Daily Note

Views, news and topics from today's markets

Friday, 9th November 2018

Morning Round Up

FOMC stay on track

The Federal Reserve concluded its meeting yesterday and as expected they announced no changes to their monetary policy from the September meeting. The unemployment rate was described as "declining" and business fixed investment has "moderated from its rapid pace earlier in the year". It was however the issues that the Fed did not mention that would cement a rate rise for next month. These issues include a strong dollar, Oil slipping into a bear market (which will drag on inflation), weakness in US housing, the emerging market crisis and the volatility in the stock market during October. Not mentioning these issues is a tell tail sign that they will follow through with raising rates in December as these would reason to defer from the hike. It appears the new figures at the top of the Fed are taking a different stance to predecessors when it comes to raising rates, they will no longer pause the hikes during stock market turbulence. This was seen as a contributing factor to asset bubbles formed during the Alan Greenspan era. The fed also left its interest on excess reserves (IOER) rate unchanged at 2.20% as expected. This fed meeting was as anticpated and delivered as a non-event for markets, as stated in yesterday's daily, with the S&P finishing the day pretty much level with a slight decline of 0.25%. The omissions from its official statement however t-up the expected rate hike in December.

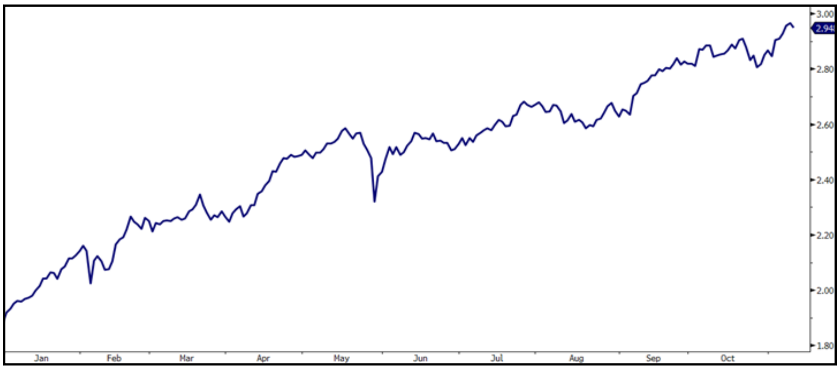
New lending measures weigh on Chinese stocks

Chinese banking stocks plunged amongst the wider Chinese sell off over night as policy makers set targets for banks for lending into the country's private sector. The Banking and Insurance regulator decreed that at least a third of loans must be lent to non-state companies. The measure aims to pump money into the private sector to support growth, which has been struggling. For the banking sector, non performing loans are expected to spike adding to an already large credit issue on Chinese bank's balance sheets.

EU economic forecast increase tensions with Rome

The European Commission released its forecast for the Italian economy, coming in behind the Italian governments estimates. The commission is forecasting 1.2% growth next year (Italian forecasts are at 1.5%) and it sees Italy breaching the deficit rule of 3% by 2020. Italian finance minister, Giovanni Tria, dismissed the report accusing the commission of a "technical fault". Italy are expected to return a revised budget to the commission by Tuesday (13th of Nov). We expect continued conflict between Italy and the EU to drive market volatility, with particular downside for European Financials.

US 2 Year Treasury Yield



Source: Bloomberg, CF Research November 2018

Key Upcoming Events

13/11/2018 Revised Italian Budget
21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

