

# Weekly Trader

## Upcoming Market Opportunities and Events

**CANTOR**  
*Fitzgerald*

Monday, 25<sup>th</sup> February 2019

### Key Themes This Week

#### The Week Ahead

Another positive week for risk assets last week. The S&P 500 and the STOXX 600 have now gained 11.7% and 10.3% respectively year to date, in line with our view since the [beginning of the year](#). The big news over the weekend was Trumps delay in the increase to Chinese tariffs. As we highlighted last week, we require a positive catalyst to push through the 2800/2820 level on the S&P 500. With the futures market pointing to the index opening at 2798, this or a trade agreement over the next few weeks, could prove to be that catalyst. We maintain our asset allocation as from the start of the year. We remain positive on risk assets and equities specifically. Within the equities market we favour US and Emerging Markets over Europe. From a sector perspective we are overweight Information Technology, Industrials and Materials. We maintain defensive equity exposure through Healthcare, Consumer Staples and selectively through Communications. Looking into next week the same themes will continue to dominate market sentiment including trade, the Fed, global economic data, Brexit and corporate earnings.

President Trump has said he will extend the deadline to raise tariffs on Chinese goods after making “substantial progress with China on structural issues such as intellectual property protection, technology transfer, agriculture, services, currency, and many other issues”, in the latest round of trade talks. He confirmed that he and Chinese president Xi Jinping would meet to seal a deal if progress continues. The announcement was the clearest sign yet that China and the United States are closing in on a deal to end a months-long trade war that has slowed global growth and disrupted markets. Trump had planned to raise tariffs to 25% from 10% on \$200bn worth of Chinese imports into the United States if an agreement between the world's two largest economies was not reached by Friday. After a week of talks that extended into the weekend, Trump said those tariffs would not go up for now. China's CSI index rallied by 6% overnight, helping add over \$1trillion of value to Chinese stocks. China bourses entered bull market territory on massive turnover. As highlighted in this weeks trader, we continue to advise clients to add exposure to emerging market as there are numerous tailwinds (including trade progress) for the asset class at present.

The Fed and its policy will be in focus this week as chairman, Jerome Powell, testifies in the House of Representatives on Tuesday and Wednesday. The U-turn in Fed policy has been highly supportive for risk assets so far this year and investors will be looking for further direction following a mix of signals from the minutes released last week. On Thursday we will finally get a look at how the US economy fared last quarter following the forced delay to the data release after the 35 day government shutdown. Last weeks leading economic indicators from the US were quite mixed as US manufacturing PMI (53.7) fell to its lowest level in 17 months. However, Services PMI was strong (56.2) and well ahead of estimates (54.3).

In Europe, inflation and employment data will be released on Thursday and Friday. Expectations are for inflation to remain underwhelming at 1.4% and unemployment is expected to hold steady at 7.9%. As with the US, European PMI data was rather mixed last week with relatively strong Services PMI (52.3) but a weaker, sub 50, (implies negative growth) manufacturing PMI (49.2). Data will be important for the ECB head of its meeting on March the 7th, as further stimulus in the form of TLTRO's appears to be on the cards. China's Caixan manufacturing PMI on Friday is the other major data point to keep an eye out for this week.

On the Brexit front Theresa May has said she will continue “positive talks” with the EU this week and as a result she won't bring a second “meaningful vote to parliament until March 12th.

**This week we cover of on Schroders, Walgreens Boots Alliance, Emerging Markets and AIB**

### Major Markets Last Week

	Value	Change	% Move
Dow	26032	592.42	2.33%
S&P	2793	46.94	1.71%
Nasdaq	7528	100.59	1.35%

UK Index	7195	-24.00	-0.33%
DAX	11506	206.61	1.83%
ISEQ	6011	33.72	0.56%

Nikkei	21528	246.38	1.16%
H.Seng	28959	612.29	2.16%
STOXX600	372	2.63	0.71%

Brent Oil	67.12	0.62	0.93%
Crude Oil	57.36	1.77	3.18%
Gold	1329	2.05	0.15%

Silver	15.9619	0.15	0.96%
Copper	297.3	16.95	6.05%
CRB Index	414.97	1.61	0.39%

Euro/USD	1.1349	0.00	0.34%
Euro/GBP	0.8680	-0.01	-0.83%
GBP/USD	1.3076	0.02	1.18%

