Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Tuesday, 05th February 2019

Morning Round Up

Trump to deliver State of the Union address
Tonight, President Donald Trump will deliver the annual State of the Union address before Congress - a week late after House Speaker Nancy Pelosi yanked the original invitation during their showdown over the government shutdown. Trump looks sure to keep up the pressure for the border wall and may renew calls for infrastructure spending. Even with Wall Street focused on upcoming company results, the annual address has the potential to move markets. While the S&P 500 rose 0.05% the day after Trump's speech last year, it jumped 1.37% after his 2017 inaugural address, its second-largest gain after the 1.51% rise that followed George W. Bush's January 1991 message. In fact, big market moves that followed State of the Union addresses in the past have tended to be downward. Since 1965, when Lyndon Johnson gave the first televised State of the Union address, the S&P 500 has fallen 1% or more the following day on 12 occasions. The biggest loss came after Bill Clinton's 2000 speech when it fell 2.75%. The market rose more than 1% only four times. Initial reactions are not necessarily telling, however. Last year Trump addressed the nation days after the S&P hit record highs so its next-day firmness was unremarkable. But no one knew a 10%-plus correction had begun.

Developing market interest rates – ready to turn?
Last year's surge in global borrowing costs and the dollar got emerging markets sweating, forcing many central banks to jack up interest rates to bolster their flagging currencies. Now there are signs of relief: Net interest rate-hikes across a group of 38 developing economies showed just one increase in January, compared with 11 in November. Analysts predict India will start its policy turnaround on Thursday, shifting its stance to "neutral" with rate-cuts expected by mid-year. The Philippines meanwhile looks certain to leave rates on hold for a second straight meeting on Thursday, having paused the tightening cycle in December after five straight hikes. Poland's central bank is due to announce its decision on Wednesday, with Mexico, Romania and the Czech Republic scheduled for Thursday, and Russia on Friday. Brazil may be the exception. It meets on Wednesday and could signal rate-hikes in the second quarter.

UnitedHealth Group wins contract in North Carolina
The State of North Carolina confirmed that it has selected UnitedHealthcare Community Plan as one of its four managed care organisations to administer its state-wide Medicaid program effective the 1st of November 2019. This is a positive update for UNH as continues to expand its Medicaid offerings. The stock has performed well this year recovering from the drop last December. We maintain an Outperform rating.

BP post big beat
BP released Q4 results this morning which significantly beat expectations. Group underlying profits were up 65% year over year to $3.5bn driven by a record quarter in the downstream (refining and marketing) business and exceptional growth in their upstream division. Operating cashflow increased by 15% YoY to $7.1bn. BP reported underlying profit for FY 2018 at $12.7bn and operating cash flow of $26.1bn. BP's acquisition of BHP US onshore will help drive mid-single digit production growth and management has guided that they will continue to allocate cash flow toward repaying debt (30% gearing), share buybacks and dividends. BP follows other oil majors such as Exxon and Shell in reporting very strong Q4 results. BP assumes oil to trade between $60-$65 while well placed to meet key strategy objectives with oil at $50 a barrel. BP trades at 12.8x earnings and offers a 6% dividend yield.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

05/02/2019 State of the Union
07/02/2019 Bank of England

Market View

US markets finished higher yesterday with the Tech and Industrial sectors leading the way. Asian markets were quiet as many were closed for the Lunar New Year. European markets opened positive this morning, while US futures are pointing to a mixed open later today. US Treasuries are remaining steady with the 10 year at 2.73%. Earnings season continues as we move from a US focus to European names. European banks today and tomorrow will garner attentions as well as ADM and Disney in the US. President Trump's State of the Union has the potential to generate big swings in equities, as markets look for direction on trade and internal US politics.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25239	175.48	0.70%	8.20%
S&P	2725	18.34	0.68%	8.70%
Nasdaq	7348	83.67	1.15%	10.73%
Nikkei	20844	-39.32	-0.19%	4.15%
Hang Seng	27990	59.47	0.21%	8.30%
Brent Oil	62.73	0.22	0.35%	16.60%
WTI Oil	54.98	0.42	0.77%	21.07%
Gold	1312	-0.05	0.00%	2.32%
€/$	1.1424	0.00	-0.12%	-0.38%
€/£	0.8762	0.00	-0.13%	-2.53%
£/$	1.3038	0.00	0.01%	2.23%

	Yield	Change
German 10 Year	0.198	0.02
UK 10 Year	1.284	0.01
US 10 Year	2.7324	0.01
Irish 10 Year	0.919	0.02
Spain 10 Year	1.248	0.00
Italy 10 Year	2.74	0.0030

Source: Bloomberg, CF Research February 2019

Alphabet - Increasing costs offset strong ad revenues

Closing Price: $1,132.80

News

A mixed set of results saw an initial positive reaction quickly turn to doubt as investor digested the release. A top line beat on revenue drove positive sentiment with Revenue ex TAC (Traffic Acquisition Costs - the fees Google pays platforms like Apple to run Google Search) coming in at $31.84bn (est. $31.33bn). Revenue growth was encouraging as Google continues to expand at 23%. Other positives include a tick lower in TAC costs as a percentage of Revenue coming in at 23%. TAC had been trending higher but we have now seen two quarters where it has trended lower. Management also announced a share buyback worth $12.5bn.

