Daily Note
Views, news and topics from today's markets

Cantor Fitzgerald

Wednesday 21st March 2018

Morning Round Up

Key Upcoming Events

21/03/2018 FOMC Meeting

22/03/2018 BOE Meeting

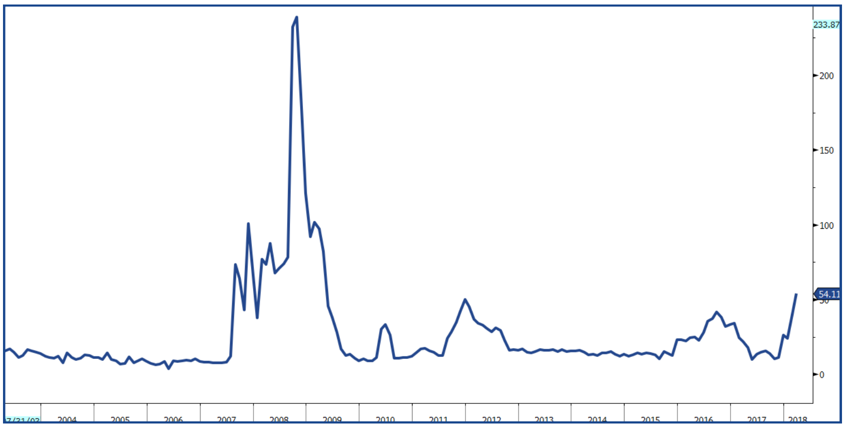
Powell's First Rodeo

Jerome Powell has been chairing his first Fed meeting since yesterday and will deliver his press conference at 6.30pm our time. It is expected that the FOMC will agree another 25bp hike in its base rate. With that already priced in, the focus moves onto other issues. Firstly, this is Mr Powell's first meeting as Fed Chair. Upon appointment, Mr Powell was widely expected to continue where Janet Yellen left off, having never once had a dissenting vote while on the FOMC. He tilted slightly to the hawkish side in his testimonies to Congress and the Senate, but not to enough of a degree to imply a change in guidance. Today will provide some more colour on the matter. The Fed's median projection is for 3 rate hikes in 2018, followed by another 2 in 2019. Up until recently, the market was of the opinion that 2-2.5hikes was appropriate. The market has moved its expectations up to 2.5-3 hikes but there has been increasing chatter that the Fed now faces a choice between 3 or 4 hikes, driven by the stimulating effects of the tax reform package. Mr Powell's statement will be watched closely to see if he emphasises the robust side of the economy or some recent data which has come in weaker than expected (Atlanta Fed with 1.7% growth in Q1/18). The FOMC is expected to update its GDP forecasts along with its Dot Plot, which will tell us whether or not FOMC expectations have moved to 4 hikes. The messaging around this will have to nuanced as the Fed wants to remain committed to its "gradual" approach and not move too quickly on the back of a few inflationary data points, which may or may not prove to be transitory at a later date. From a longer term perspective, the Fed also has to analyse if the effects from the tax reform are sustainable or are likely to peter out after a few years.

Libor-OIS Spread Worth Monitoring

We had previously mentioned the widening in the Libor/OIS spread. This spread is a good measure of underlying stress in the market. However, this latest widening appears to be driven by the market realization that we are moving into an era of higher funding costs. There does not appear to be any particular credit stress, either in the US or Europe, that would normally drive this spread. As of now, the market is scratching its head for a definitive explanation. There could be several short terms factors behind it. Increased risk premium stemming from uncertainty over whether the Fed will go 3 or 4 times. Dollar repatriation (as a result of the tax reform) may ultimately lead to less cash being available to be lent. Lastly, an overall increase in issuance in US Treasuries, which coupled with Fed unwinding of the balance sheet, has led the market to drive rates higher. Whatever the root cause may be, the spread widening has yet to cause much worry in markets as of yet.

Libor-OIS Spread



Source: Bloomberg, CF Research March 2018

Market View

Asian markets were little changed overnight as investors await the Fed meeting today. Europe followed suit with little change at the open. Energy shares traded higher as Mr Trump again mentioned the possibility of new sanctions on Iran. Focus today will be on the Fed meeting with analysts also keeping one eye on UK interest rates in advance of the BOE meeting tomorrow. There are some notable companies reporting earnings over the next two days, including Tencent and Nike.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24727	116.36	0.47%	0.03%
S&P	2717	4.02	0.15%	1.62%
Nasdaq	7364	20.06	0.27%	6.68%
Nikkei	21,381	-99.93	-0.47%	-6.08%
Hang Seng	31,415	-135.41	-0.43%	5.00%
Brent Oil	67.72	0.30	0.44%	1.27%
WTI Oil	63.77	0.23	0.36%	5.54%
Gold	1317	5.76	0.44%	1.10%
€/$	1.2277	0.0035	0.29%	2.27%
€/£	0.8735	-0.0010	-0.12%	-1.64%
£/$	1.4055	0.0057	0.41%	4.01%

	Yield	Change
German 10 Year	0.60%	0.011%
UK 10 Year	1.51%	0.027%
US 10 Year	2.89%	-0.006%
Irish 10 Year	1.02%	0.014%
Spain 10 Year	1.32%	0.012%
Italy 10 Year	1.92%	0.019%

