

Tuesday, 11<sup>th</sup> June 2019

## Morning Round Up

### Bund yields drag financials lower

German yields have taken a significant step lower throughout May, as the outlook for the European economy has weakened. The generic 10 year point trades marginally above its all time low at -21.9bps (low on the 07/06/2019 at -25.7bps). Germany's export lead economy weakening as global demand weakens, an ever growing mound of Italian debt, Brexit, the rise of the populist far right and doubts on the effectiveness of the ECB's remaining tools have all lead to investor fearing the region will slip into a Japanese style stagnation. The effect this move has had on European bank's has been significant. The STOXX 600 Banks Index (SX7E Index) has fallen 12.5% since the end of April, with Ireland's pillar banks down similar amounts, AIB down 11.8% and Bank of Ireland down 15.4%. The banking sector is likely to continue to struggle in a economy with negative rates. The banking sector is well funded and retains high levels of cash with €1.8tn on deposit with the ECB, generating a €7.5bn annual headwind for the sector. In our view the sector requires a change in approach from the ECB in order to improve performance. But given the recent policy update from the ECB, we are sceptical on the likelihood of a change over the coming 12 months. We retain a negative outlook on the sector, and advise clients to reduce allocations in favour of more defensive stocks. For clients maintaining exposure to the sector we continue to rank Northern European retail banks as the outperformers within the sector and retain a preference for AIB over Bank of Ireland among the Irish Banks.

### Ted Baker drops after cutting outlook

Ted Baker's share price fell by 30% this morning after it stated that it expects pretax profits to range between £50m-£60m, below the market estimate of £72m. The company has blamed ongoing consumer uncertainty in a number of key markets and elevated levels of promotional activity across global markets for the "extremely difficult trading environment". It expects these external factors to continue to effect profitability for the remainder of the year. Reported total sales over the 19 week period decreased by -0.3%. Sales from a constant currency (cc) perspective fell by -1.8%. E-commerce sales increased by 1.2% cc. This profit warning does not bode well for the broader retail sector as slowing global growth and falling footfall on main street shops continue to hamper earnings. We maintain an underweight allocation to the consumer retail sector.

### Salesforce set to buy Tableau

Salesforce has agreed to acquire analytics platform tableau in an all-stock transaction representing \$15.3bn (approximately 68x FY19 EBITDA). This is Salesforce's largest deal in its 20 year history. Tableau shares rose by 34% on the back of the news. The deal highlights the extent of acquisitions currently taking place in the cloud based technology sector at present.

### INM acquisition making progress

Mediahuis released a statement this morning confirming that they have received Competition and Consumer protection (CCPC) approval for the acquisition of INM. With one hurdle crossed, Mediahuis awaits government approval, high court outcome and shareholder approval. Mediahuis bid 10.5c per share and has already won the support of INM's two largest shareholders Dermot Desmond and Denis O'Brien.

### Key Upcoming Events

19/06/2019 FOMC Decision  
20/06/2019 BoJ Decision  
28-29/06/2019 G20 Summit

### Market View

US markets continued their recovery from the May declines, as investors continue to expect the Fed to cut rates a number of times this year and hopes of trade progress ahead of the G20 Summit later this month. Asia also posted gains overnight on trade optimism and a stronger than expected fixing by the PBOC on the yuan reference rate. European markets have continued the trend as investor sentiment improves globally. Trade continues to dominate the headlines, with investors assessing President Trump's tweets and soundings. Meanwhile in the UK, the election of the next Tory leader has begun with 10 potentials, nominated by the parliamentary party.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26063	78.74	0.30%	11.73%
S&P	2887	13.39	0.47%	15.15%
Nasdaq	7823	81.07	1.05%	17.90%

Nikkei	21204	69.86	0.33%	5.94%
Hang Seng	27807	228.70	0.83%	7.59%

Brent Oil	62.66	0.37	0.59%	16.47%
WTI Oil	53.85	0.59	1.11%	18.59%
Gold	1324	-4.45	-0.34%	3.20%

€/\$	1.1325	0.00	0.11%	-1.24%
€/£	0.8919	0.00	0.02%	-0.78%
£/\$	1.2696	0.00	0.09%	-0.45%

	Yield	Change
German 10 Year	-0.221	0.00
UK 10 Year	0.854	0.02
US 10 Year	2.1483	0.00

Irish 10 Year	0.311	-0.02
Spain 10 Year	0.584	-0.02
Italy 10 Year	2.34	-0.0140

## Sanofi -

### News

Sanofi has appointed Novartis's Head of Pharma Paul Hudson as its new CEO, the first non-French CEO to be appointed in its history. Paul has previously had success at Astra Zeneca and more recently Novartis – having helped develop many successful drugs at Novartis. This appointment follows the appointment of a new CFO, JB de Chatillon (ex-Peugeot), and Head of Research. The appointment has been welcomed by investors with the stock closing up 5% on Friday past when it was announced.

### Comment

The announcement of a new CEO is timely for us, having added Sanofi to our Core Fund recently and also having met Sanofi IR last week. The new CEO has removed an overhang for the stock given Olivier Brandicourt was due to retire in February either way. Paul's track record looks like a good fit for Sanofi given he has history within the cancer drug space, an area that Sanofi would like to get more exposure to. Olivier has positioned the company more toward Rare blood, Rare diseases, Immunology and Oncology.

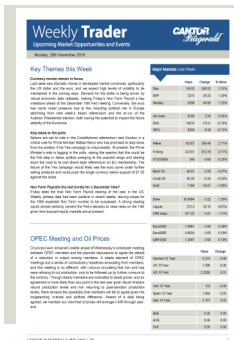
The meeting with IR highlighted management's focus on taking excess cost out of the group and increasingly penetrating emerging markets. Sanofi have seven new products being launched across new markets in the coming twelve months. The group returned to revenue and earnings growth in H2 2018 post the sale of EU generics division and increased competition within the US diabetes market which has negatively impacted their Lantus drug. The Vaccines and Specialty Care division have been a key driver of a return to earnings growth. In Q1 2019, Emerging Markets reported very strong growth across all divisions and is becoming increasingly significant at the group level.

Dupixent, a key revenue product at present, is expected to see sales increase from \$800m at present to over \$3bn over the medium term as it is approved for other medical conditions (Asthma) and in new markets (Europe & Japan). A pipeline drug to treat kidney disease is due to launch in 2021 is also expected to be a big hit.

Sanofi host a capital markets day in Paris on the 26<sup>th</sup> June which may prove to be a catalyst. We remain positive on Sanofi and recommend clients review our investment case in the June Journal just released and consider an investment in their shares.

Darren McKinley, CFA | Senior Equity 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.

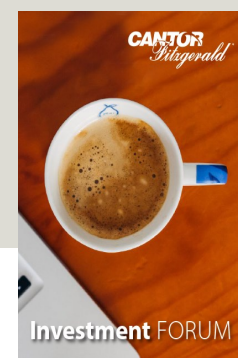
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