Friday, 08th February 2019

Morning Round Up

Bullish factors for risk markets no longer bullish

It is no surprise that all other central banks with meetings scheduled recently have either cut rates as in India, or have copied the Powell pivot. The "Old Lady of Threadneedle Street" said yesterday that there is further indication of a "sharper and possibly more persistent slowdown in global growth" and "Brexit" is "now weighing more heavily on activity". And it was no shock either that the European Commission cut its Eurozone growth forecast for 2019 to 1.3% from 1.9% before. The ECB staff projections will now follow in March, allowing the central bank to keep rates negative for longer. These seemingly bullish factors for risk markets, are no longer bullish because: (1) they flag in neon lights the global decaying of growth; (2) they highlight the inability of the major central banks (other than the Federal Reserve) to combat another downturn and (3) they are already priced into stocks. It is worth noting that "core" bond yields are falling despite the huge amount of new supply coming on stream, particularly in the US. And now Italy is right back on the radar screens. The Commission slashed Italy's 2019 growth forecast to 0.2% from 1.2% previously, and the country is already in recession. Then there is the whole diplomatic spat between Rome and Paris, which is unlikely to do Italy any favours. Italy remains the country at biggest risk in the Eurozone in the short-term, and concerns are increasing over the deteriorating economic picture spilling into big bank bankruptcies.

Franco-Italian diplomatic row may taint economics

With friends like these, enemies are unnecessary. A brewing row between France and Italy blew up on Thursday when Paris recalled its ambassador to Rome. A fracas in the diplomatic sphere may end up tainting the economic one. President Emmanuel Macron's Foreign Ministry said baseless and repeated attacks by Italian politicians were without precedent since the end of World War Two and that a longstanding and friendly relationship was being manipulated for electoral purposes. There's some truth to that. Italy's two Deputy Prime Ministers, Matteo Salvini of the right-wing League and Luigi Di Maio of the anti-establishment 5-Star Movement, have each taken pot-shots at Macron. For example, the latter in January accused France of creating poverty in Africa and fuelling mass migration to Europe. And Di Maio has met with members of France's anti-government "yellow vest" protesters, including the movement's candidates for European parliament elections in May. As a rule, EU governments avoid meddling in each other's domestic politics, so the insult was flagrant. But irking Macron, an unabashedly pro-European and pro-business leader, plays well to Salvini and Di Maio's supporters. Nor are their parties just fighting an external enemy. Each knows that whoever comes out ahead in the European elections will have the upper hand if their fragile coalition government falls apart. Such short-term electioneering may, however, have damaging consequences for Europe. For one thing, it reduces the chances that they will present a united front, and build alliances with others, on issues such as revamping the EU budget rules or creating a region-wide bank deposit guarantee scheme. For example, Paris and Rome have in the past agreed on the need to exclude investments from the budget deficit measure used to decide whether countries are compliant with the EU's fiscal rulebook. True, France and Italy could patch things up. But the next economic downturn is already on the horizon, and the European Central Bank has less room to manoeuvre than during the last slowdown. That means governments have little time to waste by putting short-term domestic politics above their country's long-term interest. Italy's loss will also be Europe's.

Core portfolio change

After the recent run for risk assets and the continuing downtrend in economic data, we are reducing the beta exposure within the portfolio slightly by cutting Rio Tinto from 4% to 2%. We are increasing our exposure to defensive stocks, Verizon and Vinci. Both stocks will increase by 1% to a 5% weighting.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

Feb-19 Q4 Earnings
14/02/2019 Brexit Debate resumes in Commons
13/02/2019 European Financial Forum with Atlanta Fed President Raphael Bostic - Dublin Castle

Market View

US markets finished weaker yesterday as optimism continues to wane on comments from White House Economic advisor, Larry Kudlow, that a trade deal with China was some way off. Asia remains muted due to the Lunar New Year closing a number of markets including China. However, Japan was open and was down by almost 2% overnight. Europe has opened marginally lower this morning and futures are pointing to a negative open in the US later. Markets will be assessing the fallout of Mr Kudlow's comments and Prime Minster May is in Dublin to meet Taoiseach Leo Varadkar on Brexit. On the data front, there is labour data from Canada this afternoon.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25170	-220.77	-0.87%	7.90%
S&P	2706	-25.56	-0.94%	7.95%
Nasdaq	7288	-86.93	-1.18%	9.84%
Nikkei	20333	-418.11	-2.01%	1.59%
Hang Seng	27946	-43.89	-0.16%	8.13%
Brent Oil	61.46	-0.17	-0.28%	14.24%
WTI Oil	52.46	-0.18	-0.34%	15.53%
Gold	1309	-1.13	-0.09%	2.07%
€/$	1.1331	-0.0010	-0.09%	-1.19%
€/£	0.8763	0.0008	0.09%	-2.52%
£/$	1.2931	-0.0021	-0.16%	1.39%

	Yield	Change
German 10 Year	0.114	-0.001
UK 10 Year	1.177	0.000
US 10 Year	2.650	-0.007
Irish 10 Year	0.883	0.005
Spain 10 Year	1.24	-0.007
Italy 10 Year	2.938	-0.013

Source: Bloomberg, CF Research February 2019

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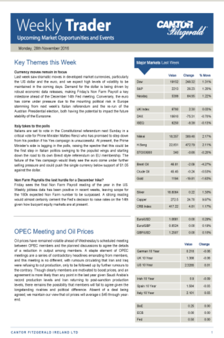

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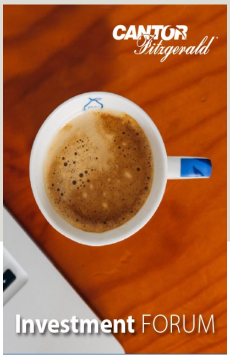

Investment Forum

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