

# Industry Report: Outlook for the Global Maritime Shipping Industry



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# Abstract

Despite its vital role in moving the global economy forward, the maritime shipping industry can be quite challenging for investors. Even a slight economic slowdown, not to mention a “black swan” event like the COVID-19 pandemic, can have an outsized impact on sector profitability.

The United Nations Conference on Trade and Development (UNCTAD) estimates that the volume of international maritime trade fell by 4.1% in 2020. While overall maritime freight volumes should recover to pre-pandemic levels by the end of 2021, some sub-segments such as tankers will take longer to recover.<sup>1</sup>

High shipping costs cushioned container and dry bulk shipping companies against the volume shrinkage, but now there is the danger that shipping companies will respond to growing freight volumes and high shipping rates by ordering more ships, driving down rates. The cost of complying with increasingly stringent environmental regulations, such as the International Maritime Organization’s limit on maritime vessels’ sulfur emissions (known as “IMO 2020”), will place further downward pressure on shipping companies’ bottom lines in the years ahead.

## Introduction

While the term shipping industry is often used to refer to the entire freight transportation and logistics sector, this report uses it specifically to refer to companies that operate maritime vessels.

The maritime shipping industry is the lifeblood of the global economy. According to the International Chamber of Shipping (ICS), the international shipping industry is responsible for carrying around 90% of world trade. There are roughly 50,000 merchant ships registered in over 150 nations manned by over a million seafarers generating over a half-trillion dollars per year in freight fees.<sup>2</sup>

Maritime transport underpins global supply chain linkages and economic interdependency. As a result, when disruptive events, such as pandemics occur, the sector works as a transmission channel that sends shockwaves across supply chains and regions. Disrupted transport networks and supply chains can significantly undermine world trade and economic activity.<sup>3</sup>

The global shipping industry went through difficult times during the financial crisis of 2008-2009. While the industry experienced a brief recovery from 2010 to 2015, supply and demand concerns have continued to put pressure on top- and bottom-line performance.

The Baltic Dry Index, a measure of freight rates for carriers of commodities like coal and iron ore, fell more than 90% from over 11,000 in 2008 to less than 1,000 by 2017.<sup>4</sup> At the same time, the industry was struggling with an oversupply of ships and higher bunker fuel prices put pressure on profit margins. These trends led credit rating agencies like Moody’s to issue a negative outlook on the sector in 2017.

Before the COVID-19 pandemic disrupted the global economy and trade flows, freight volumes had been expected to pick up as demand rose from both developed and emerging markets. Consolidation within the industry appears likely to diminish price competition over time, which could help improve profitability.<sup>5</sup>

## Activities

The shipping industry can be divided into two main sectors: the bulk shipping sector and the liner sector. The bulk shipping sector uses large ships, such as tankers and bulk carriers, to transport goods in bulk on a contract basis. The bulk shipping sector is highly competitive, with freight rates fluctuating widely even in the course of a single week.

In contrast, the liner shipping sector generally provides regular transport services between specified ports, based on schedules and prices published in advance. Cargo shipped via liner shipping is called general cargo. General cargo used to be transported in various forms of packaging, such as pallets, boxes, barrels and crates, loaded aboard relatively small vessels known as general cargo ships.

Beginning in the 1960s, general cargo started to be carried in steel boxes called containers. Containers come in standardized dimensions, usually the 8 x 8 x 20-foot box known as a TEU (twenty-foot equivalent unit). These containers are increasingly carried on specialized “containerships”, the largest of which are capable of carrying over 20,000 TEUs.

The cost of a large containership and the associated port infrastructure generally limits the use of such ships to a few hub ports, such as Hong Kong, Los Angeles and Rotterdam, where containers are unloaded (“stripped”) from the large ship and forwarded (“feedered”) on smaller vessels to regional and local ports. Complex logistical networks have evolved around TEUs, which are constantly being fine-tuned and optimized.<sup>6</sup>

## Fleet Ownership

Measured in terms of deadweight (DWT) carrying capacity, the beneficial owners of 52% of the world’s merchant fleet were domiciled in Greece, Japan, China, Singapore or Hong Kong as of 2020. That said, many ships are registered under a national flag that does not match the nationality of the vessel owner.<sup>7</sup>

For example, at the beginning of 2020, more than half of all ships owned by Japanese entities were registered in Panama; more than a fifth of the ships owned by Greek entities were registered in Liberia and another fifth in the Marshall Islands. Panama (329 million DWT), Liberia (275 million DWT) and the Marshall Islands (262 million DWT) were the leading flags of registration. Hong Kong and Singapore followed in fourth and fifth place, respectively.<sup>8</sup>

