%	12.24%
17) > Consumer Discretionary	18 / 40	2.35%	27.57%
18) > Communications	9 / 27	0.61%	-10.88%
19) > Financials	31 / 70	21.87%	94.06%
20) > Health Care	14 / 43	2.32%	9.24%
21) > Utilities	4 / 22	25.01%	25.50%
22) > Real Estate	9 / 23	-0.71%	-6.96%

Source: Bloomberg

Despite the upbeat earnings season, the price reactions have remained relatively muted, and the overall indices have remained relatively rangebound. The narrow nature of the market is particularly acute in the US where so far this year eight stocks (Meta, **Apple**, Amazon, Netflix, Alphabet, **Microsoft**, Nvidia and Tesla) have contributed to 5.6% to the S&P 500, while excluding these names the index has fallen 0.4%. In Europe the picture is not too dissimilar as in France, the CAC 40 Index continues to make new highs, predominantly due to the weightings in the luxury related stocks LVMH (12.1%), **L'Oréal** (5.51%) and Hermés (3.3%), all of which have returned over 28% so far this year.

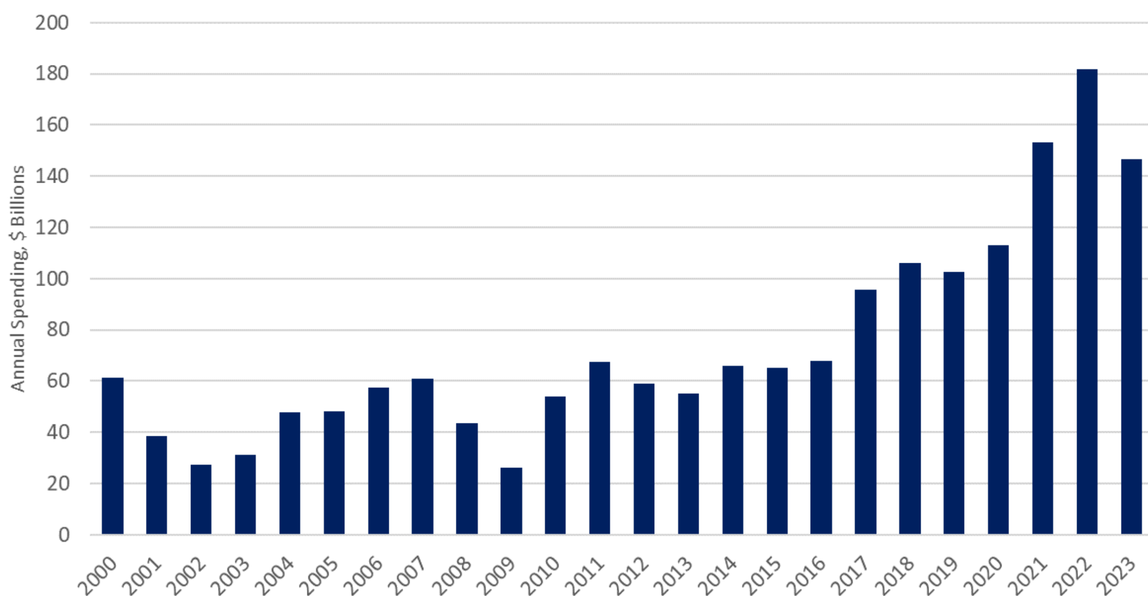
The VT Tyndall Global Select Fund B Acc (GBP) rose by 1.95% performing well during the turbulence caused by First Republic Bank and the concern over the debt ceiling. Pleasingly the Fund has risen by 5.76% in the year-to-date despite only holding those highlighted in bold above of the heavily weighted, high returning, stocks so far this year. The Fund's active share is 85.6%

Fund Activity and News

During the month we sold our holding in ASML, which had become a small position after we reduced the position last year over concerns that the US would put pressure on the Dutch government to ban exports of equipment used in semiconductor chip production to China. This has come to pass, albeit the details are yet to be finalised, however ASML maintains that the impact will be minimal.