Source: Bloomberg, CF Research Mar 2018

IFG - Mixed results for FY17 Closing Price - €2.06

News

FY16 revenue at £78.3mln versus £78.4mln and a miss on consensus expectations at £80mln. Management had flagged that lower interest rates would impact earnings in the James Hay (JH) business but expected re-pricing in H2 to make up the shortfall. JH recoded revenues of £46.1mln were down from FY16 at £47.4, while Saunderson House (SH) recorded revenue growth of £1.3mln at £32.2mln. Operating Expenses before exceptional items were down with a saving of approximately £2.4mln on staffing costs generating an increase in operating profit before exceptional items of £8.3mln versus FY16 of £7.9mln. Exceptional items increased to £8.8mln, of that £5.3mln relates to on-going exposures relating to the sale of their international unit in Jersey and a tax dispute with HMRC. Currently management have built provisions of approx. £5mln to cover legal expenses and settlement costs. Both business experienced good client and assets under advice/administration (AUA) growth. JH grew client assets to £25.1bn, up 15% on FY16, by adding 2,500 new clients bring total clients to 54,924. Similarly SH grew assets to £5.1bn, up 10% on FY16 and added 247 new clients bring total clients to 2,121. Finally management stressed that they were considering the sale of SH "if it will deliver appropriate shareholder value, benchmarked against the future potential of the business if held within the Group.". Finally as per the trading update in February, the dividend has been suspended due to on-going legacy exposures.

Comment

Mixed results from IFG this morning, with good client and AUA growth along with some operating efficiencies achieved but disappointments on headline revenue, increased exceptional items and no concrete guidance on SH sale. Taking the positives first, growth in AUA and clients signals management's ability to drive their platforms and products. In a normal operating environment the core business is operating well and is generating cash. Operating efficiencies are also welcome and a headline reduction in staffing cost of £2.4mln is good, although there is an additional exceptional cost of £1.3mln in redundancy costs. We would like to see management further drive the cost agenda, and particularly focus on staffing cost which account for approx. 63% of revenues (FY16 66%). Looking at the other side of the coin, the revenue miss is disappointing. Management had flagged at half year that lower interest rates would be a drag on revenue but they were confident that this could be recouped with expected re-pricing within the JH platform, which was not achieved. The exceptional items are also worrying, having recognized £10.5mln in exceptional items over the past two years, only £5mln of this has made its way to the balance sheet as a provision. In addition, most of the provisioning is for legal costs with very little set aside for settlement of the legacy issues. We would expect additional costs associated to these issues in future. Finally there is little information on SH future, which makes it difficult to interpret if the strategy is generating value for shareholders. We update our rating from Outperform to Under Review pending our meeting with management.

Pierce Byrne, CFA | Investment Analyst

Facebook - Data issues likely to continue in the short term Closing Price - $168.15

News

Facebook fell a further 2.56% yesterday after a 7% decline on Monday, as the revelations regarding data usage and the US election continue to weigh on the stock. The scandal is centered around a UK political consulting firm called Cambridge Analytica (CA), which is alleged to have used data scraped from 50m Facebook profiles to influence the US election, through a series of tailored advertisements and coordinated actions. CA are alleged to have used this data improperly but it remains to be seen if this was done with the knowledge of Facebook. Facebook were made aware of the issue that allowed CA to harvest data in 2015 but appear not to have taken any action. CA have stated that it deleted the data when it became aware that it was not obtained in line with FB's terms of service.

There has been very little comment from FB management as of yet, with Mark Zuckerberg conspicuous by his absence. Media speculation yesterday implied he may be asked to testify before a UK House of Commons panel. Separately, there has also been speculation that the US Federal Trade Commission (FTC) may launch its own investigation. The clamour for increased scrutiny and accountability, especially from politicians and regulators, is likely to escalate over coming days.

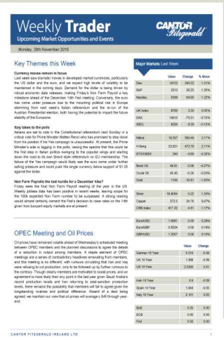
Comment

This issue is difficult to quantify from a fundamental and EPS perspective. FB had already committed to changing its model and increasing security in the wake of Russian interference in the US election, so it remains to be seen if this issue requires any further escalation or increase in costs on top of what management has already guided for. For us, this does not represent a risk to revenue or EPS expectations currently. FB currently trades at an FY19 P/E of 20x, which in our view represents good value.

However, this issue will likely still weigh on the share price to the level of uncertainty. Critical to this is management's handling of the debacle. Management need to be seen to take ownership of the issue, come fully clean and pledge to do whatever is necessary to ensure that it doesn't happen again. Management will have to stop the negative feedback loop that these type of events tend to create. If it does, that should stem declining price action in the short term, conditional on no further negative elements coming to light in the media or from any investigative probe. From a pricing perspective, there is good support at $155 level. Investors bought the stock into the US close last night, which bodes well. We will continue to monitor the situation over the coming days and weeks. We maintain our Outperform rating.

Will Heffernan | 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 meets 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.

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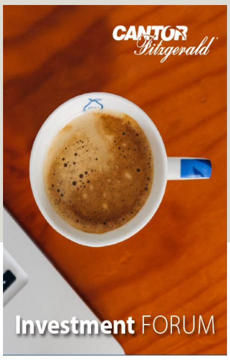

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

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

Facebook: Facebook Inc. operates a social networking site.

Historical Recommendation:

IFG: We have been positive on IFG"s outlook since 17/05/14. We are moving our rating to Under Review as of 21/03/2018, Cantor Fitzgerald Ireland clients hold a significant portion of IFG stock.

Facebook: We have been positive on the outlook for Facebook, and it was added to the core portfolio on the 11/05/2015 and no changes to our recommendation have been since.

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