

Tuesday, 10th July 2018

Morning Round Up

Johnson departs

Boris Johnson has joined David Davis as the [latest departure](#) from May's cabinet. The former Foreign Secretary and face of the Brexit campaign in 2016 has further added to the division in the party, following the "softer Brexit" deal reached on Friday. After Johnson's resignation attention immediately turned to the possibility of a no confidence vote in the Prime Minister. However it now looks unlikely, in the immediate term at least, with the 48 vote threshold unlikely to be met. May retained the balance of "Leavers" to "Remainers" in her cabinet by appointing the former Health Secretary, Jeremy Hunt, to replace Johnson. It remains unclear what the next step is for the legislation or the extent of further challenges that will come from within the party. It was a roller-coaster of a day for the pound with market reacting quite positively to Davis's resignation as a softer Brexit appeared more likely. However this quickly turned to it selling off as news of Johnson broke. Our view of EUR/GBP moving toward the 0.90 level remains.

Defensive sectors coming back into vogue

We have been highlighting the [dispersion in sector performance](#) and [increase in volatility](#) in 2018 that is in stark contrast to what we saw in 2017. This has illustrated the need for [good portfolio management](#) with diversification both across [sectors](#) and [asset classes](#). Morgan Stanley yesterday downgraded its rating on US Tech stocks, a growth, high beta sector to underweight. It upgraded Consumer Staples and Telecom Services, both defensive sectors, to overweight. This follows on from it also upgrading Utilities, another defensive sector, to overweight last month. Here at Cantor we do not expect the recent volatility to subside in the short term and wish to stress again the benefits of portfolio management and [diversification](#).

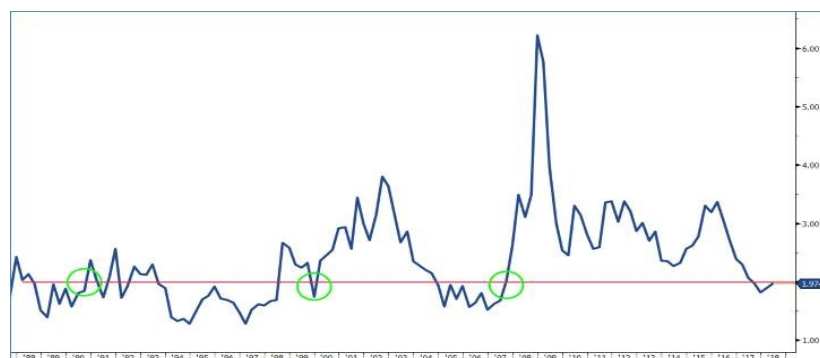
Earnings seasons lead in

As we said in our [earnings season preview](#), we believe the majority of focus will be on margin pressures and management comment & outlook in a changed environment. In advance of it kicking off in earnest this Friday we are seeing some positive revisions most notably in the Energy sector. This has resulted in EPS expectations for S&P500 and Eurostoxx 600 moving up by 4% this week.

Another red flag but still overall green

As we highlighted recently, we keep an eye on numerous indicators ([Chart of the Month](#)) that give us some indication as to the state of the underlying economy and equity market. One of these indicators is the spread between Investment Grade debt and US 10 year yield. It moved past 2% yesterday (has since moved back to 1.97%). Again like the [2-10 spread](#), this is not enough in itself to indicate hard times immediately around the corner and the overwhelming majority of indicators are still [very healthy](#). But it is worth noting.

US Investment Grade & 10 Year Yield Spread



Source: Bloomberg, CF Research July 2018

Key Upcoming Events

11/07/2018 US Core and Headline PPI
 12/07/2018 US, German and French Inflation
 12/07/2018 US Earnings Season

Market View

The main movers yesterday were sterling and UK equities, both of which were weaker on the all the Brexit headlines. Elsewhere the US saw continued rotation from growth into defensive sectors as has also been happening in Europe. Equity markets have performed well in recent days due to the lack of tariff talk and strengthening economic data. Oil continues to maintain recent highs as US inventory numbers yesterday showed a bigger drawdown than expected. Focus will now move onto earnings season which begins on Friday.

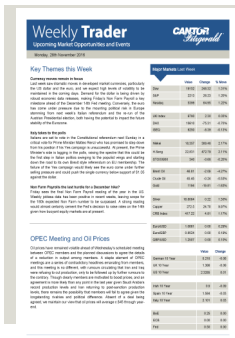
Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24777	320.11	1.31%	0.23%
S&P	2784	24.35	0.88%	4.14%
Nasdaq	7756	67.81	0.88%	12.35%
Nikkei	22,197	144.71	0.66%	-2.50%
Hang Seng	28,739	50.39	0.18%	-3.94%
Brent Oil	78.74	0.67	0.86%	17.75%
WTI Oil	74.2	0.35	0.47%	22.81%
Gold	1257	-0.91	-0.07%	-3.53%
€/\$	1.1744	0.00	-0.06%	-2.17%
€/£	0.8843	0.00	-0.23%	-0.43%
£/\$	1.3281	0.00	0.16%	-1.72%

	Yield	Change
German 10 Year	0.325	0.03
UK 10 Year	1.298	0.05
US 10 Year	2.8692	0.01
Irish 10 Year	0.82	0.02
Spain 10 Year	1.298	0.00
Italy 10 Year	2.66	-0.0080

Source: Bloomberg, CF Research July 2018

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.

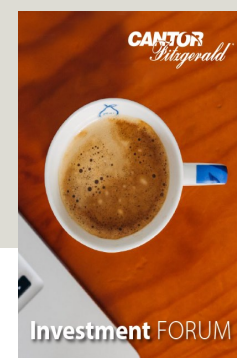
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