

# May 2019 Newsletter

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**COLLINS SARRI STATHAM**  
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## Themes from May

**PM Theresa May** declared she will step aside on the 7<sup>th</sup> June making way for new leadership for the Conservative party.

**EU elections** resulted in a win for the Brexit party and substantial gains for the Liberal Democrats. Both the ruling Conservative and opposition Labour party saw heavy MEP losses.

**US President Donald Trump** said he would impose tariffs on Mexican imports at a cumulative rate of 5% a month up to a maximum of 25% on the grounds that Mexico was not doing enough to stem the flow of immigrants across the US / Mexico border.

**Vodafone** cut its annual dividend by 40% to 9 cents citing the need to address its balance sheet and invest in the 5G roll-out. It announced it lost €7.64bn in 2019.

**Royal Mail** said it would cut its annual dividend by 40% to 15p in 2020 citing the need to invest in its parcels business. It posted an adjusted profit before tax of £398m down from £565m in 2018.

**MSCI All-World Index** dropped 6% during May 2019 with investors switching to bond safe havens, the 10 year Bund and 10 year Treasury and safe currencies, including the Yen and Swiss Franc.

**Imperial Brands** reported interim EPS of 115.6p up 1.1% on net revenues of £3.65bn up 3.8%. However the tobacco sector fell sharply after a Nielsen report claiming US cigarette demand fell 11.2% over the month.

## Forthcoming UK Events

**3**  
JUNE

Markit / CIPS Manufacturing PMI

**4**  
JUNE

Construction PMI/ 5 YR Treasury Gilt Auction

**5**  
JUNE

UK New Car Sales/ Markit / CIPS UK Services PMI

**6**  
JUNE

BoE Governor Carney speech

**7**  
JUNE

Halifax House Price Index

**10**  
JUNE

UK Balance of Trade/ UK GDP / UK Industrial Production

**11**  
JUNE

UK Average Earnings/ UK Unemployment Rate

**18**  
JUNE

10 YR Gilt Auction

**19**  
JUNE

UK Core Inflation/ PPI Core Output

**20**  
JUNE

UK Retail Sales/ BoE Interest Rate Decision

**21**  
JUNE

Public Sector Net Borrowing

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## Performance of World Markets (31/5/2019)

<b>North America</b>	<b>Value</b>	<b>Change</b>	<b>+/- (1M)%</b>	<b>+/- (1YR)%</b>
DOW JONES (Close)	24,942.83	-1,650.08	-6.20	2.15
S&P 500 (Close)	2,765.19	-180.64	-6.13	2.21
NASDAQ (Close)	7,496.21	-599.18	-7.40	1.00

<b>Europe/UK</b>	<b>Value</b>	<b>Change</b>	<b>+/- (1M)%</b>	<b>+/- (1YR)%</b>
UK 100 INDEX (Close)	7,161.71	-256.51	-3.45	-6.72
EUROSTOXX 50 (Close)	3,280.20	-221.74	-6.33	-3.71

<b>Asia/Far East</b>	<b>Value</b>	<b>Change</b>	<b>+/- (1M)%</b>	<b>+/- (1YR)%</b>
SHANGHAI COMPOSITE (Close)	2,898.70	-179.64	-5.83	-6.35
NIKKEI-225 (Close 26 April 2019)	20,601.19	-1,657.54	-7.44	-7.21
HANG SENG (Close)	26,901.09	-2798.02	-9.42	-11.70

