

February 2020 Newsletter

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INVESTMENTS

Themes from February

***World markets** dropped sharply on fears the Covid-19 virus would cause disruption and global slowdown, possibly recession. The MSCI World Index declined 8.6% over February 2020 to 2,141.12.

***China** quarantined the City of Wuhan in central China and closed its airspace to international flights to contain the Covid-19 virus.

***Glencore** reported net loss of \$404m but held its dividend at 20 cents despite adjusted EPS of 18 cents. The board said current commodity prices were weak.

***Crude oil** slumped \$6 per barrel over February as Chinese demand dropped 20% as a result of the extended Lunar New Year holiday and the economic slowdown prompted by the Covid-19 virus.

***Chancellor Rishi Sunak** said he would stick to the March 11th date for the UK Budget.

***Venice Carnival**, the Geneva Motor Show, ITB Berlin and the Mobile World Congress Barcelona were all cancelled due to concern over the virus spread at large gatherings.

***Third Point LLC** run by Dan Loeb has acquired 5% of Prudential plc and urged its board to split up PruAsia from its US annuities business, Jackson National.

***NMC Healthcare** Chairman BR Shetty resigned, and its shares were suspended at NMC's request following a series of corporate governance, accounting failures.

***HSBC** said 35,000 jobs (15% of its workforce) will go by 2023 part of a plan to recover profitability hurt by low global interest rates.

Forthcoming UK Events

3
MAR

UK Construction PMI

4
MAR

CIPS UK Services PMI February / UK 5 YR Gilt Auction

5
MAR

UK New Car Sales

6
MAR

UK Halifax house Price Index

10
MAR

UK 10 YR Gilt Auction

11
MAR

UK Balance of Trade/ Construction Output/ GDP 3 month/ Manufacturing Production

13
MAR

BoE FPC Meeting

17
MAR

UK Average Earnings / UK Unemployment Rate

20
MAR

Public Sector Net Borrowing/ CBI Industrial Trends Orders

24
MAR

CIPS Manufacturing PMI Flash

25
MAR

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

26
MAR

BoE MPC Interest Rate Decision

Performance of World Markets (28/2/2020)

North America

Value

Change

+/(-1M)%

+/(-1YR)%

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DOW JONES (Close)	25,087.10	-3,168.9	-11.22	3.30
S&P 500 (Close)	2,917.0	-308.5	-9.56	4.54
NASDAQ (Close)	8,461.29	-689.6	-7.54	10.98

Europe/UK	Value	Change	+/(-1M)%	+/(-1YR)%
UK 100 INDEX (Close)	6,581.61	-704.4	-9.67	-7.49
EUROSTOXX 50 (Close)	3,322.55	-318.3	-8.74	0.73

Asia/Far East	Value	Change	+/(-1M)%	+/(-1YR)%
SHANGHAI COMPOSITE (Close)	2,880.30	-96.2	-3.23	-27.40
NIKKEI-225 (Close)	21,142.96	-2,062.2	-8.87	-1.15
HANG SENG (Close)	26,129.93	-1,82.70	-0.69	-9.58

United Kingdom

The UK blue chip index was hurt by declines in heavily weighted oil (-15%), miners (-14.3%), travel & leisure (-24.7%) and banking (-14.7%) shares. The selling was indiscriminate but also motivated by average corporate results. The downturn highlighted the problem of the UK's lack of relative breadth and dependence on a few key sectors, all of whom are under pressure.

Lower market interest rates, lower bond yields whilst providing small short-term consumer savings, reduce banks' net interest margin and increases the sector's competitive pressures. Recent 2019 results from RBS, Lloyds, Virgin Money all showed notable declines in NIM.

It seems consumer inertia/ corporate disruption will impact UK companies with supply chains exposed to China/ SE Asia. Of these, Burberry, Diageo, Easyjet and IAG have updated the market.