## Economics: Shipping Rates

### 1. Spot vs. Contract Rates

Ship owners either rent space on their ships in the spot market or sign a time charter with a charterer (e.g., refinery, iron ore importer or grain importer.) A spot freight rate is a one-time rate valid for a particular shipment only. Under a time charter, a customer pays a fixed daily or monthly rate for a defined period of time for the use of a vessel. Spot and contract rates offer shippers a different value proposition, with a contract providing the year-long security of price and capacity, while spot assists shippers when their contract carriers have insufficient capacity or there is a discrete need to move freight on a lane where a contract price has yet to be negotiated.<sup>9</sup> There has been a surge in spot rates over the past few years as ship owners have sought to capitalize on a competitive market.<sup>10</sup>

### 2. Shipping Rate Drivers

Shipping rates are not static, but fluctuate significantly over time. Apart from the COVID pandemic, whose unique impacts on freight rates are discussed below, some of the general factors driving ocean freight rates include:

- Fuel costs: A decline or increase in crude oil prices eventually flows through to the price of marine fuel and, therefore, shipping costs. Beyond the direct impact on marine fuel prices, crude oil prices can affect shipping rates in other, more subtle ways, such as:

- In the longer term, oil prices affect the level of economic activity in oil-producing areas and as a result their demand for imported goods. Such changes in import levels can have an impact on freight rates by increasing or reducing container demand and, therefore, price pressures.
- A sharp decline in crude prices can lead to an increase in the use of large tankers as floating storage tanks, boosting spot rates for tankers.
- Exchange rates: The common denomination used for international transactions is the U.S. dollar. Ocean freight rates will be determined by the prevailing U.S. dollar exchange rate at the time a contract is concluded.
- Season: In the run-up to festive holidays, like Chinese New Year, there is usually a spike in demand for imported goods that can drive freight rates up. Grains and fruits transported during a particular freight season will have higher cargo rates.
- Decarbonization: In 2018, the UN's International Maritime Organization agreed to cut the sector's greenhouse gas emissions by at least half by 2050. In the future, these policies will increase costs for ocean transporters, by requiring them to build cleaner ships, scrap dirty ships, and pay fines for not meeting CO<sub>2</sub> restrictions. These cost increases will be passed on in the form of higher shipping rates.
- Trade route blockages: The obstruction of a key trade route, like the Suez Canal, can cause shipping rates to surge. The March 2021 grounding of a large containership in the canal blocked traffic for six days and kept about 380 ships from transiting the canal, causing shipping rate to surge. The increase in shipping rates was short-lived in this case, but illustrated the impact such an event can have.
- Other factors: Additional items that can affect shipping rates include various types of fees and surcharges, such as terminal charges and late fees.<sup>11</sup>

### 3. Rate Indexes

There are literally thousands of different freight rates, depending on shipment origin/destination, type and size of load, season, and a myriad of other factors. Fortunately, the existence of a number of broad-based rate indexes makes it easier to analyze freight market conditions. Widely used indices include: the Baltic Dry Index (for shipping major dry bulk materials), the Freightos Baltic Index (for shipping containers), the Baltic Dirty Tanker Index (for shipping crude oil) and the Baltic Clean Tanker Index (for shipping refined products).

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## Economics: Measuring Shipping Company Financial Performance

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The ship owner pays for vessel operating expenses, such as wages, repairs, insurance premiums, lubricants, dry docking charges and special survey charges. Fuel and port charges, on the other hand, are paid by the charterer. These items are called voyage expenses.

The time charter equivalent (TCE) is a standard shipping industry performance indicator that is used to evaluate different chartering alternatives, as well as to compare period-to-period changes in a shipping company's performance despite changes in the mix of share types (e.g., spot charters, time charters) in which the vessel may be used in the respective periods. The TCE converts each voyage into a hypothetical time charter by dividing voyage revenues by available days for the relevant time period, so that daily charter rates can be compared.

The shipowner's profits are highly dependent on the TCE, because vessel operating costs, unlike voyage costs, are generally fixed in nature. The higher the TCE, the greater the shipowner's operating leverage and the higher their EBITDA margin.

During periods when freight rates are trending upwards, EBITDA margins in the shipping industry can run as high as 55% vs. 40% in a flat rate period. However, shipping is a capital-intensive industry and most of that cash goes towards debt repayment or capital expenditures, and not to the owners or shareholders.<sup>12,13</sup>

