Daily Note

Views, news and topics from today's markets

Thursday, 11thJuly 2019

Morning Round Up

Powell reaffirms dovish outlook

Federal Reserve Chairman Jerome Powell reaffirmed the market's expectation of a July rate cut. Speaking at his biannual testimony to Congress, Mr Powell laid out the mounting risks to the US economy, leaving little doubt regarding an easing of conditions in July. Inflation was highlighted as being persistently low along with a more challenging global environment. The probability of a 50bps cut in the Federal Funds Rate moved higher on the testimony from 0% to 20%. While, the probability of a 25bps fell to c. 80% from 100% as the market perceived Chair Powell's testimony as more dovish post last Friday's Jobs number. The overall probability of a cut remains at 100%, with the Fed committed to maintaining the economy in a "good place". A 50bps cut would likely see a sharp reaction in both fixed income and equity markets, with yields moving lower and equity markets higher. We expect a 25bps cut, which will likely maintain positive momentum in equity markets. However, we remain sceptical that this monetary intervention will turn the weakening trends in economic data and earnings. As the fundamentals continue to weaken we remain cautious on our exposure to equity markets, preferring a defensive allocation across higher yielding names.

Reckitt Benckiser shares rise after settling opioid treatment probe

Reckitt Benckiser shares rose by 3% this morning after it was reported that it has agreed to pay a \$1.4bn settlement to settle an investigation by the US Department of Justice and the Federal Trade Commission. While the settlement significantly exceed its original provision of \$400m, the market has greeted the announcement positively, as it removes an issue that overhung the company for a number of months. Despite the company maintaining its denial of any wrongdoing, it stated that the settlement avoids "the costs, uncertainty and the distraction associated with continued investigations". The initial case emerged a number of months ago, when Indivior, a former subsidiary of Reckitt Benckiser, was charged with misleading doctors and health programs into believing that one of its drugs was less likely to lead to patient addiction than rival products.

This was important update for Reckitt Benckiser which has struggled to push forward given this overhang. While the settlement will add to cash/debt pressures, its current valuation (currently 18x 12m forward P/E) and growth trajectory relative to the broader staples sector, should see the stock price move higher. Adding to the new CEO, Laxman Narasimhan, the former COO of PepsiCo, begins with a clean slate when he takes over this September.

Reckitt Benckiser one year stock price



Source: Bloomberg, CF Research July 2019



Key Upcoming Events

23/07/2019 UK PM Announcement 25/07/2019 ECB Decisions 30/07/2019 BoJ Decision 31/07/2019 Fed Decision

Market View

US markets breached new highs yesterday, as a dovish Fed spurred hopes of further monetary stimulus. Sentiment has continued into Asian trading overnight with markets trading higher. Europe has opened positive this morning, with energy companies leading the way on higher oil. Brent moved 4.5% higher to \$67.60 over the past 24 hours as tensions rise in the Arabian Gulf. Yields fell on Powell's testimony, while the Dollar weakened against a basket of global currencies. US inflation data will be important as the Fed are citing persistently low data as the reasoning for a dovish tilt. While, the ECB also publish minutes from its latest governing council meeting.

Market Moves						
	Value	Change	% Change	% Change YTD		
Dow Jones	26860	76.71	0.29%	15.14%		
S&P	2993	13.44	0.45%	19.40%		
Nasdaq	8203	60.80	0.75%	23.62%		
Nikkei	21644	110.05	0.51%	8.14%		
Hang Seng	28432	227.11	0.81%	10.01%		
Brent Oil	67.58	0.57	0.85%	25.61%		
WTI Oil	60.85	0.42	0.70%	34.00%		
Gold	1423	3.55	0.25%	10.92%		
€/\$	1.1273	0.0022	0.20%	-1.69%		
€/£	0.8993	-0.0006	0.07%	-0.04%		
£/\$	1.2536	0.0034	0.27%	-1.71%		
			Yield	Change		
German 10 Year			-0.272	0.035		
UK 10 Year			0.751	-0.007		
US 10 Year			2.044	-0.017		
Irish 10 Year			0.163	-0.008		
Spain 10 Year			0.41	-0.033		
Italy 10 Year			1.703	-0.033		
Source: Bloo	mbera CFF	Research Ju	lv 2019			

Source: Bloomberg, CF Research July 2019

Cantor Publications & Resources

Weekly Trader		3a	igera	w.
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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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