Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 20th January 2017

Morning Round Up

ECB Decision - Status Quo Maintained

As we expected Mario Draghi and the ECB left interest rates and level of QE unchanged. He continued to strike a dovish tone on inflation, stating there was no convincing signs of rising prices. In a message to some of his more hawkish German critics, Draghi urged savers to be patient and wait for higher rates which will come as growth continues to tick up. He refused to be drawn on any Trump related matters and would not comment on Brexit or the Italian banking system. He also reiterated his call for European governments to do more from a structural reform perspective. Overall there was no concession to the hawks and he reiterated the ECB's willingness to act if necessary.

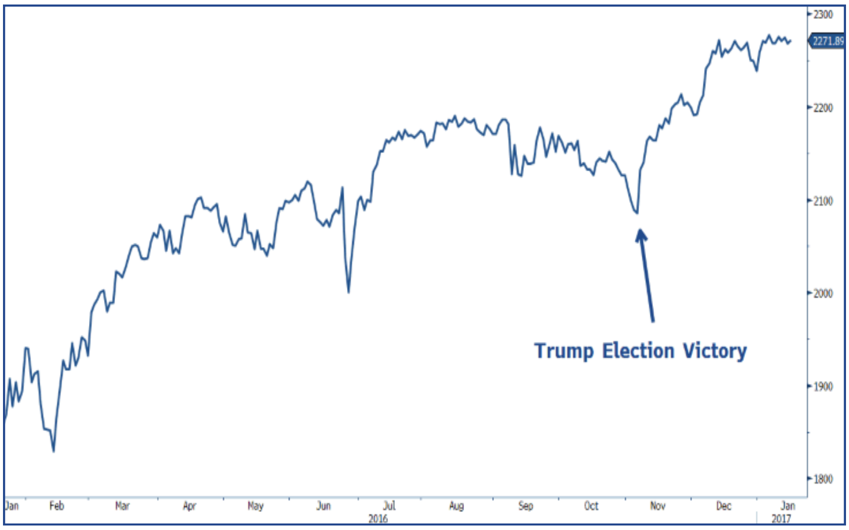
US Data - Continuing Strength

US economic data continues to come in above estimates and on an upward trend. US Housing Starts for December came in 1.226mn vs 1.1mn in Nov, an increase off 11.3% vs an estimate of 8.6%. The continued strength in US housing data bodes well for the construction sector which may have to wait before Mr. Trump's infrastructure plans come to the fore. Initial jobless claims came in less than estimated, which continues to highlight the healthy position the US labour market is in. Lastly the Philadelphia Fed Manufacturing Index had a substantial beat, coming in at 23.6 vs an estimate of 15.8 and a November reading of 19.7. All of this points to the robust state that US economy is in and will surely increase speculation surrounding the magnitude and number of hikes planned by the Fed for 2017.

Trump Inauguration - Buy the Rumour, Sell the Fact?

There will be a great deal of market focus today on Donald Trump's inauguration and remarks following the event. The President-elect has already proven numerous times he has the power to move markets and may do so again today. Some stated policy such as fiscal spending can be good for the US economy. On the other hand the possibility of increased protectionism will undoubtedly be bad in the long term. Traditionally the first one hundred days is where the President sets out their agenda for the next four years. The markets will be hoping that Donald Trump will at least adhere to this tradition.

The Trump Effect - S&P Price Chart



Key Upcoming Events

20/01/17 - Donald Trump's Inauguration

24/01/17 - UK Supreme Court Brexit Appeal

27/01/17 - Next Fed Meeting

Market View

US and Asian markets finished slightly down overnight in anticipation of the Trump inauguration. Following several days of gains, the US dollar and yields depreciated as Yellen made some dovish comments overnight. The ECB decision had little effect on markets. The IEA monthly report showed that crude stocks had declined globally. However, they increased their estimate of US production for 2017 and noted that shale may act as replacement producer to fill the gap left by OPEC cuts. Market focus today will be on German producer prices, UK retail sales, US rig count and most importantly, the inauguration of Donald Trump as the 45th President of the United States.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	19732	-72.32	-0.37%	-0.15%
S&P	2264	-8.20	-0.36%	1.11%
Nasdaq	5540	-15.57	-0.28%	2.92%
Nikkei	19,138	65.66	0.34%	0.12%
Hang Seng	22,886	-164.05	-0.71%	4.02%
Brent Oil	54.54	0.38	0.70%	-4.01%
WTI Oil	51.62	0.25	0.49%	-3.91%
Gold	1203	-1.69	-0.14%	4.85%
€/$	1.0666	0.00	0.02%	1.42%
€/£	0.8640	0.00	0.00%	1.23%
£/$	1.2344	0.00	0.02%	0.03%

	Yield	Change
German 10 Year	0.38%	0.00
UK 10 Year	1.41%	0.01
US 10 Year	2.47%	0.00
Irish 10 Year	0.99%	0.01
Spain 10 Year	1.48%	0.01
Italy 10 Year	1.99%	0.00

Ryanair (Outperform) - **Set to Challenge Lufthansa and AirBerlin** — **Closing Price: €14.95**

News

Last month Lufthansa subsidiaries Eurowings and Austrian Airlines agreed to lease 38 aircraft and their cabin crew from Airberlin, a domestic competitor. Ryanair is expected to challenge this agreement on competition grounds to the German Competition Authority and to Competition Authority at the European Commission. Ryanair is challenging this deal as it gives both Lufthansa and Airberlin a combined 63% share of Germany capacity.

