

Thursday, 20<sup>th</sup> September 2018

## Morning Round Up

### US Yields pushing close to previous May highs

Yesterday saw the yield on a 10-year US Treasury hit 3.09% in an intraday high, coming close to the previous high reached back in May of 3.12%. The move comes in conjunction with a steepening of the yield curve. The 2s10s spread widened by c. 6 bps to 26.9bps over the past two days. US financials had a positive day, moving up 1.76%, as the sector is the biggest beneficiary of both higher yields and a steeper curve. The market has mostly ignored recent increases in yields partly due to the yield curve flattening but at current levels and with a wider 2s10s spread the market should take more notice. The relative value argument comes into focus again as the yield on a 2 year Treasury hits 2.80% versus the S&P which yields 1.80%. Continued upward movement in yields should tempt investors out of equity into treasuries, which would generate a short term headwind for equity markets. With expectations of a rate hike fully priced in for next weeks Federal Reserve meeting, a more hawkish outlook by the FOMC should push rates higher. If yields push past previous highs of 3.12% for consecutive sessions we should see some weakness in equities as corporate borrowing costs rise.

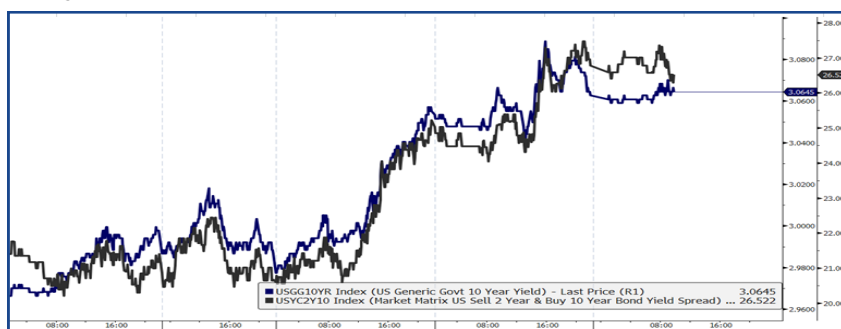
### Soundings from Salzburg turn negative

The narrative being pushed from EU officials over recent weeks has been conciliatory and positive in relation to agreeing terms with the UK prior to their exit from the European Union. After day one of the Leaders summit in Salzburg the outlook is not quiet as bright. Leo Varadkar commented that they are no closer to a deal than in March and EU President Jean-Claude Juncker said a Brexit deal is "far away". Theresa May has issued a clear red line on the Irish border calling the EU position "not credible". May has backed her Government partner's, the DUP, position that Northern Ireland should not be governed under different rules to the rest of the union. May also categorically ruled out another referendum after Treasury minister Mel Stride raised the possibility earlier in the day. Talks continue today as leaders balance the need to secure a strong deal for Europe as well as concede enough to Mrs May so she can get a deal through UK parliament. Sterling weakened on the back of a negative outlook relative to earlier in the week and is currently trading close to £0.887. We expect a summit to be announced for November to sign an exit agreement even if the deal is not fully agreed.

### US and Canada talks approach deadline

Talks between U.S. Trade Representative Robert Lighthizer and Canadian Foreign Minister Chrystia Freeland continue today as officials push to agree terms with Canada. A deal is likely needed within days to meet a deadline that would allow it to be signed by Mexico's outgoing president as President Trump has threatened to move forward with Mexico excluding Canada. The Canadian side are keen to agree a deal, however, they note there is still some distance between either sides position. While China remains the global trade story, a resolution of NAFTA would be a positive for equity markets.

### 5 Day US 10 Year Yield & 2Y V 10Y Spread



Source: Bloomberg, CF Research September 2018

### Key Upcoming Events

20/09/2018 EU Leaders Summit  
26/09/2018 Fed Interest Rate Decision  
30/09/2018 Conservative Party Conference

### Market View

US markets closed flat yesterday with most sectors down. Financials bucked the trend as US 10 year yields hit 3.09% in intraday trading as well as the 2s10s spread widening. With little news overnight, China drifted. Japan tread water as Abe set to become Japan's longest serving Prime Minister. Europe opened up this morning. Markets will be looking to Slazburg for guidance on Brexit. On the data front, there is UK retail sales figures and some existing home sales data from the US.

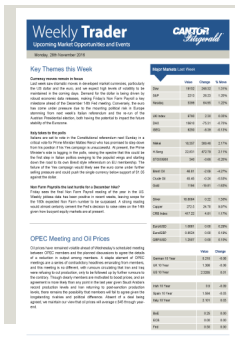
### Market Moves

|           | Value  | Change | % Change | % Change YTD |
|-----------|--------|--------|----------|--------------|
| Dow Jones | 26406  | 158.80 | 0.61%    | 6.82%        |
| S&P       | 2908   | 3.64   | 0.13%    | 8.76%        |
| Nasdaq    | 7950   | -6.07  | -0.08%   | 15.16%       |
| Nikkei    | 23675  | 2.41   | 0.01%    | 4.00%        |
| Hang Seng | 27478  | 70.30  | 0.26%    | -8.16%       |
| Brent Oil | 79.53  | 0.13   | 0.16%    | 18.93%       |
| WTI Oil   | 71.54  | 0.42   | 0.59%    | 18.40%       |
| Gold      | 1202   | -1.68  | -0.14%   | -7.71%       |
| €/\$      | 1.1696 | 0.00   | 0.20%    | -2.57%       |
| €/£       | 0.8865 | 0.00   | -0.17%   | -0.18%       |
| £/\$      | 1.3193 | 0.00   | 0.37%    | -2.37%       |

|                | Yield  | Change  |
|----------------|--------|---------|
| German 10 Year | 0.484  | 0.00    |
| UK 10 Year     | 1.606  | 0.00    |
| US 10 Year     | 3.0645 | 0.00    |
| Irish 10 Year  | 0.971  | 0.00    |
| Spain 10 Year  | 1.507  | -0.02   |
| Italy 10 Year  | 2.82   | -0.0280 |

Source: Bloomberg, CF Research September 2018

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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.

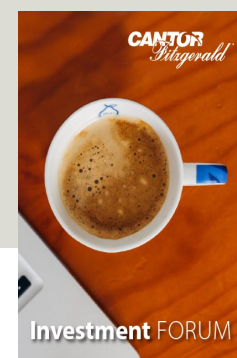
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