# Factors Driving the Recovery

## Size and Structure of Maritime Trade

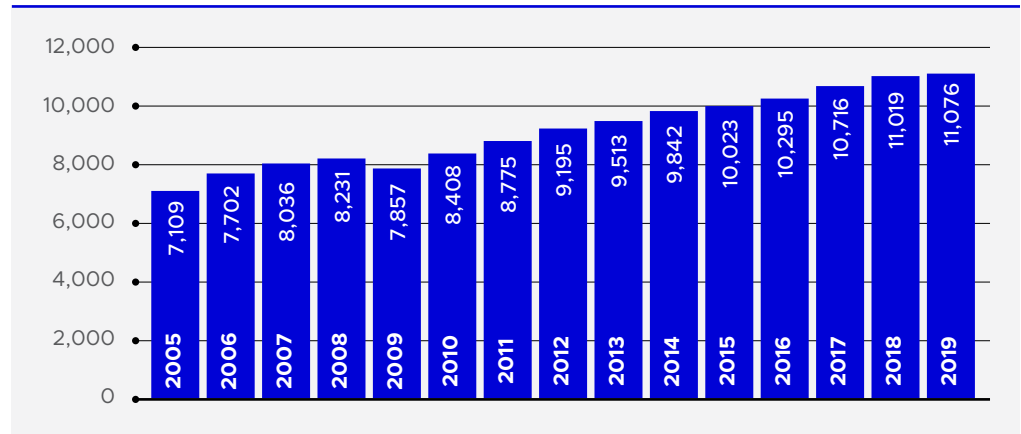
### 1. World Seaborne Trade Volumes

World seaborne (maritime) trade has grown steadily over the past 15 years, with the exception of a temporary downturn in 2008-2009 at the time of the global financial crisis. Due to the slowdown in the world economy and trade in general, growth in international maritime trade stalled in 2019 when it grew by only 0.5%, compared with a 2.8% gain the previous year. A number of factors contributed to the slowdown in maritime trade growth, including trade policy tensions; adverse economic conditions and social unrest in some countries and regions; sanctions; supply-side disruptions, such as the Vale dam collapse in Brazil and Cyclone Veronica in Australia; and low oil demand growth. UNCTAD estimates the total volume of maritime trade in 2019 at 11.08 billion tons.

**Fig. 1: World Seaborne Trade Volumes, 2005-2019**

(Million Tons)

Source: UNCTAD, Review of Maritime Transport 2020



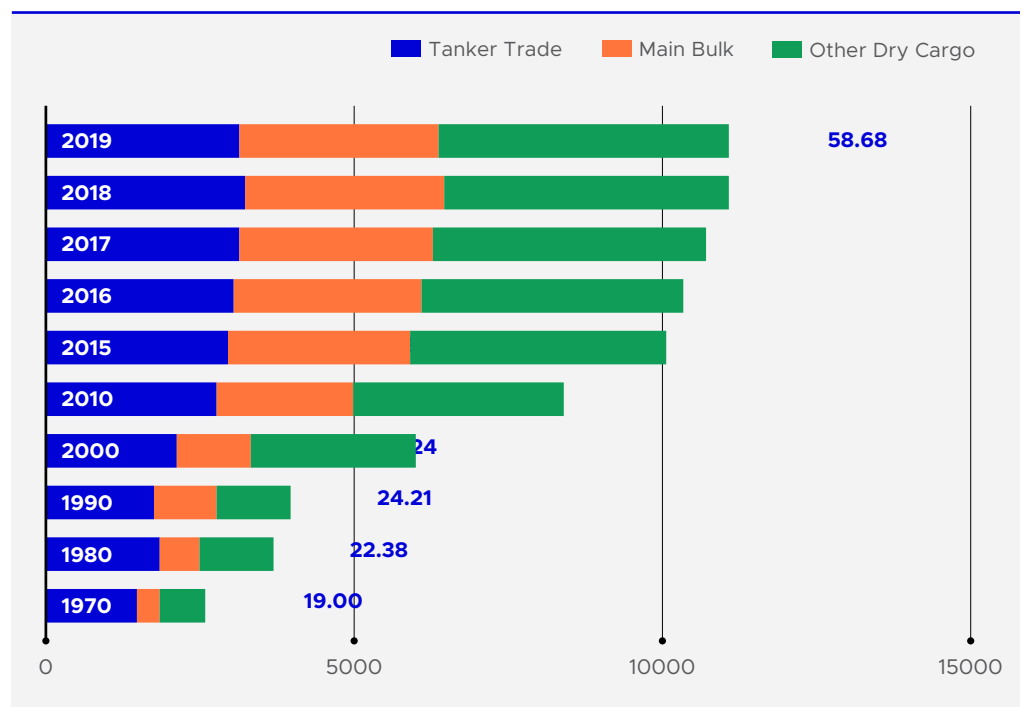
### 2. Types of Goods Shipped

Dry bulk cargo accounts for about two-thirds of total maritime trade volumes, while liquid bulk commodities, including crude oil, refined petroleum products, gas and chemicals, accounts for the remaining share. In 2019, growth in all market segments slowed. Trade in dry cargo grew by 1.1% versus 2018, while tanker trade volumes contracted by 1%. The expansion of maritime trade over the past three decades has been driven by the growth of containerized trade volumes beginning in the 2000s. It was also supported by the swift growth of trade in dry bulk commodities that accompanied the rapid industrial expansion of China following its accession to the World Trade Organization (WTO) in 2001.