The disappointment came in the form of costs and operating profitability. Operating margin slipped from 24% to 21%, on higher costs. Higher costs reflected higher compensation (total employees were up 23% on the previous year to 98,771) and increased spend on YouTube content. Cap-ex was also higher in the quarter, coming in at $7.08bn (est. $5.66bn). Management are investing heavily in its cloud business which is some way off both Amazon and Microsoft. Cloud offers management the quickest way to diversify its advertising based revenues (c. 86% of revenue) but requires investment in data infrastructure and personnel.

Comment

Alphabet's ad business preformed well, however, the market focused on increased spending. Despite delivering 23% revenue growth, operating profitability fell as management look to invest outside of advertising. Cloud infrastructure has become a key business area for both Microsoft and Amazon and now Google are looking to move into the space and the base infrastructure (Data Centres) investment is costly. Google's Other Divisions (cloud, hardware & other bets) posted 31% growth in revenue, while other bets (includes Waymo, its autonomous driving business) generated 18% growth in revenue. Alphabet remains an attractive investment opportunity. Advertisers have not turned against the tech names because its offering is far more effective relative to older platforms. The advertising business continues to produce strong numbers, Other Divisions retains strong growth prospects in cloud and hardware to fuel future growth and other bets (particularly Waymo, which is a long ways from profitability) offer significant long term upside. We remain positive on Alphabet and retain our Outperform, although, we do have a preference for more diversified tech businesses with in the sector.

Pierce Byrne, CFA | Investment Analyst

DCC - Management reaffirms market expectations

Closing Price: £64.00

News

DCC released a positive Q3/19 trading update this morning, confirming both robust performance across underlying segments and guidance into year end. Despite milder winter conditions, yellow vest protests in France and Brexit uncertainty, it expects operating profit to be significantly ahead of 2018. Importantly, it stated that it expects operating profit to be in line with consensus expectations of £442.75m, implying 49% growth yoy and c.12% EPS growth.

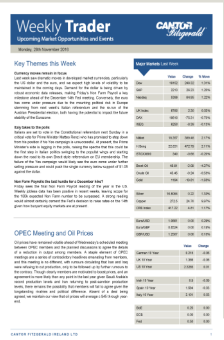
All underlying segments performed well. DCC LPG benefitted from continued organic growth and acquisitions made in the previous year despite unfavourable weather conditions. DCC Retail and Oil delivered strong organic profit growth driven by businesses in Britain and Denmark. DCC Healthcare performed strongly and was "well ahead" of last year, as both DCC Vital and DCC Health & Beauty delivered organic growth. DCC Technology benefitted from both acquisitions and organic profit growth. DCC expects to announce its results for the year ending 31st March 2019 on the 14th of May.

Comment

A short but positive update this morning as management reassured investors on guidance heading into year end. All underlying segments are performing well with notable organic growth, despite the aforementioned headwinds. Despite holding the ability to deploy c.£1bn worth of capital there was no further news on the M&A front. However DCC will utilize this balance sheet strength when an opportunity presents itself. The stock has recovered somewhat after the drop following the equity raise last September. DCC is currently trading at a 12m forward P/E of 17.3x, a discount to both the sector and history. We see further upside to the current price as further prudent acquisitions will both benefit earnings and provide a catalyst for a rerating. We are looking for it break above the £65 resistance level. We maintain an Outperform rating.

David Fahy, 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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Monthly Investment Journal

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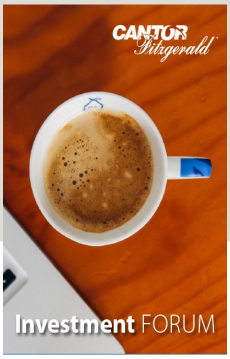

Investment Forum

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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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Alphabet: Alphabet provides web-based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services

DCC: DCC is a sales, marketing, distribution and business support services company.

UnitedHealth Group: UnitedHealth owns and manages organized health systems in the United States and internationally

BP: BP is an oil and petrochemicals company.

Historical Recommendation:

Alphabet: Alphabet Inc is a member of our core portfolio and we have an Outperform rating on the stock since 07/01/2013

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated

UnitedHealth Group: UnitedHealth Group Inc is a member of our core portfolio and we have an Outperform rating on the stock since 09/07/2018

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