	Value	Change
German 10 Year	0.115	0.01
UK 10 Year	1.166	0.00
US 10 Year	2.6716	0.01

Irish 10 Year	0.84	-0.02
Spain 10 Year	1.169	-0.06
Italy 10 Year	2.76	-0.01

BoE	0.75	0.00
ECB	0.00	0.00
Fed	2.50	0.00

All data sourced from Bloomberg

**Bank of Ireland - FY18 results**

Closing Price: €5.22

**News**

Bank of Ireland released results this morning broadly in line with expectations. Net interest income came in marginally behind our est. at €2.14bn (est. €2.2bn), while other income came in ahead, on strong Wealth and Insurance growth (+21%) at €659mln (est. €645mln). Net interest margin disappointed at 2.20% (est. 2.22%) as liquid asset yields fell and the higher cost of fresh mandatory wholesale funding. Operating costs came in as guided, lower on FY17 by 3%. Including Investment spending FY18 expenses were €1.85bn (est. €1.84bn) resulting in a cost income ratio (CIR) of 65% (est. 65%). On the balance sheet new lending was strong at €15.9bn (est. €15.9bn) increasing 13% on FY17 and driving the net customer loans to €77bn (est. €76.8bn) and customer deposits of €78.9bn (est. €77.8bn) resulting in a Loan Deposit Ratio (LDR) of 97% (est. 99%). Capital generation was okay in the period. Organic capital generation in the period was 180bps resulting in a CET1 ratio of 13.4% (est. 13.4%). Management also announced a full year dividend of 16c (est. 15c).

Managements outlook will be a source of concern for investors. Net lending is expected to expand in FY19, while encouragingly management require c.6% loan book growth to achieve its FY21 targets. NIM guidance was also weak at 2.16% reflecting the challenges of both liquid asset yields and its UK exposure.

**Comment**

This morning's results were in line with expectations for FY18, however, concerns regarding management's ability to deliver on its FY21 transformation target continue to grow. The business delivered on costs but earning ability remains muted. Loan growth will likely fall well short of targets in FY19. The UK remains a challenging market as Brexit uncertainty continues to weigh on customer earning margins. Asset quality in the UK may also become a concern as management make a push in the Auto market with its Northridge car finance business (+€1.1bn new lending). We will be reviewing our forecasts in the coming days with lower NIM expectations and weaker loan growth likely to result in a lowering of our FY19 expectations. Post this morning's analyst presentation we will be assessing our investment case.

Pierce Byrne, CFA | Investment Analyst

## Opportunities this week

CFI Research Team

### Walgreens Boots Alliance

Closing:\$70.47



Key Metrics	2018e	2019e	2020e
Revenue (\$Mn)	137337	141534.0	145677.8
EPS (\$)	6.52	7.00	7.60
Price/ Earnings	10.74x	9.99x	9.21x
Div Yield	2.55%	2.74%	2.92%

Source: All data & charts from Bloomberg & CFI

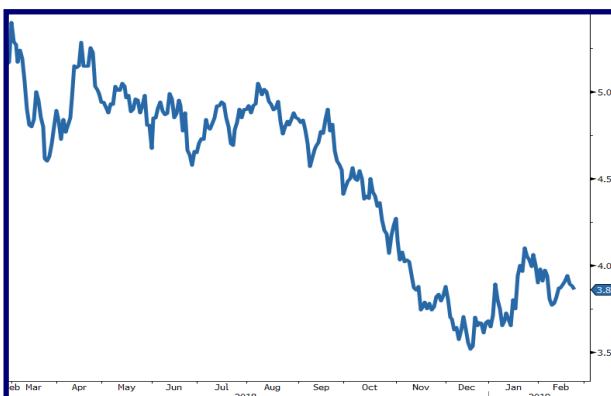
Total Return	1 Mth	3 Mth	YTD
Walgreens	3.14%	-11.68%	3.07%

