

Wednesday, 19th December 2018

Morning Round Up

Today, it's all about the Fed

Markets look to the Federal Reserve today, with expectations almost completely priced in for a hike in the Federal Funds rate. Looking back at the last rate rise in September, the Chairman's outlook for the US economy was exceptionally positive. Since then, we have seen a slight softening in US data but the overall strength of the US economy remains strong. However, equity markets have sold off in the final quarter of the year as investors question global growth and the outlook for corporate earnings. While the bond market has spent most of the year behind the Fed, this difference in expectations is now quiet stark. Markets are expecting one rate hike in 2019, while the Fed is still guiding for three hikes. Today's meeting poses one of the most challenging decisions for the FOMC. With increasing pressure from markets and President Trump to halt rate rises, the data remains strong enough to warrant the gradual rising path. The ideal outcome for markets would be a "dovish hike", where it raises rates but signals no hikes in 2019. A more hawkish outlook and guidance will likely lead investors to fear a policy mistake, which will fuel negative sentiment dragging equities lower.

GlaxoSmithKline and Pfizer agree new consumer venture

GlaxoSmithKline and Pfizer have reached an agreement to combine their consumer health businesses into a new joint venture with sales of approximately £9.8bn. Under the deal Glaxo will have a majority controlling interest of 68% and Pfizer will have an equity interest of 32%. The joint venture will be the leader in OTC consumer health care with a market share of 7.1%. The transaction is expected to realise £0.5bn annually of total cost savings for expected total cash costs of £0.9bn and non-cash charges of £0.3bn. It is expected to be accretive to adjusted earnings for both companies from the first year after the close of the transaction which is expected during the second half of 2019, subject to GSK shareholder approval and regulatory approvals.

This is positive news for both sides of the deal, as synergies will aid these lower margin segments. Glaxo will put further emphasis on investing in R&D and it's struggling pipeline. Pfizer has delivered on its [restructuring/selling](#) its Consumer Health business. With Pfizer holding a minority stake it will deconsolidate the consumer business from its financial statements, benefiting its reported margins. Separately in this morning's release Glaxo have confirmed the dividend will remain (as guided) at 80p per share this year and 80p per share next year. Glaxo has opened up by 6.5% this morning on the back of the news. Glaxo will hold a conference call at 9am this morning.

FedEx results beat but guidance poor

FedEx, the courier delivery services company, reported Q2 2019 earnings which modestly beat expectations. Management did lower FY 2019 guidance by 9% partially related to a slowdown in International markets (Europe & China). Shares fell 5% after hours. New guidance would imply 3-9% earnings growth in FY 2019. Guidance is predicated on moderate US economic growth and no further weakening in international markets. FedEx remains on course for a record holiday season and FY 2019 earnings per share should be 33% higher than FY 2017 despite shares falling back to 2017 levels. FedEx trades on 11x 2019 earnings.

Key Upcoming Events

19/12/2018 FOMC Interest Rate Decision
20/12/2018 Bank of England Interest Rate Decision

Market View

The S&P closed flat yesterday after advancing over 1% during the trading session. Asian markets were mixed to marginally down overnight. Europe opened positive this morning, as US futures point to a positive day. Yields remain lower with the US and German 10 years at 2.81% and 25bps respectively. The Fed will dominate the day as the market widely expect a rate hike in the Federal Funds Rate. Chairman Powell's comments on the committee's outlook for the economy and their expectations for rates in 2019 will be watched keenly. On the data front, there is German PPI data, UK inflation data and Euro Area construction numbers out today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23676	82.66	0.35%	-4.22%
S&P	2546	0.22	0.01%	-4.77%
Nasdaq	6784	30.18	0.45%	-1.73%

Nikkei	20988	-127.53	-0.60%	-7.81%
Hang Seng	25865	51.14	0.20%	-13.55%

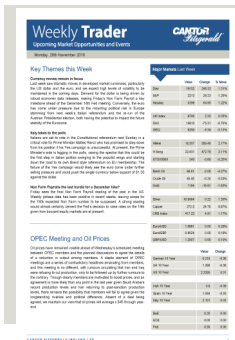
Brent Oil	56.65	0.39	0.69%	-15.28%
WTI Oil	46.44	0.20	0.43%	-23.14%
Gold	1251	1.27	0.10%	-4.00%

€/\$	1.1402	0.00	0.36%	-5.02%
€/£	0.9012	0.00	0.25%	1.48%
£/\$	1.2652	0.00	0.10%	-6.37%

	Yield	Change
German 10 Year	0.248	0.00
UK 10 Year	1.267	-0.01
US 10 Year	2.812	-0.01

Irish 10 Year	0.917	-0.01
Spain 10 Year	1.347	-0.03
Italy 10 Year	2.81	-0.1260

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Weekly Trader

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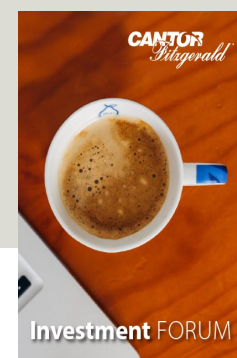
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Pfizer: Pfizer Inc. operates as a pharmaceutical company. The Company offers medicines, vaccines, medical devices, and consumer healthcare products for oncology, inflammation, cardiovascular, and other therapeutic areas

FedEx Corp: FedEx Corp. delivers packages and freight to multiple countries and territories through an integrated global network.

Historical Recommendation:

GlaxoSmithKline: We moved our rating from Outperform to Market Perform on the 26/10/2017 .

Pfizer: We have had an outperform rating on Pfizer since 23/07/2018

FedEx Corp: We do not have a rating on Fed Ex

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