**Fig. 2: Maritime Trade Trends by Type of Commodity**

(Million Tons)

Source: UNCTAD, Review of Maritime Transport 2020





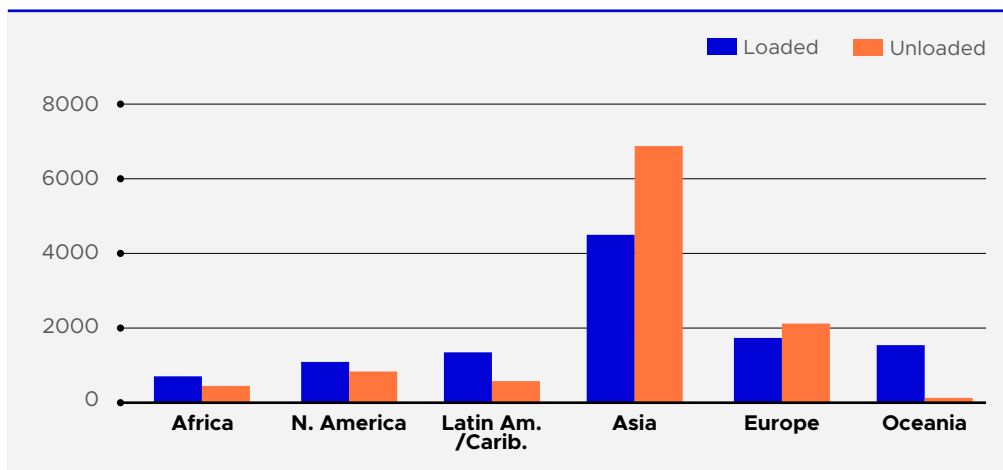
### 3. Geographical Distribution of Trade

Asia accounts for over 40% of the total volume of freight loaded in the world and almost 62% of the volume unloaded. Europe is a distant second with 16% of the total volume loaded and 19% of the volumes unloaded, while Oceania accounts for the third-largest share of total volumes loaded (more than 14%), but the smallest share (a little over 1%) of the volumes unloaded. North America has the third-largest share (7.5%) of the total volumes unloaded.<sup>14</sup>

**Fig. 3: Maritime Freight Volumes by Region 2019**

(Million Tons)

Source: UNCTAD, Review of Maritime Transport 2020



## Impact of the COVID-19 Pandemic and Outlook for the Future

### 1. Overall Freight Volumes

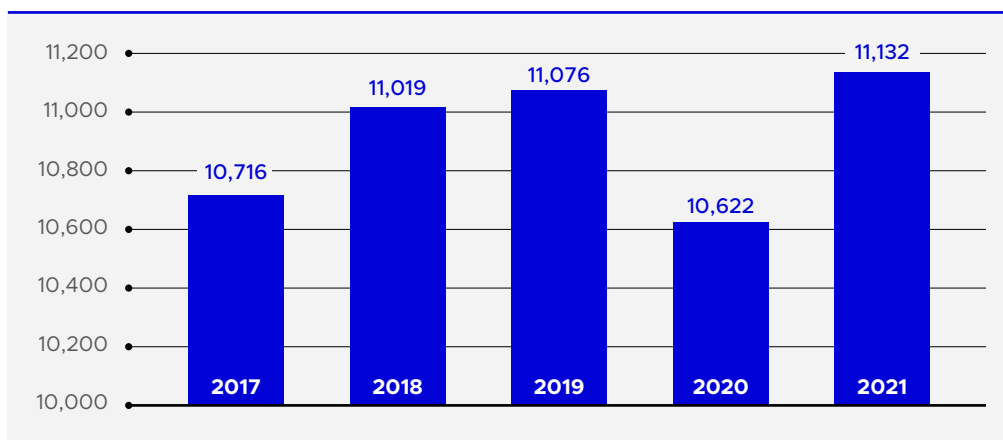
International maritime trade grew steadily at a compound annual growth rate (CAGR) of almost 3% over the past half-century, reaching a volume of 11.08 billion tons in 2019.<sup>15</sup> The global health and economic crisis caused by the COVID-19 pandemic changed the landscape for maritime transport and trade and significantly lowered short-term growth prospects. UNCTAD estimates that the volume of international maritime trade fell by 4.1% in 2020.

Even before the pandemic hit, the growth of maritime trade was already slowing in 2019 amid tensions between major trading partners such as the United States and China. Volumes increased by only 0.5 % in 2019, down from 2.8 % in 2018. However, as the pandemic continues to abate in many of the world's largest economies, the UNCTAD anticipates that the volume of maritime trade will more than recover in 2021, ending the year 4.8% higher than 2020.<sup>16</sup>

**Fig. 4: Trends in Maritime Freight Volumes**

(Million Tons)

Source: UNCTAD, Review of Maritime Transport 2020



### 2. Cargo Types

Different freight segments have had varying degrees of success during the pandemic. Containerized freight volume contracted by 6.8% in the first two quarters of 2020, before staging a strong recovery in the second half that left volume for the entire year just 1.2% below 2019. Much of this growth was concentrated on just a few trade routes, particularly Far East-North America. The strong recovery in North America was driven by increased spending on consumer goods due to

higher disposable incomes and limited opportunities for spending on services. 2021 is expected to be even better for container shipping than 2020, as the current backlog will take months to clear and carriers are using the current strength of the market to lock in long-term contract rates for the coming 12 months at higher levels than in 2020.<sup>17</sup>

