

Wednesday, 11<sup>th</sup> September 2019

## Morning Round Up

### Yields jump helps value stocks to rise

Global bond yields have jumped over the past week providing some short term relief for a number of value sectors and stocks. This movement in bond yields has been aided by the prospect of easing trade tensions, potential fiscal spending in Europe (notably Germany), the lower risk of a no deal Brexit and expectations that the ECB and Fed will be less dovish than had been anticipated. Over the past week, the US 10 year yield and the German 10 year yield have risen from 1.45% and -73bps to 1.73% and -53bps respectively. This move has been highly beneficial for European banks (+8.8%), autos (+6.7%), materials (+5.9%) and energy (+4.2%) sectors. On the other side the high premium quality stocks, which had been significantly outperforming, have fallen with Food and Beverage stocks the biggest decliners (-3.7%). This recent move has been epitomised by AIB (+12.4%), Bank of Ireland (+16.6%) and Ryanair's (+10.6%) gains over the last 5 days.

### Looking forward to the ECB September meeting

As has been well documented over the past number of months, central bankers globally have moved to stimulate their economies as fears of a global slowdown build. The ECB has been no different. The dovish turn started with Mr Draghi's speech at the ECB Forum in June, where he expected additional stimulus would be required if the economic outlook did not improve mentioning further rate cuts and restarting asset purchases. At the Governing Council's July meeting, Mr Draghi gave more formal guidance indicating that a package of measures was being assessed to combat slowing growth across the region and persistent below target inflation. The ECB actions over the summer has had a significant impact across bond markets, with particular emphasis on German sovereign bonds. We have seen the German 10 year yield fall from -20bps in June to a low of -70bps. The recent bond sell off has pushed the yield back to -53bps. The recent move higher is on the back of the bond market heeding more hawkish members of the Governing Council who have commented that the current economic scenario does not warrant a fresh tranche of asset purchases. We are expecting downward revisions to the ECB's macroeconomic projections across both GDP growth and inflation. We are also expecting a 10bps cut in the Deposit rate, which would lower it to -50bps. There remains c. 40% probability of an additional 10bps being cut this month, which would bring the Deposit rate to -60bps. As the impact of negative rates on the banking sector has been much discussed, we are also expecting a tiering structure to be introduced to limit the impact on the banking sector. Finally, a fresh tranche of the bank's Asset Purchase Program (APP) to the value of €30bn a month is also anticipated by the market. However, we do not think this measure will be introduced as part of this round of measures and expect a reintroduction of quantitative easing to be guided for later in the year. With this being Mario Draghi's last Governing Council meeting we wouldn't expect him to exhaust what little tools the bank has for monetary stimulus ahead of Mrs Lagarde taking the reins. The bond market has moved to price in an extremely dovish ECB this week, while we have seen a small correction to this view as bonds have sold off, any failure to meet expectations will likely see rates move higher if the market needs to reassess its dovish outlook.

### Apple unveil new iPhone at its Product Launch

Apple have announced the new iPhone 11, replacing the iPhone X at a lower price point at the bottom of the range and now price increase for the top end model. The camera received the biggest upgrade in what was a modest technology update, with the lack of a 5G compatible handset notable. Pricing of its TV+ product was a warning shot to Netflix and Disney coming in at \$4.99. Apple has tracked back to its peak valuations at 17x forward earnings, a level it has tested twice over the past 18 months.

### Key Upcoming Events

12/09/2019 ECB Governing Council  
18/09/2019 FOMC Decision  
17/10/2019 ECB Leaders Summit  
31/10/2019 Brexit Day

### Market View

Equity markets have opened up in positive territory this morning. Again it's the cyclical and value based sectors gaining the most with Financials and Materials up 1%. On the other side, Consumer Staples and Utilities are the only two sectors to be negative on open. This rotation has been in sync with bonds as treasury yields continue to push higher. The move has been driven by a collection of events including positive trade rhetoric, the prospect of further China stimulus and the reduced risk of a crash out Brexit. This has also helped to drive oil prices higher with Brent back at \$63. The market will be paying close attention to the ECB meeting tomorrow.

### Market Moves

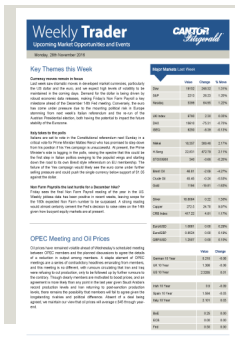
	Value	Change	% Change	% Change YTD
Dow Jones	26909	73.92	0.28%	15.36%
S&P	2979	0.96	0.03%	18.85%
Nasdaq	8084	-3.28	-0.04%	21.84%
Nikkei	21598	205.66	0.96%	7.91%
Hang Seng	27116	432.58	1.62%	4.92%
Brent Oil	62.82	0.44	0.71%	16.77%
WTI Oil	57.91	0.51	0.89%	27.53%
Gold	1490	4.12	0.28%	16.17%
€/\$	1.1031	0.00	-0.11%	-3.80%
€/£	0.8925	0.00	-0.17%	-0.72%
£/\$	1.236	0.00	0.08%	-3.09%

	Yield	Change
German 10 Year	-0.533	0.01
UK 10 Year	0.676	0.04
US 10 Year	1.7385	0.01
Irish 10 Year	0.052	0.01
Spain 10 Year	0.282	0.02
Italy 10 Year	1.04	0.0230

Source: Bloomberg, CF Research September 2019

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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.

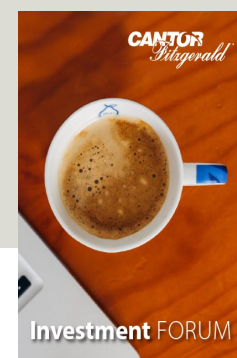
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