Source: All data & charts from Bloomberg & CFI

- WBA operates the largest drugstore chain in the U.S while offering grocery & general merchandise products also. Q2 results on 28/03.
- Management are positioning the group further toward healthcare services having acquired a 25% stake in AmerisourceBergen, agreed a JV with Labcorp to expand healthcare services and is speculated to be in the process of partnering up with Humana managed care. Management are focused on vertical integration, new technology and developing a full health service offering.
- The healthcare business complements the pharma retail and general merchandise cash cow business that Walgreens has built up over 100 years. This division continues to deliver significant cash flow with Walgreens Boots trading with a c.9% free cash flow yield which supports its current 2.5% dividend yield, \$5.7bn buyback last year and \$3bn guided for 2019.
- Walgreens reported improved organic sales growth in Q1 FY19 in December but operating income was impacted by weakness in the international market. Management maintained their guidance for 7-12% EPS growth in 2019. Longer term growth will benefit from a 3 year \$1bn cost out programme and investment in JV's with Labcorp/Humana/Microsoft.
- Walgreens core business is in the US (90%) although it does have a small presence in the UK (Boots), China and Latin America. They have acquired a 45% interest in GoDua (China's largest retail pharma) and a smaller interest in a China wholesaler, possibly aiming to clone it US business though time.
- A partnership with Humana Managed Care would be taken positively
- Walgreen Boots Alliance trades on 11x 2019 earnings and its CEO purchased \$108m of stock in 2018.

### AIB Group

Closing Price: €3.88



Key Metrics	2018e	2019e	2020e
Revenue (€Mn)	2763.2	2729.8	2761.8
EPS (€)	0.40	0.34	0.34
Price/ Earnings	9.72x	11.39x	11.49x
Div Yield	4.12%	5.62%	8.39%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
AIB	-2.37%	3.42%	5.16%

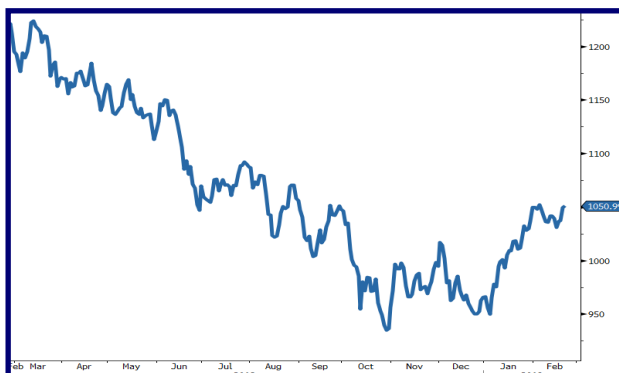
Source: All data & charts from Bloomberg & CFI

- AIB remains our preferred name amongst the Irish Banks
- AIB has the strongest operating metrics among peers
  - Underlying Net Interest Margin (NIM) for FY18 expected to be 2.47%
  - Cost Income ratio (CIR) expected to be 51%
  - RoTE and adjusted RoE expected to be 9.37% and 12.9% respectively
  - Profit before Tax (PBT) of €1.2bn
- New management team to lay out strategy and advise the market on use of excess capital.
- Continued progress on non performing exposure (NPE) expected through out FY19 with a year end target in line with European averages. Are current expectation for year end 19 is for an NPL ratio of 6.1%, but management may be more aggressive on portfolio sales to achieve c. 4% by year end.
- Headwinds driving multiples lower across the sector, which we expect to abate in FY19
  - European politics
  - Brexit: We expect a positive resolution on Brexit, which should act as a tailwind for Irish equities in particular.
  - ECB rates: Negative rates continue to be a headwind
- We expect AIB FY results (1<sup>st</sup> March) to be consistent with recent strong results, which should focus investors on fundamentals and rerate the stock higher. We have a [Cantor Price Target](#) of €4.91
- On a short term view, we see potential for AIB to trade from current levels of €3.85 up €4.15 on the back of strong set of results.

