Morning Round Up

Trump - Carrot & Stick Approach
President Donald Trump met with US Chief Executives yesterday in his first meeting with industrial leaders since he was sworn in. It was a mixed bag from the CEOs’ perspective with threats of a “major border tax” on one hand and a “75% cut in deregulation” on the other. Mr Trump stressed that he would look harshly on any companies who seek to move production away from the US but also seek to ensure that firms were incentivised to open new plants in US by facing fewer regulations. Mr Trump is also expected to serve notice that the US will not participate in the Trans-Pacific Partnership and to formally notify Mexico and Canada that he wishes to renegotiate the North American Free Trade Agreement.

French Election - Race Heating Up
The battle for the presidential nomination for the Socialist Party took an unexpected twist on the weekend after unfancied leftwinger Benoit Hamon secured 36% of the vote in the first round, beating the former prime minister Manuel Valls into second place. Hamon is now well placed to win the party’s nomination and would represent a defeat for the more centrist business friendly part of the party. It would also more than likely ensure the Socialists would be beaten into 4th place in the presidential race. Hamon’s candidacy would boost the chances of former economy minister and left of centre candidate Emmanuel Macron who is running as an independent. Macron has surged into third place in the polls, behind Marine Le Pen and Francois Fillon.

US Earnings - Update
Week 2 of earnings season concluded last week with 21% of S&P 500 companies having reported. EPS climbed from $30.93 to $30.81, mainly driven by Financials who beat expectations across the board. In general expectations climbed across most sectors last week, led by Industrials and Tech. The only exceptions were Energy and Consumer Discretionary where estimates fell. It looks like it could be a tough time ahead for the consumer names. So far Consumer Staples have seen the most surprises to the downside while Consumer Discretionary has the biggest downward revisions.

Consumer Discretionary Sector - 1 Year Price Chart

Key Upcoming Events
24/01/17 - UK Supreme Court Brexit Appeal
27/01/17 - Next Fed Meeting
02/02/17 - BOE Rate Decision
09/02/17 - ECB Meeting

Market View
US markets closed slightly down while Asia was positive overnight as markets continued to digest Mr. Trump’s comments. US yields continued to depreciate along with the US dollar which has been weak for a few days. The US dollar is showing some strength in early morning trading however. Sterling continues to show strength in the short term and it looks like the market has priced in the government losing today’s High Court ruling. Oil continued its consolidation as Iraq showed evidence of cutting production. Today market focus will be on Eurozone manufacturing and services PMIs along with US manufacturing PMI and existing home sales.

Market Moves

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<th></th>
<th>Value</th>
<th>Change</th>
<th>% Change</th>
<th>% Change YTD</th>
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<tr>
<td>Dow Jones</td>
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<tr>
<td>S&amp;P</td>
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<td>Hang Seng</td>
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<tr>
<td>Brent Oil</td>
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<td>WTI Oil</td>
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Yield

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<tr>
<td>UK 10 Year</td>
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<td>US 10 Year</td>
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<td>Irish 10 Year</td>
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<td>Spain 10 Year</td>
<td>1.45%</td>
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<tr>
<td>Italy 10 Year</td>
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**SAP (Market Perform) - Share Price Reflective of Outlook**

**Closing Price: €82.87**

**News**
SAP released preliminary FY16 numbers this morning which showed full year operating profit up 20% to €6.6bn and EPS up 3% to €3.89 (+2.5% ahead of market expectations). Management also raised its revenue and profitability targets for 2020 by 5.5% at the midpoint. The results and improvement in guidance is being driven by improved Cloud subscriptions; new bookings rose 40% in Q4.

For the full year of 2016, Cloud subscriptions and support revenue climbed 31% to €3.01 billion, illustrating the success SAP is having in the transition of clients onto its Cloud platform away from high-maintenance server farms.

**Comment**
Despite the strong numbers reported this morning, we are downgrading SAP to Market Perform from Outperform on the belief that the stock price currently broadly reflects the outlook for the company over the medium term, which can be seen in the muted response of the shares in early trading this morning. SAP shares performed strongly in 2016, rising 12.9% and outperforming the DAX index. Though we continue to like the SAP story and the success it is having in the transition of clients onto its Cloud platform, we would look to re-enter the stock at attractive levels lower down.

David Donnelly, CFA | Senior Investment Analyst

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**AryztA (Underperform) - Another Disappointing Trading Update Surprise**

**Closing Price: €42.18**

**News**
This morning, AryztA pre-released a very disappointing trading update statement covering the 6 month period up to the end of January 2017. Management said it expects H1/17 EPS to be 20% behind H1/16. Similarly, it expects FY17 EPS to be lower by a similar amount. The market was forecasting a 7% decline in Net Income YoY for FY17. The stock has opened 15% lower as a result this morning. Management cited underperformance in North America due to weaker sales growth, and margin pressure due to lower operational leverage in its Cloverhill facility which manufactures its Otis Spunkmeyer brand. It also saw higher labour pressure in North America due to a significant skills shortages in many locations. Its facilities in North America are well invested and are capable of supporting a significantly larger volume of business very effectively and efficiently, which would support operational leverage in the business. However, it is up to management to actually deliver this volume growth.

**Comment**
Management said it has initiated price increases to address labour pressures in the US for H2/17. It is also investing in upskilling and developing its employees to deal with labour skill shortages. Management said “the performance in the current period is both unexpected and extremely disappointing”. The key to improving operational leverage in North America is unlocking the potential of its Otis Spunkmeyer brand into the retail channel, which should replace lost co-pack volumes and create a more predictable and higher margin business. We maintain our Underperform rating which has been in place since March 2016 and feel this is another knock to investor’s confidence and trust in the senior management team and its forecasting ability. Sentiment in the company had improved following the company’s Capital Markets Day in October 2016, as the investment community responded well to the improved communication from management and outlined new financial targets to be achieved by 2020 were ambitious but seemed achievable. The appointment of the highly respected Garry McGann as Chairman of the Board also boosted sentiment significantly. However, management has revised down its FY17e EBITA margin range by 250bps to 9% - 10%. It also, expects underlying organic revenue growth in the region of -2% to +1%. Finally, it revised its free cash flow generation capacity range for 2017 lower by €40m to €185m - €235m.

Stephen Hall, CFA | Investment Analyst

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CANTOR FITZGERALD IRELAND LTD
Weekly Trader

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Issuer Descriptions: (Source: Bloomberg)

Aryzta: Aryzta AG produces and retails specialty bakery products.

SAP: SAP SE is a multinational software company. The Company develops business software, including e-business and enterprise management software, consults on organizational usage of its applications software, and provides training services. SAP markets its products and services worldwide.

Historical Recommendation

Aryzta: We have downgraded our recommendation for Aryzta to Underperform from Outperform on 21/03/2016

SAP: We have downgraded SAP from Outperform to Market Perform on the 24/012017 no changes have been made to the 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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