

# January 2020 Newsletter

A Modern Stockbroker with  
Traditional Values



## Themes from January

\***World markets** slumped after a contagious and deadly viral strain known as the Wuhan Coronavirus caused the shutdown of Wuhan and the cancellation of flights by major international carriers into China.

\***Apple** jumped to record highs after reporting Q1 net income of \$22.2bn on revenues of \$91.8bn up 9%. The board, led by Tim Cook reported strong growth in wearables helping EPS rise 19% to \$4.99.

\***Monetary Policy Committee** left Base rates at 0.75% citing an improving UK economy, decline in Brexit uncertainties and the governments' plan to boost spending.

\***Oil majors** reported a tough Q4 due to weaker refining, chemicals and LNG prices. Shell net income fell to \$965m whilst Chevron reported a loss of \$6.6bn.

\***Fevertree** reported a 1% decline in UK revenues and flagged an expected 5% drop in 2019 earnings due to lower margins.

\***IAG** removed a limit on non-EU shareholders ownership, potentially opening the door to further stakebuilding by Qatar Airways.

\***Aston Martin** is to raise £500m via a rights issue for £318m and a £182m strategic investor consortium led by Lawrence Stroll.

\***Black Rock** Chairman Larry Fink, the world's largest asset manager has said climate change will cause a significant reallocation of capital and will

## Forthcoming UK Events

3  
FEB

CIPS Manufacturing PMI

4  
FEB

UK Construction PMI/

5  
FEB

CIPS UK Services PMI January

7  
FEB

UK Halifax house Price Index

11  
FEB

UK Balance of Trade, UK GDP, UK Industrial Production

18  
FEB

UK Unemployment Rate/ UK Average Earnings

19  
FEB

UK Inflation Rate / UK PPI Core Output/ UK Retail Price Inflation

20  
FEB

UK Retail Sales

21  
FEB

Public Sector Net Borrowing/ CBI Distributive Trades

25  
FEB

10 Year Gilt Auction

26  
FEB

UK Finance Mortgage Approvals

28  
FEB

Gfk Consumer Confidence/ Nationwide Housing Prices February

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reshape the world's financial system.

### Performance of World Markets (31/1/2020)

| North America     | Value     | Change  | +/- (1M)% | +/- (1YR)% |
|-------------------|-----------|---------|-----------|------------|
| DOW JONES (Close) | 28,256.03 | -282.41 | -0.99     | 13.02      |
| S&P 500 (Close)   | 3,225.52  | -5.26   | 2.86      | 19.26      |
| NASDAQ (Close)    | 9,150.94  | 178.33  | 3.54      | 25.67      |

| Europe/UK            | Value    | Change  | +/- (1M)% | +/- (1YR)% |
|----------------------|----------|---------|-----------|------------|
| UK 100 INDEX (Close) | 7,286.01 | -256.43 | -3.40     | 4.61       |
| EUROSTOXX 50 (Close) | 3,640.91 | -104.24 | -2.78     | 15.61      |

| Asia/Far East              | Value     | Change    | +/- (1M)% | +/- (1YR)% |
|----------------------------|-----------|-----------|-----------|------------|
| SHANGHAI COMPOSITE (Close) | 2,976.53  | -74.17    | -2.49     | 15.16      |
| NIKKEI-225 (Close)         | 23,205.18 | -451.44   | -1.91     | 11.70      |
| HANG SENG (Close)          | 26,312.63 | -1,877.07 | -6.65     | -5.83      |

#### United Kingdom

'Brexit' arrived on Friday night with jingoistic Union Jack flag-waving in Parliament Square contrasting with lament and the candlelit vigil "Missing EU Already" outside Edinburgh's Scottish Parliament.