## Opportunities this week

CFI Research Team

### Emerging markets



Total Return	1 Mth	3 Mth	YTD
MSCI EM	3.99%	8.13%	8.91%

Source: All data & charts from Bloomberg & CFI

- We see further upside in emerging market equities having added it to our core portfolio on the 1st of February.
- The Fed's U-turn in policy is supportive for emerging markets
  - This is positive for monetary/ financial conditions which support global growth and emerging markets specifically
  - Downward pressure on the dollar which is positive, particularly for more heavily dollar debt dependent nations and companies
  - Provides flexibility for EM central banks to stimulate. India recently cut rates to stimulate growth. Others are turning more dovish.
- Progress continues to be made in US - China trade negotiations. Trump's delay to tariffs is a significant step.
- China has already begun to stimulate the economy through both fiscal and monetary means, specifically targeting the private sector. This is expected to feed through to the economy toward the end of H1/19. Further stimulus is expected as it looks to reach its targets of doubling growth from 2010 to 2020.
- Lower oil prices will aid the index which is a net importer
- Valuations have come down to 11.5x 12m forward P/E from 13x in 2017.
- Slowing global growth, specifically Chinese, is the major concern at present. The China Caixin Manufacturing PMI fell to 48.3 last month. Services (53.6) has held up better. There are signs this is bottoming with credit impulse ticking up over the past number of months.
- We advise client to pick up exposure to emerging markets through JPMorgan Emerging Markets Trust (JMG LN EQUITY) ([KID Link](#))

### Schroders

Closing Price: £27.14



Key Metrics	2018e	2019e	2020e
Revenue (£Mn)	2085.4	2039.7	2146.4
EPS (£)	2.17	2.08	2.23
Price/ Earnings	12.55x	13.05x	12.2x
Div Yield	4.17%	4.21%	4.45%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
Schroders	4.18%	9.47%	11.26%

Source: All data & charts from Bloomberg & CFI

- Asset Managers were one of the worst performing sub-sectors in 2018 as investors shied away from those companies who are sensitive to a decline in assets under management. Valuation multiples fell to a multi-year low.
- Recent reports are that there has been an improvement in flows into equity markets. Next results for Schroders on the 7th March could be a catalyst. Larry Fink spoke positively about flows with FY results.
- Consolidation in the sector is common with these large cap companies regularly making bolt on acquisitions with Invesco acquiring Oppenheimer for \$5.7bn and Schroders winning the £80bn Lloyds mandate. Blackrock's most recent results reported a stabilisation in their average asset management fee.
- Despite the sell-off in H2 2018 which weighed on AUM, Blackrock reported a 20% increase in earnings in 2018 and sell side analysts have now revised down earnings expectations for 2019 to reflect the sell off in year end. Blackrock is the largest asset management company in the world with significant exposure to North America, equities and ETF's. At 15x earnings and with a 3.2% dividend yield, they are a low risk play on an improvement in asset values. In 2018, they bought back \$3.6bn in stock.
- Schroders is our preferred play given that 45% of company is owned by its founders, trades at lower end of its range and growth outlook has been boosted by \$80bn Lloyds contract. Their balance sheet is very strong supporting its 4.3% dividend yield. H1 2018 results reported an 8% increase in AUM to £450bn (which will be bolstered by the new \$80bn contract) and net income increased by 11% . The group is well capitalised and delivering growth via EM, North America and new products.

# Cantor Core Portfolio - In Detail



## Cantor Core Portfolio

Date: 22/02/2019

Performance YTD	%
Portfolio	10.8%
Benchmark	11.3%
Relative Performance	-0.5%
P/E Ratio	15.84x
Dividend Yield	2.5%
ESMA Rating	6
Beta	1.10

Sectors Weights	Portfolio	Benchmark	+ / -
Consumer Discretionary	10%	9%	
Consumer Staples	7%	11%	
Energy	5%	6%	
Financials	10%	17%	
Health Care	10%	14%	
Industrials	18%	12%	
Information Technology	14%	11%	
Communication	9%	7%	
Utilities	0%	4%	
Materials	12%	6%	
Real Estate	0%	2%	
Emerging Markets	5%	0%	