ASML enjoys an almost monopolistic position in the production of lithography hardware that is essential to produce cutting-edge silicon patterns, and therefore has close relationships to the leading foundry companies such as Samsung and TSMC. The US Chips Act and its European equivalent, which focus on reducing reliance on Asian chip production by incentivising the foundry companies to build out plants in the US and Europe. These acts have had the desired effect and has led to significant increases in capex plans by the leading foundry companies, however, in recent months, we have seen the proposed budgets being scaled back or deferred. In their first quarter results released this month, Peter Wennink, the CEO, stated that: *"We continue to see mixed signals on demand from the different end-market segments as the industry works to bring inventory to more healthy levels. Some major customers are making further adjustments to demand timing while we also see other customers absorbing this demand change, particularly in DUV at more mature nodes."*

Global Semi-Conductor Industry Capital Expenditure.



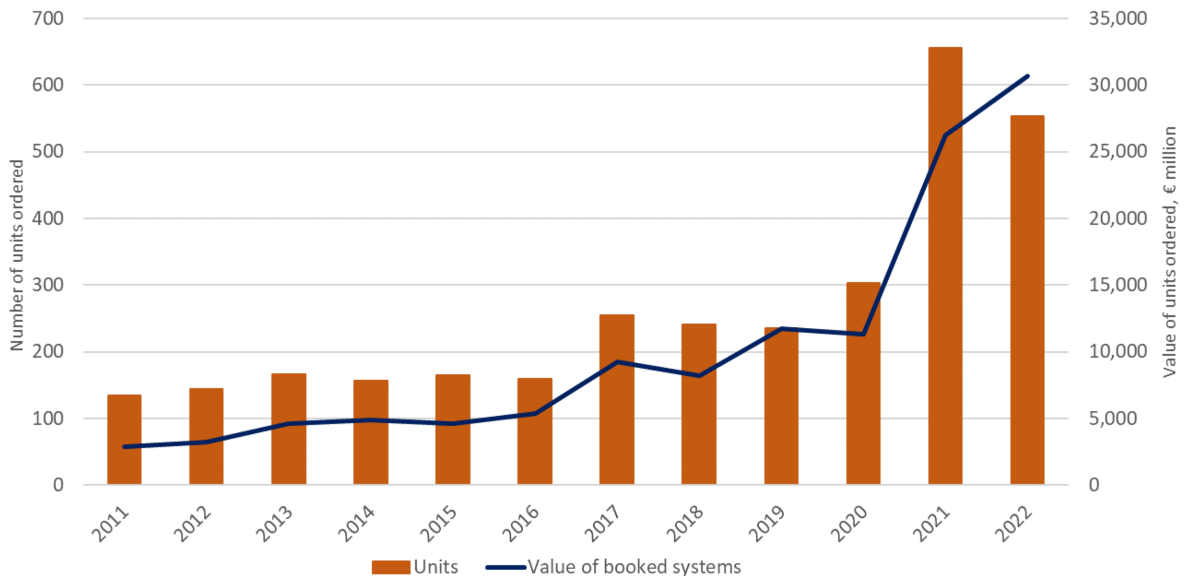
Source:Statista

TSMC accounts for 33% of ASML's sales, Samsung a further 22.4% and Intel in third place at 5.3%, so the intentions of the big three are of most concern to ASML. A less clear question hangs over the remaining 39.3%, of which a significant number of major Chinese foundries account for a large proportion. These sales are likely to be impacted by the US, Dutch and Japanese restrictions on supply of parts required to produce semiconductor chips and therefore it has become difficult to see how ASML will make its 2025 and 2030 guidance should all sales to the region be prohibited.

