

July 2017 Newsletter

A Modern Stockbroker with
Traditional Values



Themes from July

US President Donald Trump attacked Republican senators for not backing his healthcare reforms claiming they “look like fools”. The dismissal of Reince Priebus, White House chief of staff was a surprise. Priebus had the shortest tenure in US history of non-interim holders of that office. The dismissal of Antonio Scaramucci, Communications Director was also quick, just ten days.

BAT completed its acquisition of Reynolds American, the US manufacturer of Camel and Pall Mall for US\$49.4bn. The deal involved BAT drawing on a \$25bn banking facility.

US Food & Drug Administration set out plans to reduce cigarette nicotine content to non-addictive levels by August 2021. This news which was out of the blue hit the cigarette sector as it would result in declining sales.

Sterling picked up modestly against the US dollar to US\$1.3110 but declined to €1.1175.

HSBC reported adjusted PBT of \$11.97bn up 12% and launched a US\$2bn share buyback. The board was confident about maintaining its 51 cent dividend commenting that the core HK business is improving.

Provident Financial interim PBT declined 22.6% to £115.3m as a result of disruption from the migration of the home credit business resulting in a £40m impairment charge.

Countrywide announced maiden interim losses of £284,000 and a cancelled dividend as the estate agent worked to cut debt via internally generated cash. Total revenues fell to £333m from £370.3m.

Forthcoming UK Events

1 AUGUST	Nationwide PMI / 10 YR Treasury gilt auction
2 AUGUST	Construction PMI
3 AUGUST	BoE Inflation Report / BoE Interest Rate Decision/ Services PMI
4 AUGUST	CFTC STG speculative net positions
7 AUGUST	Halifax House Price Index
8 AUGUST	BRC Retail Sales Monitor
10 AUGUST	RICS House Price Balance/ UK Industrial Output/ UK Trade Balance
15 AUGUST	Core PPI Output/ UK Consumer Price Inflation
16 AUGUST	UK Unemployment / UK Average Earnings
17 AUGUST	UK Core Retail Sales
21 AUGUST	UK Public Sector Net Borrowing

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Performance of World Markets (31/7/2017)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	21,891.12	541.49	2.54	18.77
S&P 500 (Close)	2,470.30	46.89	1.93	13.65
NASDAQ (Close)	6,348.12	207.70	3.38	22.97

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,372.00	-140.72	-1.90	9.63
CAC 40 INDEX (Close)	5,093.77	-26.91	-0.53	14.73
EUROSTOXX 50 (Close)	3,449.36	7.48	0.22	15.33

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	3,273.03	81.55	2.55	9.89
NIKKEI-225 (Close)	19,925.18	-102.66	-0.51	20.29
ASX 200 (Close)	5,720.60	5.20	0.09	2.95
HANG SENG (Close)	27,323.99	1508.20	5.85	24.58

United Kingdom

The reporting season is a “curate’s egg” with very mixed banking interims a good example. HSBC H1 confirmed the HK franchise and lifted its tangible net assets per share to \$8.30 up \$0.39 whilst both Lloyds (52.4p down 2.4p) and Barclays’ equity fell (284p – 6p). Even more surprising was the sell-off that greeted Virgin Money’s decent report.

November 2017 could see a hike in the base rate to 0.5%. Given inflation levels a hike is long overdue. The rate “turn” talk has helped sterling recover against the US dollar, ostensibly bad for UK blue chips. [source: www.xe.com](http://www.xe.com)

China/Japan

The Hong Kong equity market surged over July helped by jumps in banking and insurance sectors with top gainers, Ping An Insurance, China Life, China Pacific Insurance & New China Life. The Caixin-Markit manufacturing purchasing managers index pointed to a robust improvement at Chinese factories in July. Recent data suggests China’s GDP is ahead of forecast.

Hong Kong listed shares spent c. \$3.2bn (HK\$25bn) in share repurchases in the year to 25th July 2017 (according to the *Financial Times*) – this is around five times the 2011 repurchase amount.

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However most of the share repurchases c. HK\$15bn is from local property companies that owing to the sky high prices for local real estate prefer to increase shareholder returns instead rather than invest. Shares in Cheung Kong Property, the largest HK property company are up 32% in the last year.

Others point to the Hang Seng's valuation at just 12.4x P.E. only slightly above its decade average, as attractive relative to global valuations and in particular US equities.

Europe

ECB chief Mario Draghi insisted that inflation is not "where we want it to be, and where it should be" dialing back on previous suggestions that quantitative easing measures would be scaled back. This suggested that the ECB will keep negative interest rates and a €60bn monthly bond purchase order in place for sometime.

The Euro took off helped by ECB commentary, and improving Eurozone GDP growth. The single currency has been viewed as a safe haven and the main beneficiary of USD weakness.

Source: www.xe.com



United States

The Trump Administration lurched over July with resignations and departures of senior staff. The impression has been of significant infighting within the White House. This did not prevent the S&P 500 reaching a new record high over July.

The lack of response in US equities from the impasse between the executive branch and the US Congress over "Obamacare" reform, suggests investors are sanguine but also complacent. The weaker US dollar suggests outflows have started in earnest.

Few would argue a dichotomy exists between equity valuations in the US tech area and in the broader market. Few would argue US stocks seem expensively valued – the current S&P rating at 24.63x compared to a mean S&P P/E rating of 15.66x since inception.

The US Food & Drug Administration has moved to change the regulation of the tobacco industry with a plan to lower nicotine levels by 8th August 2021. This is intended to cut the 480k deaths per annum from lung cancer and associated \$300bn annual productivity and healthcare costs. If this proceeds to plan this will represent a profound change for the US tobacco industry and possibly elsewhere.

Important Information

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