Reductions in mining and industrial activity had an impact on dry bulk trade in 2020, but to a lesser extent than on containerized trade. Most experts are optimistic that the fundamentals are in place for a resurgence of dry bulk shipping volumes in 2021 and beyond, such as rapid urbanization, industrialization and economic growth. Increased investment in transportation and other infrastructure, which requires large quantities of steel products, will be a major growth driver. Annual growth rates in the 4%- 6% range are forecast.<sup>18</sup>

The pandemic had a significant impact on trade in oil and gas. Global oil demand fell with the interruption of large parts of the global economy, restrictions on travel and transport, and cuts in industrial activity and refinery output. On the supply side, surplus oil production nearly exhausted all oil storage capacity, with many vessels being used as floating storage, resulting in dramatic increases in spot rates for tankers. The gloomy outlook for the tanker segment is expected to continue at least until the second half of 2021 or, more likely, 2022, when the U.S. Energy Information Agency (EIA) projects global oil demand will again exceed pre-pandemic levels.<sup>19</sup> Trade in gas has remained relatively strong in comparison to petroleum.<sup>20</sup>

### 3. Capacity Reductions

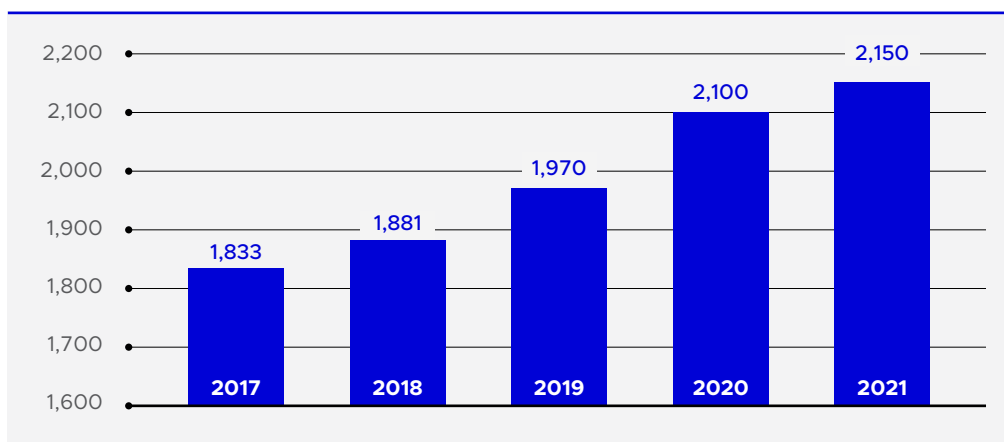
As shown in figures 4 and 5, global maritime shipping capacity grew faster than shipping volumes between 2017 and 2019, at a CAGR of 7.4% vs. 3.3%. Total capacity had grown by an additional estimated 6.6% by 2020, a year when shipping volumes shrunk 4.1% due to the pandemic. The resulting excess capacity is the main reason behind the drop of freight rates since the first quarter of 2020.

Shippers responded to the sudden drop in cargo volume through a combination of temporary and longer-term measures designed to mop up excess capacity, ranging from canceling scheduled sailings to laying up or scrapping ships and postponing or canceling new ship orders.

According to the periodical Maritime Executive, total orders for new container ships, dry bulk and tankers declined 50% in 2020. However, due to long lead times for construction of new vessels, new ship deliveries were down by just 2% during the same period.<sup>21</sup>

**Fig. 5: Trends in Maritime Freight Shipping Capacity**  
(Million DWT)

Sources: Statista, *Ocean shipping worldwide - statistics & facts*, April 19, 2021; UNCTAD, *Review of Maritime Transport 2020*



There was also a strong increase in ship demolition activity in 2020. According to the same Maritime Executive article, demolitions measured in DWT were up 400% year-on-year in April 2020 and 50% in July 2020, as owners disposed of older and substandard ships that they had kept sailing up to that point. As new ship deliveries outpace the demolition activity, fleet capacity has continued to rise.<sup>22</sup> The 2021 totals in Figure 3 are not based on hard data, which are not available, but assume at least a nominal 2.4% increase in vessel capacity over 2020.

