

Tuesday, 9th May 2017

Morning Round Up

British Election – Labour Providing Little Opposition

With a month to go until the British General Election, Theresa May can rest comfortably knowing there is little in the way of achieving an overwhelming majority for the Conservatives. Labour continue to struggle in the polls illustrated recently by a disastrous showing in the local elections. The party remains riven with division between Jeremy Corbyn and his acolytes versus the more centrist members. The public continue to have no faith in the Labour Party's ability to manage an economy or negotiate a Brexit agreement. Finally there is very little confidence in many of the nominated Labour front bench, most notably Diane Abbott who has a historical tendency to make public gaffes. If Mrs May wins the election in a convincing manner it may further embolden the combative rhetoric towards the EU she has recently been engaging this. This would make the prospect of a drawn out Brexit negotiation all the more likely.

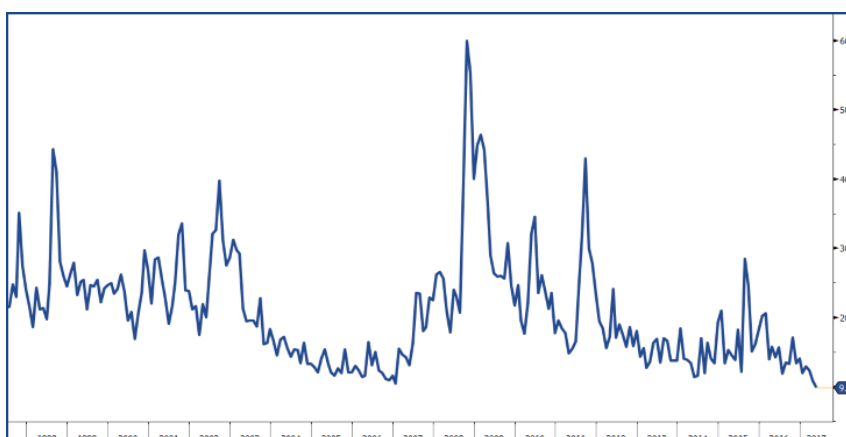
Germany – Regional Election Key Barometer

Voters in the populous North Rhine-Westphalia (NRW) go to the polls on Sunday in what many German commentators are saying will be a good indicator for now the September national elections will pan out. The German election is now less of a worry as the anti-EU party, the AFD, has suffered substantially in the polls and is engaged in a leadership battle. Voters are rallying around the centrist parties, the Christian Democrats under Angela Merkel and the Social Democrats under Martin Schulz. Mr Schulz had been gaining momentum and had reinvigorated the main opposition party. However, he has recently suffered setbacks losing two regional elections and slipping back in the polls. The latest opinion polls in NRW have both parties neck and neck. Both leaders will be campaigning in the region this week.

VIX – Volatility at Record Lows

In the aftermath of the Trump election one characteristic has defined this market - a lack of volatility. Numerous records have been broken including number of consecutive days without a 1% drop and positive day streaks on the Dow. Yesterday another milestone was set. The CBOE Volatility Index (VIX), a measure of market volatility, dropped to 9.77. This is the lowest reading since 1993. While tax plans, North Korea and trade agreements all populate the daily headlines, analysts are instead focused on declining political risk in Europe, one of the best global earnings season in a decade and signs of strengthening economic growth.

VIX 20 year chart



Key Upcoming Events

08/06/17 - UK General Election
13/06/17 - Fed Meeting

Market View

Asian markets finished down overnight on the back of a flat US session as the Macron win did not push markets higher as expected. This should be short term as declining political risk and a very strong earnings season should see indices move higher as we get closer to the summer. Oil managed to hold onto some gains yesterday following confirmation from Saudi Arabia and Russia that they are open to extending production cuts beyond June. Today is a light day data wise with the major releases being US job openings and German industrial production.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21012	5.34	0.03%	6.32%
S&P	2399	0.09	0.00%	7.17%
Nasdaq	6103	1.90	0.03%	13.37%

Nikkei	19,843	-52.70	-0.26%	3.81%
Hang Seng	24,728	149.85	0.61%	12.40%

Brent Oil	49.37	0.03	0.06%	-13.11%
WTI Oil	46.59	0.16	0.34%	-13.27%
Gold	1227	0.53	0.04%	6.91%