FX	Portfolio	Benchmark
EUR	40%	37%
GBP	18%	15%
USD	42%	40%
Other	0%	8%

Currency YTD %		
GBP	3.45%	
USD	0.97%	

## Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Total Contribution
STOXX Europe 600	EUR	17	Neutral	60%	10.3%	0.5%	371	6.2%
S&P 500	USD	18	Neutral	40%	11.7%	0.0%	2793	5.1%
<b>Total</b>				<b>100%</b>		<b>0.5%</b>		<b>11.29%</b>

## Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Price	Total Contribution
Alphabet Inc	USD	0.0%	H	Communication Services	4%	6.9%	0.0%	1117	0.3%
Verizon Communications Inc	USD	0.0%	H	Communication Services	5%	2.3%	0.1%	56.92	0.2%
Ryanair Holdings Plc*	EUR	0.0%	H	Consumer Discretionary	4%	12.1%	0.1%	12.05	0.5%
Dalata Hotel Group Plc*	EUR	1.7%	H	Consumer Discretionary	2%	22.9%	0.1%	5.82	0.9%
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	4%	8.6%	0.0%	1632	0.4%
Glanbia Plc*	EUR	1.5%	H	Consumer Staples	2%	9.1%	0.2%	17.90	0.2%
Walgreens Boots Alliance Inc	USD	2.5%	H	Consumer Staples	5%	3.7%	-0.3%	70.43	0.2%
Royal Dutch Shell Plc	GBp	6.0%	H	Energy	5%	4.7%	0.0%	24.15	0.4%
Lloyds Banking Group Plc*	GBp	5.8%	H	Financials	2%	15.7%	0.1%	0.60	0.7%
Allianz Se	EUR	4.9%	H	Financials	4%	10.8%	0.1%	194.06	0.4%
AIB Group Plc	EUR	4.1%	H	Financials	4%	5.5%	0.0%	3.88	0.2%
Unitedhealth Group Inc	USD	1.4%	H	Health Care	5%	7.2%	-0.1%	267.11	0.4%
Pfizer Inc	USD	3.4%	H	Health Care	5%	-0.7%	0.0%	42.96	0.0%
Vinci Sa	EUR	3.5%	H	Industrials	5%	14.4%	0.1%	82.36	0.6%
Kingspan Group Plc	EUR	1.2%	H	Industrials	4%	5.4%	0.2%	39.40	0.2%
DCC Plc	GBp	2.1%	H	Industrials	4%	10.1%	-0.1%	65.90	0.6%
Caterpillar Inc	USD	2.5%	H	Industrials	5%	9.8%	0.1%	138.68	0.5%
SAP Se*	EUR	1.6%	H	Information Technology	5%	9.8%	0.1%	95.41	0.4%
Paypal Holdings Inc	USD	0.0%	H	Information Technology	4%	14.1%	0.0%	95.98	0.6%
Microsoft Corp*	USD	1.6%	H	Information Technology	5%	9.7%	0.1%	110.97	0.5%
Smurfit Kappa Group Plc	EUR	3.9%	H	Materials	5%	11.4%	-0.1%	25.92	0.6%
CRH Plc	EUR	2.6%	H	Materials	5%	19.4%	0.1%	27.59	1.0%
Rio Tinto Plc	GBp	5.2%	H	Materials	2%	19.7%	0.1%	44.65	0.8%
JPMorgan Emerging Markets Trust	GBp	1.4%	H	Emerging Markets	5%	4.9%	0.0%	8.97	0.1%
<b>Total</b>					<b>100%</b>		<b>0.8%</b>		<b>10.79%</b>

All data taken from Bloomberg up until 18/01/2019.

