

September 2019 Newsletter

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Traditional Values



Themes from September

***Global interest rates** headed down in September. The US Fed cut federal funds by 0.25% to a range of 1.75%-2% whilst the ECB cut deposit rates by 0.1% to -0.5% and will restart a €20bn monthly bond buyback.

***Thomas Cook** declared insolvency after a rescue effort over 28th-29th September failed to find the requisite £200m in extra funding requested by RBS. The package holiday group sold 22m holidays in 2018.

***President Trump** is facing a Congressional Impeachment inquiry after a whistleblower reported to Congress having witnessed Trump abusing his powers by seeking to pressure a foreign leader to open an inquiry into former US Vice President Joe Biden.

***Hong Kong Exchange** made a takeover approach to the LSE, which was promptly rejected. The board of HKEX has since said it will woo LSE holders with an improved offer.

***The Financial Reporting Council (FRC)** has issued a revised going concern standard following a spate of corporate failures in which auditors had failed to flag up concerns about the company's viability.

***IAG** updated investors to expect 2019 operating profits of €3.27bn saying recent strikes cost €170m.

***UK government** declined to provide financial assistance to Sirius Minerals during its talks to

Forthcoming UK Events

1
OCT Markit / CIPS Manufacturing PMI

2
OCT Construction PMI / BoE FPC Meeting

3
OCT Markit / CIPS UK Services PMI

4
OCT UK New Car Sales/ 10 YR Gilt Auction

7
OCT Halifax House Price Index

8
OCT UK Labour Productivity Q2

10
OCT UK Balance of Trade August/ UK Manufacturing Production

15
OCT UK Claimant Count Change/ BoE Minutes/ UK Unemployment Rate

16
OCT UK Core Inflation/ PPI Input September/ UK Retail Price Index

18
OCT UK Retail Sales

22
OCT Public Sector Net Borrowing

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secure US\$500m of extra bond financing from investors.

*Prudential expects to divest its M&G fund management business no later than the 21st October.

Performance of World Markets (30/9/2019)				
North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	26,916.83	513.55	1.90	3.70
S&P 500 (Close)	2,976.74	50.28	1.70	1.90
NASDAQ (Close)	7,999.34	36.46	0.50	-1.40
Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,408.21	201.01	2.80	-0.30
EUROSTOXX 50 (Close)	3,569.45	142.69	4.20	5.20
Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	2,905.19	18.95	0.07	6.60
NIKKEI-225 (Close)	21,755.84	1051.44	5.10	-4.90
HANG SENG (Close)	26,092.27	367.57	1.40	-6.40
United Kingdom		China/Japan		

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As October 31st approaches, could it be that investors are taking a sanguine, long term view whatever the outcome? Key to this perception is the view that Johnson, unlike May, will not seek to extend EU membership, come what may.

The September rally, a 201 point gain, from oversold levels during August suggests investors remain cautiously optimistic of an agreed Brexit deal. It might be heretical to say this, but could October 31st come and go without drama? It is possible. Volatility has been declining. It seems likely there will be Brexit “stabilisers” in the form of lower interest rates, according to Mike Saunders, BoE MPC member.

Airline / holiday companies, Dart Group, Easyjet, Ryanair, TUI were the major beneficiaries of Thomas Cook’s collapse rising c. 12%-15%. All UK providers should see increased market share and higher prices given the loss of Thomas Cook’s cheap short haul capacity. A second order effect will be the easing of staff shortages/ pressure on airline pay. Brexit is likely to impact the sector if sterling rises back to US\$1.30.

Ahead of the PRC’s 70th birthday the Beijing government made a significant concession in withdrawing its controversial extradition bill. This would have deprived Hong Kong citizens of their rights to a fair trial by making it possible to legally extradite them to China. However celebrations were short lived. Hong Kong’s young protestors responded by with further demands including an amnesty and political change. The episode demonstrates both deep social problems integral to Hong Kong’s organization and also the demands for democratic reforms and accountability which have fallen on deaf ears for well over a decade. The HK protests suggest deeper social reforms are required which look undeliverable.

Jack Ma, China’s wealthiest individual and illustrious founder of Ali Baba stepped down handing the reins to Daniel Zhang who “has the critical thinking skills of a super computer” according to Ma. US investors have been cautious about Ma’s exit sending the shares down to \$167 some way from \$195.72 highs in early May.

Europe

The ECB’s move to reduce the deposit rate to -0.5% and embark on a new round of bond purchases has impacted bond yields with negative yields remaining all the way along the curve. The ECB left its benchmark rates at 0% rather than imposing negative rates on savers.

Bund Yields

NAME	COUPON	PRICE	YIELD	1DAY	1MONTH	1YEAR
GTDEM2Y:GOV Germany Bund 2 Year Yield	0.00	101.51	-0.78%	+0	-16	-22
GTDEM5Y:GOV Germany Bund 5 Year Yield	0.00	103.90	-0.76%	+2	-17	-65
GTDEM10Y:GOV Germany Bund 10 Year Yield	0.00	105.41	-0.53%	+4	-17	-100
GTDEM30Y:GOV Germany Bund 30 Year Yield	0.00	100.64	-0.02%	+5	-16	-112

Source; Bloomberg

Pressure is growing on Berlin to provide fiscal stimulus as a means of boosting GDP growth and countering the China induced export slowdown. This is despite the 2009 “debt brake” which limits the federal structural deficit to 0.35% of GDP. Whether Chancellor Merkel will embark on payroll tax cuts will

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United States

US markets are shrugging off President Trump’s impeachment saga, due to the Republican Senate majority. The Congressional impeachment inquiry could dominate the news for the rest of 2019. The handling already looks un-presidential with Trump accusing people of treason and demanding to meet the whistleblower. At the heart of it appears the odd position of a US President asking foreign leaders for help attacking US politicians.

US techs lagged blue chips over September, exemplified by the Microsoft \$40bn share buyback (3.8% of share capital) and 11% dividend hike which elicited only a muted response. Microsoft reported revenues jumped 12% over the Q2 2019 period. Apple Inc climbed 9.3% to \$224 per share over September helped by the iCard launch.

Carnival Corp reported Q3 EPS of \$2.58 v \$2.41 but revised down EPS guidance for 2019 to US\$4.23-US\$4.27 sending its shares down 12%.

Despite the Fed’s rate cut, the US yield curve remains inverted between the 3 month and 10

possibly depend on Q3 GDP growth (likely to be negative) and internal pressures within the CDU. year maturities. The plan to introduce a 50 year and 100 year US Treasury bond is under consideration and might help restore a normal yield curve, when it arrives.

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LSE	Relevant disclosures: <2>
Prudential	Relevant disclosures: <2>
Sirius Minerals	Relevant disclosures: <2>
IAG	Relevant disclosures: <1,2>
Ryanair	Relevant disclosures: <2>
Easyjet	Relevant disclosures: <2>
Dart Group	Relevant disclosures: <2>
Ali Baba ADR	Relevant disclosures: <2>
Microsoft	Relevant disclosures: <2>
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