Comment

Germany is a clear region of growth for Ryanair which is aiming to increase its 6% market share in the region to 20% within 5 years. The airline has doubled its presence in Germany over the past 3 years and this looks set to continue in the near term. In November 2016, Ryanair revealed Frankfurt AM Main, as a new German base, which is Europe's 3rd largest airport and the airline's 9th operational base in Germany. We maintain our long standing Outperform outlook on Ryanair as its ever expanding competitive advantage on costs enables it to have a competitive advantage on fares. This should allow it to capture market share from its more expensive, less efficient competitors in Europe. It boasts the highest operating margins in Europe and also has the highest return on investment. Its "Always Getting Better" customer service has dramatically improved its customer image since its inception 3 years ago making cost the biggest differentiator among competitors where Ryanair is the leader. Its ongoing €550m share buyback programme is roughly 80% complete, however we expect share buybacks to be a continual feature of the shareholder distributions chosen by management when its 1 year forward P/E ratio is below 15x (FY17e P/E currently at 14.4x). One of the key features we like in Ryanair is the flexibility to redeploy supply if certain routes are underperforming or if a particular region is experiencing an economic slowdown. This is achieved through the flexible employment contracts it has in place with its pilots. Ryanair will increase its current fleet of 350 aircrafts to 550 by 2024, which provides high visibility on earnings growth over the next 7 years. We also think Ryanair Labs and the recently launched Ryanair Rooms and Holidays should provide upside to earnings in the future.

Stephen Hall, CFA | Investment Analyst

Verizon (Outperform) - **Q4 Results next Tuesday** — **Closing Price: $52.36**

News

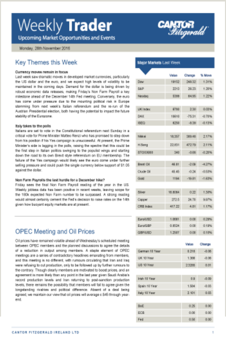
Core Portfolio stock Verizon is to release its Q4 numbers next Tuesday, January 24th. Current expectations are for the telecoms giant to report EPS of $0.896 and Revenue of $32.1bn. Gross margins in the business are expected to remain broadly unchanged over the same period last year, despite rises in price for Verizon's data plans of between $5 and $10. Verizon's $4.8bn acquisition of Yahoo looks set to be completed despite doubts last month about the deal's future in the wake of a massive data breach at Yahoo, where the account information of more than 1 billion accounts worldwide was stolen in 2013 in addition to the personal information of more than 500m users which was stolen in 2014. Legal representatives of Verizon are in the process of creating a fire wall to protect the telecoms company from future liability relating to the data breaches.

Comment

The increases in price were seen as an indication that price cuts by peers have had little impact on Verizon, which has always aimed at competing based on higher service levels rather than engaging in the price wars of competitors like T-Mobile and Sprint. Verizon wants to acquire Yahoo for similar reasons to its acquisition of AOL, in that it wishes to access the platforms advertising and content business. By building scale as an advertising platform which stores the preferences of users, ads can be tailored to suit individual consumers. It is believed the acquisition of Yahoo will catapult the combined company into the number three position for online advertising spend, behind Google and Facebook. We reiterate our Outperform rating given the potential strength of Verizon's overall offering within the mobile advertising space, its continued leading position within the existing telecoms industry and its attractive expected dividend yield of 4.5%.

David Donnelly, CFA | Senior Investment Analyst

Cantor Publications & Resources



Weekly Trader

On Mondays, we release our Weekly note in which we provide a view on Equity markets for the coming days, and highlight a number of Equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meet on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments

[Click Here]

Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our core portfolio, including the Green Effects fund, most recent Private Equity deals and structured product investment opportunities.

[Click Here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Verizon: Verizon Communications Inc. is an integrated telecommunications company that provides wire line voice and data services, wireless services, internet services, and published directory information.

Historical Recommendation

Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then

Verizon: We have been positive on Core Portfolio stock, Verizon, since 26/02/14 and no change has been made to our recommendation since then.

All regulatory disclosures pertaining to valuation methodologies and historical records of the above recommendations can be found on the Cantor Fitzgerald Ireland website here:

http://www.cantorfitzgerald.ie/research_disclosures.php

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