US stocks had a mixed day with the S&P and the NASDAQ finishing marginally down with the Dow up 4bps on a day where the Fed reiterated its hawkish stance. Asia had a weaker trading day overnight, as Chinese data disappointed and new lending measures dampened sentiment. Europe opened weaker this morning. US yields rose, with the 2 year trading at 2.96% this morning. As Q3 earnings comes to a close, focus will likely revert to geopolitics and trade in the US and Europe. On the data front, there is a range of UK data points available today, that the market will be watching as Brexit speculation continues.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26191	10.92	0.04%	5.95%
S&P	2807	-7.06	-0.25%	4.98%
Nasdaq	7531	-39.87	-0.53%	9.09%
Nikkei	22250	-236.67	-1.05%	-2.26%
Hang Seng	25602	-625.80	-2.39%	-14.43%
Brent Oil	70.47	-0.18	-0.25%	5.38%
WTI Oil	60.34	-0.33	-0.54%	-0.13%
Gold	1221	-2.64	-0.22%	-6.25%
€/$	1.1335	0.00	-0.25%	-5.58%
€/£	0.8713	0.00	0.15%	-1.89%
£/$	1.3009	-0.01	-0.41%	-3.73%

	Yield	Change
German 10 Year	0.427	-0.03
UK 10 Year	1.532	-0.03
US 10 Year	3.2041	-0.03
Irish 10 Year	0.987	-0.02
Spain 10 Year	1.6	-0.01
Italy 10 Year	3.44	0.0460

Source: Bloomberg, CF Research November 2018

Allianz– Strong underlying performance drives growth

Closing Price - €187.02

News

Allianz published results this morning, which should be well received by the market. Allianz continues to be one of the strongest names in global insurance. Total revenues increased by 7.9% to €30.5bn in the quarter. Operating profit beat estimates at €2.99bn against top end analysts estimates of €2.97bn. Net income came in at €1.92bn ahead of estimates of €1.90bn. Profitability was well ahead of FY17, with a annualised return on equity for the first 9 months of 2018 of 13.8% ahead of 11.8% for FY17. Solvency remained strong at 229% down from the June month end figure of 230%.

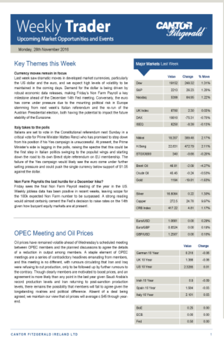
Stepping into the business's underlying divisions, all units performed strongly in the quarter. In Property & Casualty (P&C), the unit wrote €12bn in gross written premium for the quarter. It produced a combined operating ratio (COR) of 93.1%, which was 1.3% below consensus estimates of 94.4%. Natural catastrophes losses returned to "normal levels", which is encouraging. The unit posted a 44.6% increase in operating profit at €1.5bn. Life & Health (L&H) posted consistent numbers. New business premiums in the quarter were €13.4bn up from €12bn on Q317. New business margin also improved by 10bps to 3.5%. Currency headwinds and lower investment returns resulted in a flat operating profit at €1.05bn. Finally, the asset management (AM) unit saw strong inflows. Bond specialist, PIMCO, recorded $11bn in inflows, while the wider AM unit saw inflows of €15bn. Total assets under management (AuM) reached €2trn. The cost income ratio (CIR) increased to 62.5% due to one off expenses and increased investment. Operating profit at the unit was up 10.6% to €650mln.

Comment

Allianz remains one of our favoured names among the global insurers. Diversity of business lines and geography, as well as scale and quality of its balance sheet makes it a reliable performer. This quarter produced very strong results, P&C was particularly strong. Underlying performance resulted in operating profit for the first 9 month being 13% ahead of the previous year. Asset management also produced encouraging numbers hitting €2trn in AuM. The investment case for Allianz remains very much intact based on a strong balance sheet and profitability. European politics and sovereign spreads will continue to weigh on the stock in the short term but Allianz remains a cornerstone holding of our core portfolio. We maintain an Outperform rating on the stock.

Pierce Byrne , CFA | 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.

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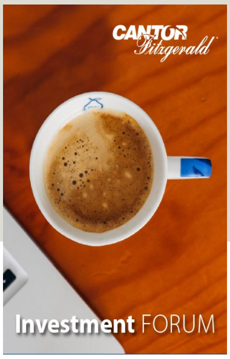

Investment Forum

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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