Meanwhile, ship operators have had more success in managing available capacity through short-term measures such as canceling or “blanking” scheduled sailings. For example, the number of canceled or “blanked” container ship sailings jumped from 45 to 212 in the first week of 2020.<sup>23</sup>



In April 2020, tanker operators resorted to hiring out their unused tankers as floating storage tanks for oil when it became increasingly difficult to find land-based storage. According to a Wall Street Journal article, such floating oil storage hit 150 million barrels in early April 2020, up from 23 million barrels in March. Traders responded by buying up tanker space, betting that reduced output and a potential reopening of economies in the coming months would give them a competitive advantage when the oil market eventually rebounded. Industry analysts estimate that up to 15% of the world's total tanker capacity could be made available for floating storage, providing space for the equivalent of around 320 million barrels of oil.<sup>24</sup>

#### 4. Rates

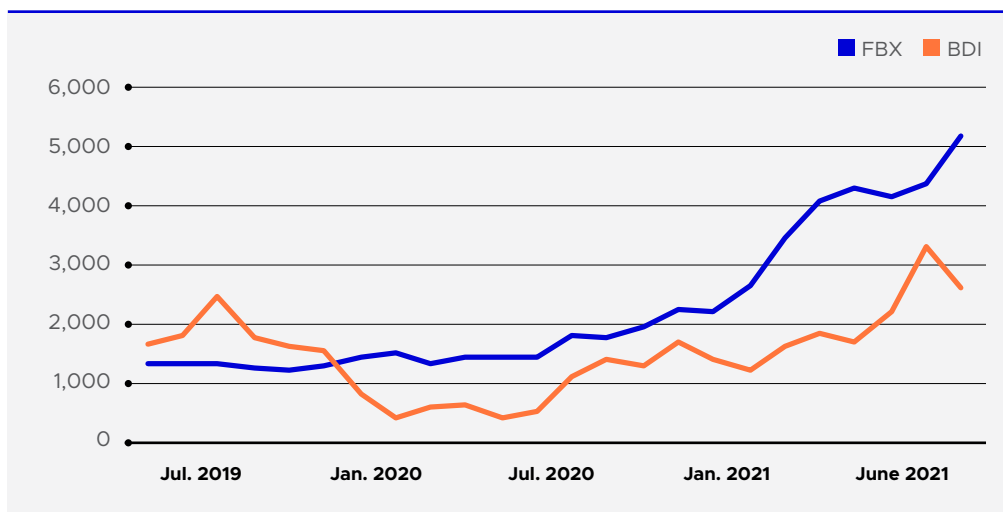
Freight rates sank along with volumes in the first half of the year. Figure 6 tracks changes in the Freightos Baltic Index (FBX), which is based on average container shipping rates, and the Baltic Dry Index (BDI), which reflects shipping rates for major dry bulk cargos such as coal and grain.

The BDI hit a low of about \$411 in early May 2020. In actuality, the BDI had been slipping since late 2019, before the pandemic officially started, for a variety of reasons that included U.S.-China trade frictions, seasonal trade fluctuations as well as the IMO 2020 rule. Starting in June 2020, as many countries started to ease their coronavirus lockdowns and pressure for dry bulk shipping grew, the BDI began a strong recovery that would take it as high as \$3,295 a year later.<sup>25,26</sup>

The FBX was less affected by the pandemic than the BDI, because shippers adjusted capacity to demand by canceling hundreds of sailings.<sup>27,28</sup> Container ship demand, as well as rates, increased dramatically in the second half of 2020, with the FBX rate nearly tripling between June 2020 and June 2021, reaching a level of \$5,165. This dramatic increase was driven by two factors. One was that customers scrambled to restock shelves and inventories as the world's economies restarted. The second was that firms that usually shipped goods in the holds of passenger jets were forced to use container vessels due to the grounding of much of the global air fleet due to the pandemic. The latter highlights both the susceptibility to disruption of air freight transportation and the resilience of maritime shipping. When the pandemic hit, air cargo ground to a halt while maritime shipping continued unimpeded.

**Fig. 6: Trends in Container and Dry Bulk Shipping Rates**  
July 2019-June 2021

Sources: <http://tradingeconomics.com/commocity/baltic> (BDI);  
<https://fbx/freightos.com> (FBX)



## Outlook for the Future, 2021-2024

The outlook for the maritime shipping industry will largely be determined by developments in the world economy as they affect trade flows, as well as trends in shipping rates and regulatory developments.

### 1. Global Economic Trends and Trade Flows

The global economic recovery from the pandemic that began in 2020 is expected to accelerate through 2021 and continue through 2024. The International Monetary Fund (IMF) is projecting an economic rate of growth of 6.0% in 2021, moderating to 4.4% in 2022 and 3.3% in 2023-2024, thereby boosting the demand for ocean shipping services.