Following the implementation of the controls, ASML will need to apply for export licenses for the shipment of any systems, however, somewhat surprisingly the company does not expect any material effect on either their 2023 or longer-term guidance. According to the CEO, Chinese orders account for 20% of ASML's backlog and should account for a similar amount of their system revenue this year. While the first-quarter sales showed Chinese orders remaining strong, we expect that this was in part due to a pulling forward of orders prior to export controls coming into force, however with a backlog of almost two years, how able companies are to do this is questionable.

Value of investments can fall as well as rise and you may not get back the amount you have invested

ASML's strong order book.



Source:TIM/ASML Company Reports

To date TSMC's capex guidance remains robust with a record $40 billion forecast to be spent in 2024, albeit 2023 capex is now to below that spent in 2022. Although product development leads to an increased demand and increasing complexity in chip content results secular growth within the semiconductor industry, it also tends to be cyclical and exposed to macro-economic expectations. As seen in the Automotive industry in 2021, cuts in orders can have disastrous consequences in supply chains when demand returns, however chip manufacturers are also wary of building up inventories, running lean operating models. Alongside its first quarter results this month Samsung commented that it would make a 'meaningful' cut in chip output as the economy slows and customers appear to have restocked their inventories, Micron and SK Hynix have also indicated similar trends and we believe that this will in turn convert to lower orders for ASML.

It is a cyclical industry.

Source: TIM/Semiconductor Industry Association

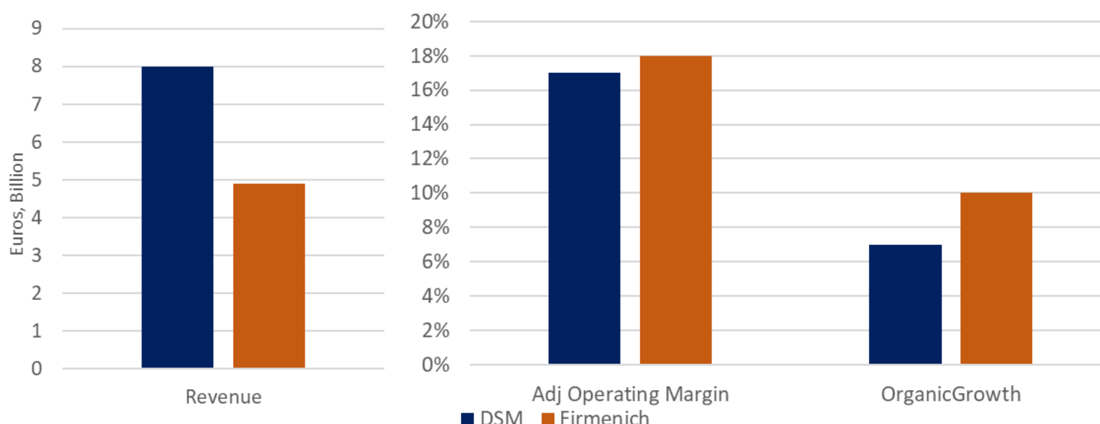
We believe that ASML is at the forefront of its field, despite reports of the Chinese stealing intellectual property last month, has at least a ten-year advantage on any competitor. This head start is likely to

Value of investments can fall as well as rise and you may not get back the amount you have invested

remain as ASML continues to innovate, however, we may now be at the cyclical peak, with growing questions over the future growth rate; thus we believe that investors' capital can be better deployed in other opportunities.

This month we also took up the tender offer to convert our holding in the flavour and fragrance company Koninklijke DSM to DSM-Firmenich, showing our support of the proposed merger with the unlisted Swiss peer. Firmenich is a top 4 player in the sector, with access to most tier 1 lists, significantly improving DSM's addressable market, and will add expertise in perfumes and fragrances to DSMs portfolio of offerings which is likely to improve the growth rate of the company.

The opportunity for DSM's shareholders.



Source: TIM/Company Reports

Richard Scrope, Fund Manager, VT Global Select Fund, 30th April 2023
Data source (unless otherwise stated): Bloomberg.

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