

# June 2019 Newsletter

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COLLINS SARRI STATHAM  
INVESTMENTS

## Themes from June

\***Conservative MPs** narrowed the choice of the next PM to either Boris Johnson or Jeremy Hunt – the final choice will be made by Conservative party members ending on 24th July 2019.

\***June 2019** was a strong month for US equities, the S&P 500 had its best month since 1955.

\***G20 summit**, both US and China agreed to restart talks aimed at unblocking the stalemate, however President Trump signalled he was in no hurry to conclude talks.

\***US Federal Reserve** softened its language at its recent meeting, noting trade frictions and moderating global growth stating “we will act as appropriate to sustain the expansion”.

\***Woodford** Equity Income Fund decided to suspend investor cash withdrawals for 28 days following a decision by Kent County Council to transfer £263m.

\***Companies** in which Woodford funds have significant stakes have dropped sharply on the expectation of stake sales.

\***Millennium & Copthorne** Hotels board agreed an offer from parent company City Developments worth 685p per share – so far US holders have not objected.

\***Merlin Entertainment** agreed a 455p cash offer from the Kirkbi consortium comprising the Danish majority owners, Blackstone and CPPIB.

## Forthcoming UK Events

1  
JULY

UK Mortgage Approvals

2  
JULY

Nationwide House prices/ UK  
Construction PMI/ 5 YR Gilt Auction

3  
JULY

CIPS UK Services PMI / BoE Jim  
Broadbent speech

4  
JULY

UK New Car Sales

5  
JULY

Halifax House Price Index

10  
JULY

UK GDP / UK Industrial Production

11  
JULY

BoE Financial Stability Report

16  
JULY

UK Average Earnings/ UK  
Unemployment Rate

17  
JULY

UK Core Inflation/ PPI Core Output/  
Retail Price Index

18  
JULY

UK Retail Sales

21  
JULY

UK Public Sector Net Borrowing

Collins Sarri Statham Investments Ltd. Citypoint, 1 Ropemaker Street, London, EC2Y 9HT

T +44 (0)20 7153 1120 W [www.css-investments.com](http://www.css-investments.com) E [info@css-investments.com](mailto:info@css-investments.com)

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## Performance of World Markets (28/6/2019)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	26,599.96	1,657.13	6.64	9.59
S&P 500 (Close)	2,941.76	176.57	6.38	8.21
NASDAQ (Close)	8,006.24	510.03	6.80	6.60

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,425.63	263.92	3.68	-2.76
EUROSTOXX 50 (Close)	3,473.69	193.49	5.89	2.29

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	2,978.88	80.18	2.76	4.61
NIKKEI-225 (Close 26 April 2019)	21,275.90	674.71	3.27	-4.61
HANG SENG (Close)	28,542.62	1,641.53	6.10	-1.42

### United Kingdom

Sterling's weak performance has helped bring forward M&A activity with buyers deciding to act now ahead of Brexit (expected 31 October 2019).

Over June major deals started in the midcaps, both Millennium & Copthorne and Merlin had been mooted as minority buyouts for years. We expect both to complete without further complications.

Investors voted goodbye to Lonmin and RPC Group but enthusiastically greeted an IPO for Trainline, the rail booking app. Trainline had priced at 350p per share, the top of its range but nevertheless closed at 413p at a valuation significantly above its bus and railway peer group.

### China/Japan

China's approach to the trade talks has been deliberately careful. During June, its leadership issued a travel warning for the US warning of the risk of mass shootings, a very specific US problem, and threatened to restrict the export of rare earths. This was seen as a response to America's efforts in Europe to convince allies to restrict the adoption of Huawei technology.

Beijing opted for crisis management in withdrawing the extradition bill reducing the scope for mass protests which were clearly disrupting the short term agenda and putting pressure on the HK dollar peg. As Hong Kong assets rallied after the move, many investors were wondering when precisely Beijing would return with the same

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The main talking point, the suspension of cash withdrawals at Woodford Equity Income, is likely to result in more oversight of fund platforms and managers. The issue exposed the problem of low liquidity at UK investment funds and conflicts of interest in the promotion of these funds on fund supermarket platforms.

proposals.

The deterioration in Japan's trade balance, June data showed a May deficit of Y967bn suggests a weakening demand for Japanese exports. So far Japan has not been touched by US trade war threats, an issue that could resurface anytime.

## Europe

EU restructurings are underway. BASF has decided to cut 6,000 jobs whilst Deutsche Bank is reportedly considering headcount reductions of 15,000-20,000 (c.20% of staff). Deutsche is also considering a "bad bank" for warehousing c. €50bn of risky assets. The move comes after Deutsche Bank failed to pull off a merger with Commerzbank.

ECB chief Mario Draghi suggested "additional stimulus will be required" at the annual meeting in Sintra, Portugal sending the Euro lower against major currencies. The issue is more how such stimulus will be delivered either via lowering the ECB bank deposit rate (from -0.4%) or buying additional government bonds. The statement was enough to draw an angry tweet from Donald Trump who claimed the ECB was attempting to manipulate the Euro. But the Euro rose against the USD over June.

14 Jun 2019 11:00 UTC EUR/USD close:1.12640



Source: [www.xe.com](http://www.xe.com)

## United States

US equities' June gains were attributable to the US Federal Reserve's softening stance.

US 10 year yields continued to decline, the yield to maturity reaching 2.03%. The yield curve continued to shallow out reducing spreads, a factor that is impacting financial stocks.

### JP Morgan Chase &Co

111.80 USD +2.96 (2.72%) ↑

Closed: 28 Jun, 19:55 GMT-4 - Disclaimer  
After hours 111.95 +0.15 (0.13%)

1 day 5 days 1 month 1 year 5 years Max



Source: [www.google.com/finance](http://www.google.com/finance)

Gold's surge above \$1,400 /oz, a rise of c. 10.5% over June helped the gold mining sector rally, Newmont Mining rose \$4.47 to \$38.47 whilst Barrick Gold moved up \$2.68 or 20% to \$15.77. Barrick has recently been busy on with M&A buying Randgold Resources and making an offer for subsidiary Acacia Mining.

## Important Information

### Key to Material Interests:

Please be aware that the following disclosures of Material Interests are relevant to this research note:

**Woodford Equity Income Fund** Relevant disclosures: <NA>

**Trainline** Relevant disclosures: <NA>

**Millennium & Copthorne** Relevant disclosures: <2>

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<b>Merlin Entertainment</b>	<b>Relevant disclosures: &lt;2&gt;</b>
<b>BASF</b>	<b>Relevant disclosures: &lt;2&gt;</b>
<b>Deutsche Bank</b>	<b>Relevant disclosures: &lt;NA&gt;</b>
<b>Commerzbank</b>	<b>Relevant disclosures: &lt;NA&gt;</b>
<b>JP Morgan Chase</b>	<b>Relevant disclosures: &lt;2&gt;</b>
<b>Newmont Mining</b>	<b>Relevant disclosures: &lt;NA&gt;</b>
<b>Barrick Gold</b>	<b>Relevant disclosures: &lt;2&gt;</b>
<b>Acacia Mining</b>	<b>Relevant disclosures: &lt;2&gt;</b>

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