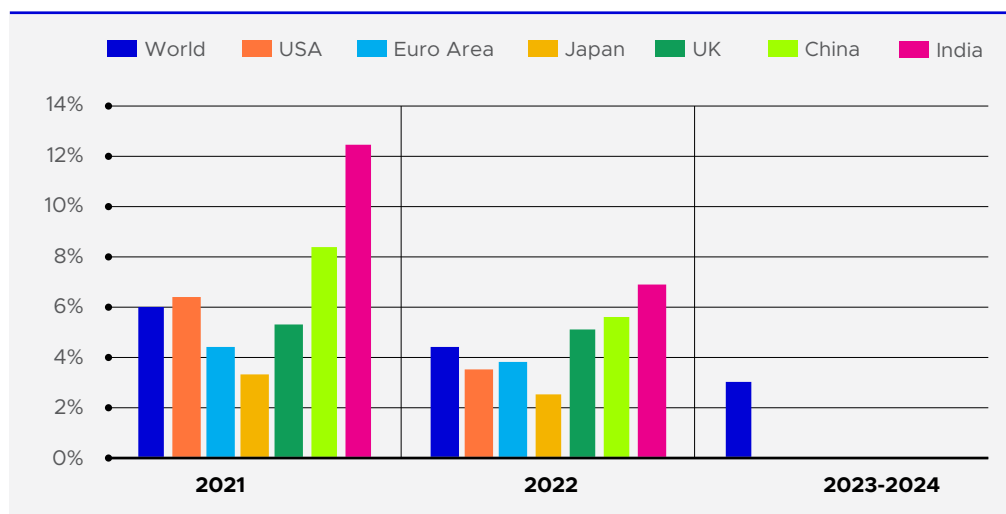
Container shipments, measured in TEU, are expected to grow at least in proportion to GDP.<sup>29</sup> One analyst expects growth in the container trade to outstrip global GDP growth, growing by as much as 8.5% per year between 2021 and 2025.<sup>30</sup>

Dry bulk commodities, in particular minerals and ores, are closely linked to industrial and steel production, as well as manufacturing and construction. As the main industrial economies of the world return to growth in 2021 and beyond, the dry bulk market is expected to experience annual growth rates as high as 5% over the next three years<sup>31</sup>

**Fig. 7: Projected Annual GDP Growth**

(% YoY)

Source: IMF World Economic Outlook, April 2021



Agricultural bulk commodities, particularly grains, are also an important component of the dry bulk trade, along with coal. China agreed to increase its agricultural and coal imports from the U.S. as part of the 2020 Phase One economic and trade agreement, but as of mid-2021 was behind in fulfilling its commitments.<sup>32</sup>

The two-year Phase One agreement is set to end in December 2021. Meanwhile, trade talks between the U.S. and China have stalled amid indications that the new U.S. administration will not depart from its predecessor's tough line on trade with China.<sup>33</sup> A resumption or even escalation of the trade tensions that led to the Phase One agreement could have a negative impact on the outlook for the dry bulk trade.

The outlook for a recovery in the liquid bulk trade is more guarded. Demand for tanker transport started to recover in the second half of 2020 with the easing of lockdown measures, and scheduled 2021 deliveries are more than double the 2000 numbers. However, global oil demand is still 4-6 million barrels per day below pre-pandemic levels and analysts do not expect global oil demand to return to the 2019 level of 99.7 million barrels per day until 2022. By 2024, the International Energy Agency expects global energy consumption to reach 102.3 million barrels per day.<sup>34</sup> An additional negative for the tanker shipping market is the overhang of floating storage.<sup>35</sup>

## 2. Freight Rate Trends

It is not clear how much higher container and dry bulk rates may rise. Fitch Ratings expects container ship rates to remain high in the short term, but believes that they should moderate in the longer term once shipping supply-chain disruptions are cleared and more new ships are deployed.<sup>36</sup> Another source, Drewry's Container Forecaster, projects that container rates will remain elevated until at least 2023.<sup>37</sup>

Like container rates, dry bulk rates are expected to remain elevated at least until 2022.<sup>38</sup> In contrast, tanker rates have declined steeply since the onset of the pandemic. The Baltic Dirty Tanker Index or BDTI (for tankers carrying crude petroleum) went from \$1,211 in early 2020 to \$604 in June 2021, while the Baltic Clean Tanker Index or BCTI (for refined products tankers) sank from \$875 to \$509.<sup>39</sup> Tanker rates are expected to stay depressed for some time to come, as U.S. Energy Information Administration (EIA) and other sources are still forecasting lower petroleum demand in 2021 than in 2019.<sup>40</sup>

Regardless of what happens to tanker rates, container and dry bulk rates are likely to fall significantly in the long term as shipping companies respond to growing freight volumes and sky-high shipping rates by ordering more ships, in the next iteration of what has come to be called the "shipping cycle". Some shipping companies demonstrated greater discipline in managing their capacity amid the turmoil of early 2020, but all are at financial risk if there is industry-wide overbuilding.

### 3. Regulatory Developments

At the very least, we believe that container ship lines and dry bulk shippers should benefit financially in the short term from the combination of growing freight volumes and continued high shipping rates. However, the cost of compliance with increasingly stringent environmental regulations will place significant pressure on shipping companies' bottom line.