United Kingdom

China/Japan

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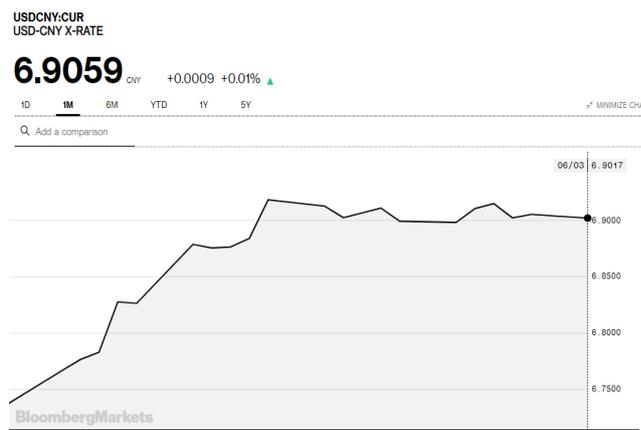
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As Conservative leadership hopefuls queue up we are back to the “Brexit” groundhog day. Will a new PM make a difference? Unlikely given the House of Commons arithmetic and post the EU elections, any new PM would be mad to call a General Election. This leaves the “People’s Vote” option which is gaining credibility.

As scenarios multiply again, the “hard Brexit” crashing out of the EU without a deal on the 31<sup>st</sup> October, is more likely. As a result sterling declined against other major currencies softening the UK equity sell off relative to other global indices.

UK retailers are stumbling and CVA’s are now becoming the only option. We expect Arcadia will join the CVA list. Even M&S (pre-tax profit of £84.6m for 2019 v £684m in 2015) is tapping shareholders. The answer for retailers is the Next business model of online/ mail order with far lower emphasis on maintaining hard assets. However adoption could well require more time than many of these companies actually have.

Both Chinese and Japanese equities were hit hard during May. As the PRC’s leadership prepared for a protracted dispute, the central bank allowed the Yuan to depreciate, absorbing some of the hit.



Source; Bloomberg

The Huawei issue has irked China as it suggests Chinese companies are spying on their customers. As usual there is limited proof available. It looks like America is deliberately trying to wreck Huawei’s export markets, a contentious approach.

## Europe

The EU elections whilst bad for reinforcing the likes of populists Matteo Salvini and Nigel Farage, its broad result in returning a sizeable majority for mainstream parties in a positive for EU stability. The advance of the Greens and the environmental lobby is a powerful endorsement of the notion of progressive change.

The ECB is on hold for 2019, it reversed its promise to raise rates this year in March. Further monetary guidance may arrive in Q3 but investors now expect a small hike in 2020 which could see the rate exit negative territory. Key to the timing of the hike is further progress on unemployment which remains high at 7.7% across the Eurozone.

The drop in the German 10 year bond yield to a record low of -0.27% suggests investors are paying premiums for safe havens.

UBS and Deutsche Bank disclosed they briefly explored a combination which resulted in early stage talks. UBS remains overly dependent on its high net worth niche but is valued at 4x hat of

## United States

US equities reversed as it became clear the US gambit to introduce tariffs on \$200bn of Chinese products at a late stage in the Sino-US talks had backfired. The talks quickly collapsed and China retaliated a few days later.

The subsequent out of the blue move by Donald Trump to introduce a 5% monthly tariff on Mexico (\$352bn annual US imports from Mexico) seriously rattled confidence in the US leadership. Brinkmanship of this nature increases uncertainty and makes diplomacy far harder.

The S&P 500 correction (-6.2%) feels right, on 31<sup>st</sup> May the blue chip index was trading on trailing P/E 20.4x. with S&P 500 index earnings at c. \$135.44. Forecast for EPS growth rates would be at risk of a China slowdown or a more generalised trade problem whether with Mexico or China.

Apple Inc is exposed to the Sino-US dispute given the location of manufacturing of iPhone/ iPads etc. Apple shares declined to \$175.07 from \$211.75 a 17.3% drop over May. Ahead of new iPhone

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Deutsche. Any deal involving Deutsche Bank would be a rescue effort, given its very weak operational profitability and high Level 3 hard to value assets. launches and the arrival of positive catalysts such as 5G, the board has continued to buyback shares.

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<b>Imperial Brands</b>	<b>Relevant disclosures:</b> <2>
<b>Royal Mail</b>	<b>Relevant disclosures:</b> <2>
<b>Vodafone</b>	<b>Relevant disclosures:</b> <2>
<b>Deutsche Bank</b>	<b>Relevant disclosures:</b> <NA>
<b>UBS Group</b>	<b>Relevant disclosures:</b> <NA>
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