China/Japan

Post the extended Lunar Holiday, the Shanghai exchange reopened on 3rd February with a 7.7% drop to 2,746.61. This proved the worst of the sell-off, prior to an impressive rally despite the virus damage.



Source: www.google.com

Shanghai's rally could be attributed to dip buying, and possible new economic stimulus. As a frontier market, investors have hard hats, this kind of upset is expected by Shanghai participants. Carrie Lam's (HK CEO) decision to add HK\$10,000 into every adult's

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The sharp decline in 10 year Gilt yields to 0.46% should prompt refinancing activity. However recent gains in fixed income will be sensitive to actual cuts in Base rates, sterling movements and the recent start of US/ EU Brexit negotiations.

account, the first example of 'helicopter money' in Asia could be read as an act of near desperation to inject cash into the economy, an innovative attempt at financial innovation, a blatant bribe to calm public protests, any one or combination of these interpretations. It remains moot whether Hong Kong will recover from recession in 2020.

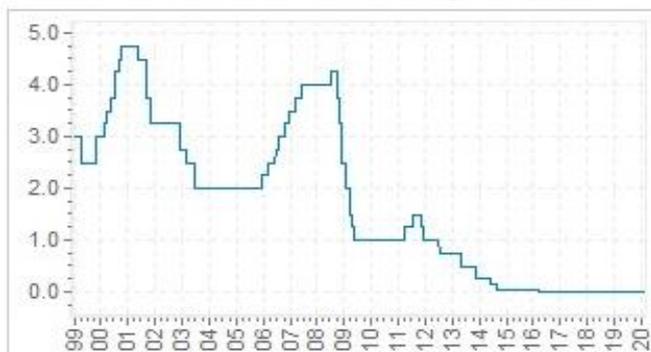
Europe

EU markets underperformed the global sell-off with investors concerned over a Covid-19 outbreak in Italy and disruption at a time of stagnating / slowing GDP growth in the EU.

A €3.6bn fiscal stimulus plan announced by the Italian government will provide tax credits for companies that report a 25% drop in revenues. There is a further €900m worth of measures for the hardest hit Lombardy region. Rome is also seeking Brussels' authorisation for breaching budget deficit rules.

Amongst world central banks, the ECB is in a weak position from the viewpoint of monetary policy given 0% ECB benchmark rates and -0.45% overnight rates. Further rate adjustments are unlikely, but more asset purchases are possible.

Graph European interest rate ECB - long-term graph



source: www.global-rates.com

As in Italy, the EU will need to formulate a fiscal easing plan if the Covid-19 induced slowdown is prolonged. It is the first serious test of the new Commission as it struggles to agree a new 7 year budget.

United States

February's correction in US indices, whilst prompted by Covid-19 is a long overdue reality check on highly rated US stocks. The sell-off modestly reduced the P/E on the US S&P 500 from 24.7x to 23.1x.

The sell off deflated obvious bubbles, Tesla, Virgin Galactic and tempered tech expectations. The Nasdaq P/E fell over February from 25.6x to 23.66x.

US investors are worried about oil majors. The climate change agenda is gaining credibility, but the industry's presentation of itself as part of the climate solution has failed somewhat. Covid-19 prompted a \$12 (-20%) per barrel drop in crude, but the drop in natural gas (-49%) over 6 months appears a more permanent move linked to oversupply/ warm winters.

Market Summary > Exxon Mobil Corporation
NYSE: XOM

+ Follow

53.88 USD +2.44 (4.74%) ↑
Closed: 3 Mar, 06:26 GMT-5 · Disclaimer
Pre-market 54.30 +0.42 (0.78%)

1 day 5 days 1 month 6 months YTD 1 year 5 years Max



www.google.com

Exxon Mobil shares at decade lows, suggests unease about the sector's headwinds, notably social investing, ESG issues, increasing electrification and expectations that decarbonization is beginning in earnest.

Important Information

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Easyjet	Relevant disclosures: <2>
Diageo	Relevant disclosures: <2>
IAG	Relevant disclosures: <1,2>
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