Now the hard bargaining begins as the UK targets an end 2020 timeframe for a UK/EU trade deal. London wants single market access, without paying for it and with freedom on regulatory alignment and diversion from other rules. The EU wants to maintain the UK's custom without

#### China/Japan

Hong Kong bore the brunt of the Wuhan corona-virus sell off declining 6.37%. The Hang Seng has been in the firing line for over 6 months with the social and political unrest and standoff with Beijing intensifying.

| Hang Seng | Yr Open  | Jan 2019 High | Jan 2019 Low | Jan 30 <sup>th</sup> 2019 | 3 <sup>rd</sup> -30 <sup>th</sup> Jan 2019 Δ (%) |
|-----------|----------|---------------|--------------|---------------------------|--|
| 2019      | 28,249.3 | 29,056.4      | 26,330.0     | 26,449.1                  | -6.37  |

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creating a new competitor on its doorstep, willing to undercut the EU on taxation, standards etc. The main victim is likely to be London's financial sector with the UK government open to a deal that leaves out the City of London.

UK capital markets were hopeful of a Base Rate cut given the slowing global economy and weak UK data going into 2020. The MPC thought otherwise and hinted at recent UK acceleration. Both sides in the MPC appear to be in entrenched positions with the 2 strong dovish minority not succeeding in persuading any of the 5 hawks.

UK blue chips have reversed the pre-election and election result gains (c.350 points) and are back at mid-November levels. It is said politics only momentarily influences markets, and so it proved again.

|  |   |   |   |   |   |
|--|---|---|---|---|---|
|  | 7 | 2 | 5 | 3 | % |
|--|---|---|---|---|---|

Comparisons with SARS in 2003 are inevitable. Back then the Hang Seng ended 2003 up by 34.3% and rose 16.87% over the January to August period in spite of the SARS impact.

Wuhan is c. 1000 km from Beijing, Shanghai and Hong Kong but the virus' rapid transmission has resulted in the near closure of China's airspace to international flights. When coupled with vast number of the workforce staying at home, this can only be detrimental to China's GDP growth. We estimate a 2% drag on China's GDP assuming the virus lasts 3 months.

Tokyo's Nikkei maintained its reputation as a good diversification asset, outperforming with a decline of 2% over January. The Yen rose initially on the China crisis before ending January flat.

## Europe

The European Commission reported that 2019 GDP growth in the Eurozone was 1.2%, but Q4 GDP growth at just 0.1% from 0.3% in Q3 was showing a rapidly weakening trend.

Over Q4 2019 Italian GDP shrank by 0.3%, its worst performance since 2013. French GDP declined by 0.1% due to strike disruption resulting from reforms to retirement benefit schemes. However Spain continued to grow, rising an impressive 0.5% due to export performance and improving LatAm trade.

Whilst not a factor in 2020, Brexit could damage EU GDP growth over 2021 if the transition period fails to result in a UK/EU free trade deal.

The issues facing China have hurt EU luxury retailers including LVMH (-10%) & Hermes (-6%). LVMH has also been impacted by concerns it has overpaid for Tiffany (acquired for US\$16bn).

## United States

US techs continued to climb with Amazon and Alphabet reaching the US\$1trn market cap club. The record valuation of Apple at \$1.4trn substantially exceeds the US energy sector (c. \$1trn). This theme played out over January with sector leader, Exxon Mobil declining to 5 year lows. This reflects not just a sector rotation but underwhelming Q4 results.

NYSE: XOM

62.12 USD 0.00 (0.00%)

Closed: 3 Feb, 08:24 GMT-5 - Disclaimer

Pre-market 61.78 -0.34 (0.55%)



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

According to a recent Goldman Sachs report, US investors are turning against high debt, climate unfriendly fossil fuels/ environmentally damaging commodity related companies. In a nutshell this means a sell-off in oil majors and miners.

US equities succumbed to the virus related global sell off on the last trading day, with the Dow declining

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397.55 EUR +2.25 (0.57%) ↑

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source; www.google.com

603.4 points (-2.09%). The move came after a strong run up to over 29,000. Normally US investors show limited responsiveness to non-US problems. Nevertheless we expect the US market to continue to show some caution.

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|                             |                                    |
|-----------------------------|------------------------------------|
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| <b>Aston Martin Lagonda</b> | <b>Relevant disclosures:</b> <2>   |
| <b>IAG</b>                  | <b>Relevant disclosures:</b> <1,2> |
| <b>Fevertree Beverages</b>  | <b>Relevant disclosures:</b> <2>   |
| <b>Hermes</b>               | <b>Relevant disclosures:</b> <NA>  |
| <b>LVMH</b>                 | <b>Relevant disclosures:</b> <NA>  |
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