

Friday, 16th November 2018

Morning Round Up

Brexit deal weighs on markets

In what has been a hectic 48 hours on the Brexit front, markets have not reacted well to the looming uncertainty created by the draft exit agreement. On Wednesday evening, Mrs May confirmed she had received majority support from her cabinet for the agreement. Thursday morning then saw a number of resignations, Dominic Raab, the Brexit Secretary, the highest profile. After a gruelling three hour debate in commons, Mrs May stood defiant in defensive of the only deal on table. Throughout Thursday, Tory backbenchers were submitting letters of no confidence in May's leadership, including prominent Brexiteer Jacob Rees Mogg, with speculation this morning indicating that the 48 letters required to trigger a confidence vote will be reached today.

Investors moved to the side lines yesterday as equities sold off. The pound weakened and UK yields fell. The UKX index closed flat yesterday, however, the dispersion of performance across sectors was stark. Banks and Real Estate performing very poorly but export focused companies gained on a weaker pound. The wider and more domestic MCX index, covering the top 250 companies, fell by 1.3%. The worst performing equity market in Europe was the Irish Stock Exchange, which fell 3.8%. UK exposed companies like Bank of Ireland, ICG and Ryanair all sold off heavily in a move that sets the tone for the potential impact a hard Brexit could have on Ireland. The pound weakened against both the euro and the dollar. The pound held a level close to £0.885 against the Euro and traded down to \$1.278 the dollar. UK gilts provided safety as investors drove the yield on the 10 year down 12bps to 1.38%.

The outlook into year end for the Brexit process is very unclear. As Mrs May moves forward with the current deal, Tory backbenchers will be plotting her downfall. The likelihood of the current deal getting through a commons vote is slim, the EU have also indicated that any renegotiation of the terms is off the table. This leaves two options, either a no deal exit or a second referendum. If May loses a confidence vote, we would expect this to lead to a general election as there is little consensus on an alternative government. The EU has indicated that it would likely accommodate a UK election process. For markets, a hard Brexit poses downside risks to UK equity markets and significant downside risk to Irish equities. We would also expect the pound to weaken further. The gilts market seems to be ignoring Governor Carney's warning that a hard Brexit could result in higher interest rates as yields fell yesterday. A softer/market friendly event would be a positive for markets. The next hurdle for May will be filling her cabinet, as the market awaits indication on where Michael Gove's support lies, which is seen as crucial for May's survival.

Aryzta complete capital raise

Aryzta announced that 97.4% of its fully underwritten rights offering were exercised. Previous investor concerns were that the banks underwriting this capital raise would be left with a significant amount of stock and leave a negative overhang on the stock. The results of the rights issue removes this risk, as only 2.6% of rights were not exercised. Management have reiterated their intention to use the majority of the €790m capital raise for term loan repayment. Subsequently, Aryzta should no longer trade as a distressed company and could potentially re-rate from c.6.6x EV/EBITDA to 7.5-8xEV/EBITDA over the next twelve months provided that management delivers on recent guidance of EBITDA growth in 2019. At €1.19, our recommendation on Aryzta shares have moved from Underperform to Outperform.

Key Upcoming Events

21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

Fears over Brexit led the ISEQ to drop by 3.8% yesterday, the largest fall in 2 years. However they, along with the broader European market, have bounced back this morning. Despite a strong day yesterday in the US, futures are pointing to a negative opening as trade relations between the US and China continue to take centre stage. Oil's bounce back continued this morning gaining by 1.5% following two consecutive positive days. Yields are up this morning with the US and German 10 years rising to 3.11% and 0.373% respectively. The pound has strengthened this after selling off heavily yesterday .

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25289	208.77	0.83%	2.31%
S&P	2730	28.62	1.06%	2.12%
Nasdaq	7259	122.64	1.72%	5.15%

Nikkei	21680	-123.28	-0.57%	-4.76%
Hang Seng	26184	80.19	0.31%	-12.49%

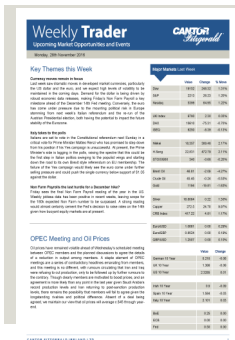
Brent Oil	67.55	0.93	1.40%	1.02%
WTI Oil	57.2	0.74	1.31%	-5.33%
Gold	1216	2.68	0.22%	-6.66%

€/\$	1.1354	0.00	0.23%	-5.42%
€/£	0.8858	0.00	-0.10%	-0.25%
£/\$	1.2817	0.00	0.34%	-5.15%

	Yield	Change
German 10 Year	0.373	0.01
UK 10 Year	1.401	0.03
US 10 Year	3.114	0.00

Irish 10 Year	0.98	0.01
Spain 10 Year	1.621	-0.01
Italy 10 Year	3.46	-0.0380

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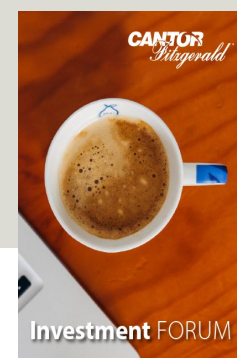
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Aryzta: Aryzta produces and retails specialty bakery products.

Historical Recommendation:

Aryzta: We changed our recommendation for Aryzta to Outperform from Underperform on 16/11/2018

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