

Thursday, 30th May 2019

Morning Round Up

Further cracks appear in US retail space

Rising inventory, slowing sales and falling margins sums up trading updates by a number of leading US apparel retailers. Abercrombie & Fitch, Canada Goose and Capri shares declined by a record and combined lost \$2.9bn in value yesterday alone. The results further underscore how 2019 is shaping up to be a challenging year for retailers, despite an unemployment rate that is hovering near record lows and elevated consumer confidence. A number of pitfalls are emerging, from U.S. tariffs on Chinese imports to unpredictable weather, as well as shoppers' ongoing migration online. PVH, the company behind the Calvin Klein Brand, also reported weaker revenue after hours with its shares falling by 9% after hours. The market will get more opportunities to look at apparel retailers in coming days, with Gap Inc. reporting results on May 30 and American Eagle Outfitters Inc. slated for June 5.

Brexit uncertainty weighs on UK manufacturing sector

Production by automakers in the U.K. plummeted last month as factories were halted and shifts rescheduled to brace for the planned March 28 Brexit, data from the Society of Motor Manufacturers and Traders showed. A total of 70,971 vehicles were produced last month, 45% fewer than a year earlier. We assume production in the U.K. may fall about 11% this year from 2018.

ECB set to keep rates unchanged for the foreseeable future

The ECB will meet next Wednesday to discuss the current monetary policy and the economic risks facing the European economy. Poorer data has left the central bank with little room to maneuver, particularly given the deposit rate already stands at -40bps. The ECB has promised to keep interest rates at record lows until at least the end of the year. This guidance is unlikely to be changed. Mario Draghi will likely focus on TLTRO's to support bank lending. However, given the underwhelming demand for these loans, it is unlikely to see the outlook for European banks improve significantly. Poor loan growth and tighter margins continues to hamper the European bank sectors profitability. We maintain our underweight allocation to the sector.

Successful capital raise by UK Wind energy Utility

Greencoat UK Wind PLC successfully raised £572m in equity capital over the last week with management releasing an investor update this morning. Greencoat UK now has a market cap of £1.7bn and assets under management of £3bn(950MW). The equity raised will be used to pay down debt in short term and give the company financial flexibility in the medium term to make further bolt on acquisitions. Greencoat UK intends to pay a dividend per share of 6.94p in 2019 and has delivered c.95% total return to investors since listing. Greencoat Renewables, its Irish listed sister company, operates 411 MW of wind powered capacity and targets a dividend of 6c in 2019 (5.5%). Greencoat Renewables successfully issued 110m shares in July 2018 as part of a twelve month 250m share issuance programmes to fund active pipeline. We think Greencoat Renewables is an growth utility and a solid investment in the medium term given the uncertain earnings outlook for cyclical companies.

Key Upcoming Events

01/06/2019 Chinese Tariff Deadline
28-29/06/2019 G20 Summit

Market View

European stocks have bounced slightly this morning following yesterdays heavy sell off. Sentiment across the market remains downbeat as economic data continues to deteriorate and a trade resolution looks along way off. Safe haven assets have continued their strong performance. The US 10 year yield is holding below 2.28% and the German 10 year yield is below -16bps. The second reading of Q1 US GDP this afternoon is expected to be revised downward to 3.1% (from 3.2%). China PMI data tonight will be important. The market will hope to see manufacturing PMI remain above 50, having fallen last month.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25126	-221.36	-0.87%	7.71%
S&P	2783	-19.37	-0.69%	11.02%
Nasdaq	7547	-60.04	-0.79%	13.75%

Nikkei	20943	-60.84	-0.29%	4.64%
Hang Seng	27149	-86.67	-0.32%	5.04%

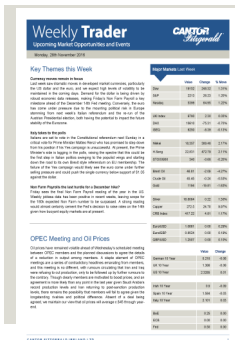
Brent Oil	69.95	0.50	0.72%	30.02%
WTI Oil	59.47	0.66	1.12%	30.96%
Gold	1276	-3.62	-0.28%	-0.49%

€/\$	1.1136	0.00	0.04%	-2.89%
€/£	0.8818	0.00	0.02%	-1.91%
£/\$	1.2629	0.00	0.02%	-0.98%

	Yield	Change
German 10 Year	-0.161	0.02
UK 10 Year	0.92	0.03
US 10 Year	2.2745	0.01

Irish 10 Year	0.463	0.02
Spain 10 Year	0.743	0.01
Italy 10 Year	2.65	0.0060

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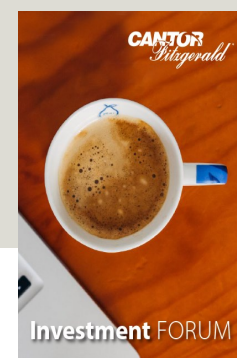
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