The foremost of these regulatory developments is the so-called IMO 2020 regulation set by the International Maritime Organization. IMO 2020 states that as of January 1, 2020, the sulfur emissions of all maritime vessels must be limited to 0.5% m/m (mass by mass), vs. the previous 3.5% m/m. Shipping companies have three main ways of complying with IMO 2020: switch to low-sulfur fuel, install an exhaust gas cleaning system, or convert their fleets to run on liquefied natural gas (LNG) by retrofitting their existing ships or building new LNG-powered ships.<sup>41</sup>

The problem with low-sulfur fuel is its high cost. According to one estimate, low-sulfur fuel costs approximately \$200 per metric ton more than conventional marine fuel. In principle, the shipper and not the shipping company is responsible for the fuel costs of a voyage (see above), but in practice, full recovery of fuel costs from cargo customers can be a challenge because vessel capacity utilization is not 100%, trades are not evenly balanced, different trades and commodities can handle different levels of rates, and fuel prices fluctuate. If a cargo shipper pays less than its share of fuel costs, either other shippers must pay more, and/or the carrier fails to fully recover its operating costs.<sup>42</sup>

Some shipping companies will opt for low-sulfur fuel, especially in the short term due to the time lag involved in retrofitting or building new ships that run cleaner. In the longer term, the overall cost of complying with IMO 2020 has been variously estimated at between \$15 billion and \$60 billion per year, a large part of which will be impractical or impossible to pass on to customers.<sup>43</sup>

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## Investing in Shipping

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The shipping industry operates in a challenging environment, so it is important for investors to do their due diligence before plunging in. This report has analyzed the major forces influencing industry performance (demand, supply, and costs) and investors should be cognizant of these factors when analyzing the industry.

For investors who decide that the shipping industry is an attractive investment opportunity, there are several options. For example, as described below.

### 1. Buy a Ship

This option is obviously not for most investors. It is too expensive, difficult and risky for the majority of investors to buy, operate and eventually sell a ship.

### 2. Buy Freight Futures

Freight futures are derivatives contracts that reflect the expected future level of freight rates. Freight futures contracts mainly exist for dry bulk and tanker freight rates. Dry bulk freight futures are monthly contracts and are quoted in U.S. dollars.

Freight futures trade primarily off-exchange on a principal-to-principal basis. Unlike other futures contracts, a centralized trading screen or exchange that market participants can transact on does not currently exist. Rather, through a network of brokers and market participants buy and sell freight futures contracts without dedicated market makers.

The main users of freight futures are physical users and providers of freight. Financial institutions also participate in the freight futures market: hedge funds and major banks trade freight futures either on a proprietary basis or for their clients' accounts.<sup>44</sup>

Investing in freight futures is not ideal for most individual investors, as their trading requires a high degree of financial sophistication, as well as sufficient resources to post as collateral. In addition to the risks specific to the shipping industry, investing in freight futures shares the same disadvantages and risks as other types of futures investments, e.g., (1) complexity; (2) no dividend or interest income; (3) complex tax treatment; (4) exchange rate risk; (5) liquidity risk, and (6) the need to "roll" the futures beyond their expiration date, which can result in a negative roll yield that erodes returns.

### 3. Buy Shipping Company Stocks or ETFs

#### Individual Stocks

Common stock and American depositary receipts (“ADRs”) are another way to invest in the global shipping industry by selecting individual stocks of shipping companies.

Disadvantages of stocks vs freight rate futures, other than liquidity, include company-specific risks, dilution risks, as well as corporate governance and management issues. There is also the broader equity market risk to contend with.<sup>45</sup>

#### Exchange Traded Funds

Exchange traded funds or ETFs are a relatively easy and efficient way to invest in the shipping industry since they provide diversified exposure in a single security. Launched in August 2021, the [SonicShares™ Global Shipping ETF \(NYSE Arca: BOAT\)](#) is designed to track the performance of over 50 global companies engaged in maritime shipping.

**Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the SonicShares™ Global Shipping ETF (Ticker: BOAT) (the “Fund”), [click here](#). Read the prospectus or summary prospectus carefully before investing.**

**Fund Risks:** An investment in the Fund is subject to numerous risks including the possible loss of principal. There can be no assurance that the Fund will achieve its investment objective. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. As with all ETFs, Fund shares may be bought and sold in the secondary market at market prices. The market price normally should approximate the Fund's net asset value per share (NAV), but the market price sometimes may be higher or lower than the NAV. The Fund is new with a limited operating history. There are a limited number of financial institutions authorized to buy and sell shares directly with the Fund, and there may be a limited number of other liquidity providers in the marketplace. There is no assurance that Fund shares will trade at any volume, or at all, on any stock exchange. Low trading activity may result in shares trading at a material discount to NAV. Please see the [prospectus](#) and [summary prospectus](#) for a complete description of principal risks.

The Fund's investments will be concentrated in an industry or group of industries to the extent the Index is so concentrated. In such event, the value of Shares may rise and fall more than the value of shares that invest in securities of companies in a broader range of industries. Investments in securities or other instruments of foreign securities involve certain risks not involved in domestic investments and may experience more rapid and extreme changes in value than investments in securities of U.S. companies.

The fund is distributed by [Foreside Fund Services, LLC](#)

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