**Warning : Past performance is not a reliable guide to future performance**

**Warning : The value of your investment may go down as well as up.**

\*Red Denotes Deletions

\*Green Denotes Additions

\*Yields are based on the mean of analyst forecast

## From the News - Monday's Headlines

- **Global** Trump raises China trade hopes with tariff delay
- **US** Fed says it will hold larger balance sheet in the long term
- **Europe** Economic wage data at odds with the bond market
- **UK** Europhile MPs rally support for no-deal amendment
- **Ireland** May delays Brexit vote as UK political turmoil persists

## This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>
Associated British Foods Bank of Ireland Hammerson	Travis Perkins Persimmon BASF Dalata Hotels Green REIT Macys Home Depot	St James Place Rio Tinto Permanent TSB Bayer FBD Holdings Taylor Wimpey Best Buy	CRH Grafton BATs Rolls-Royce Amadeus Nordstrom The Gap	AIB Group Total Produce William Hill
<b>Economic</b>	<b>Economic</b>	<b>Economic</b>	<b>Economic</b>	<b>Economic</b>
JP Leading Economic Index US Wholesale Inventories	UK BoE Meeting US Building Permits US Fed Chair Testimony	EA Loan Growth EA Consumer Confidence US Factory Orders US Pending Home Sales JP Industrial Prod	CN Manufacturing PMI JP Housing Data DE/FR Inflation Data IE Retail Sales US Final Q4 GDP	CN Caixin Manufacturing PMI EA/DE/US Manufacturing PMI IT Italian Budget US PCE Price Index

## Upcoming Events

04/03/2019 Greencoat Renewables, salesforce.com

05/03/2019 GVC Holdings, Target, Kohls

06/03/2019 Origin Enterprise, Paddy Power Betfair, Glenveagh Properties, Legal and General, Just Eat

07/03/2019 LafargeHolcim, Aviva, Schroders, Continental, C&C, Hugo Boss, Kroger

08/03/2019 ICG, EssilorLuxottica

04/03/2019 UK Construction PMI, EEA PPI

05/03/2019 CN Caixin PMI, EA/DE/US Markit PMI

06/03/2019 DE Construction PMI, US Balance of Trade

07/03/2019 EA Q4 GDP, US Jobless Claims, JP Q4 GDP

08/03/2019 CN Balance of Trade

All data sourced from Bloomberg





## Regulatory Information

**Issuer Descriptions: (Source: Bloomberg)**

**AIB Group:** AIB Group plc attracts deposits and offers commercial banking services.

**Allianz:** Allianz through its subsidiaries, provides insurance and financial services.

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

**Amazon:** Amazon is an online retailer that offers a wide range of products.

**Caterpillar Inc.:** Caterpillar designs, manufactures, and markets construction, mining, and forestry machinery.

**CRH:** CRH is a global building materials group.

**Dalata Hotel Group:** Dalata Hotel Group owns and operates as a chain of hotels.

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

**Glanbia:** Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

**Kingspan:** Kingspan is a global market player in high performance insulation and building envelope technologies.

**Lloyds:** Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services

**Microsoft:** Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.

**PayPal:** PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants

**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

**Rio Tinto plc:** Rio Tinto is an international mining company.

**Royal Dutch Shell:** Royal Dutch Shell explores, produces, and refines petroleum

**Ryanair:** Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

**SAP:** SAP is a software corporation that makes enterprise software

**Smurfit Kappa:** Smurfit Kappa manufactures paper packaging products

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

**Verizon:** Verizon Communications Inc. is an integrated telecommunications company that provides wire line voice and data services, wireless services, internet services, and published directory information.

**VINCI SA:** VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering

**Walgreens Boots Alliance:** Walgreens Boots Alliance operates retail drugstores that offer a wide variety of prescription and non-prescription drugs as well as general goods.

**Schroders:** Schroders is an international asset management group.

**None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.**

Walgreens Boots Alliance Inc is a member of our core portfolio and we have an Outperform rating on the stock since 01/01/2019

JPMorgan Emerging Markets Investment Trust plc is on our preferred fund list

AIB Group: AIB Group Plc is a member of our core portfolio and we have an Outperform rating on the stock since 12/12/2018

We have assessed the publication and have classed it as Research under MIFID II. All charges in relation to this publication will be borne by Cantor



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