€/\$	1.0913	-0.0011	-0.10%	3.77%
€/£	0.8436	-0.0006	-0.07%	-1.16%
£/\$	1.2935	-0.0005	-0.04%	4.82%

	Yield	Change
German 10 Year	0.44%	0.021%
UK 10 Year	1.17%	0.023%
US 10 Year	2.39%	0.006%

Irish 10 Year	0.90%	0.030%
Spain 10 Year	1.62%	0.033%
Italy 10 Year	2.28%	0.033%

IFG (Outperform) - improvement in guidance for H2/17

Previous Close: €13.03

News

IFG released a trading update for the period January to March of this year this morning that shows progress is being made across a couple of fronts. Total assets under administration and advice increased £28bn up 5% since December 2016 and 17% compared to March 2016. Specifically with regards to James Hay, assets increased to £23.3bn, up from £22.1bn in December 2016. Importantly, new clients came in at 1600, up 45% from the same period in 2016. These new clients also had a higher average case size while the attrition rate remained in line with 2016. Assets in Saunderson house grew by £0.1bn to £4.7bn with new client wins of 86 in Q1/17.

Comment

This was a solid update from IFG with healthy growth in assets and new client wins. The picture also looks brighter for the second half of the year. BOE interest rate changes had negatively affected the James Hay business but this effect has been reduced due to pricing changes that management have implemented. The increased investment in James Hay, which management had committed to despite the short term revenue challenges, has now peaked. Management stated “we expect the benefits (of that investment spend peaking), together with pricing changes, reduced run rate on cost in H2/17, and strong Q1 client & asset growth, to drive a much-improved financial performance in H2/17”. We maintain our Outperform rating

[Will Heffernan | Investment Analyst](#)**Grafton Group (Under Review)** - Solid trading update with change in guidance

Previous Close: £7.72

News

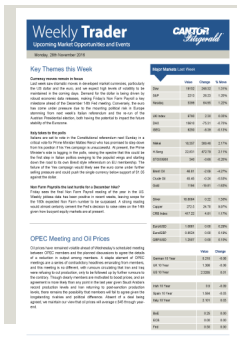
Grafton released a trading update for January to April of this year with generally solid results. Overall sales growth came in at 6.1% which was up from 4.7% from January to February of this year. UK Merchanting rose by 4.8% while the Irish Merchanting business continued its stellar performance with 13.6% growth, driven by the robust activity in the Irish construction market. Its UK brand Selco continues to expand and remains on track to open at least ten new branches in 2017. Irish Retail, namely its Woodies operation, also performed very well with 11.2% growth. Grafton's development in the Netherlands remains on track while their Belgium operation faces some headwinds that management had already flagged up previously.

Comment

This is another solid update from Grafton at a time when the UK building sector is facing many uncertainties. Overall revenue across all divisions has grown in 2017 and have seen a pickup over the last few months. Management continues to invest for the future by expansion of their premium Selco brand. The company also continues to benefit from a cost and pricing restructuring program carried out mid-2016 that has allowed them to protect margins. Grafton benefits from its UK peers by having the diversification of revenue across Ireland, Holland and Belgium. In a Brexit related difficult environment it is likely Grafton will outperform its peers due to these diversified revenue streams. The share price is up approx. 40% year to date on the back of very solid Q4/16 results and optimistic management guidance regarding the UK market. In this release management stated while the overall outlook remains positive, “in view of recent economic and political developments we are more cautious about the prospects for the UK business”. In light of the recent rally, coupled with the change in management guidance we would advise actively trading clients to take profits. From a longer term perspective the indicators for the UK construction sector continue to paint a mixed picture with regards to growth. We maintain our Under Review rating.

[Will Heffernan | Investment Analyst](#)

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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.

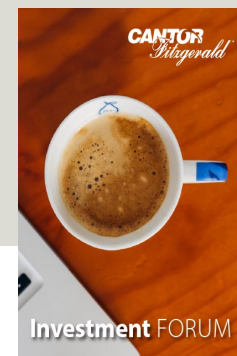
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Grafton Group: Grafton Group PLC manufactures and retails building supplies.

IFG: IFG Group PLC is a focused financial services company. The Company offers full platform services, pension administration and independent financial advice.

Historical Recommendation

Grafton Group: We have placed Grafton Under Review having been positive since 07/03/13 .

IFG: We have been positive on IFG's outlook since 17/05/14 and no changes have been made to the recommendation since then.

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