

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 18th January 2021

Key Themes This Week

The Week Ahead

Global equity markets gave up some of their recent gains last week to finish on average 2% lower as a move higher in bond yields coupled with an increase in virus cases weighed on investor sentiment. Equally, negative political headlines in Europe from Italy and the Netherlands as well as impeachment proceedings in the US added to market uncertainty, however the delivery of a significant US fiscal stimulus as well as central bank commentary helped keep our positive outlook for risk assets intact.

The early part of the week was dominated by Federal Reserve speakers who, to varying degrees, raised the prospect that the central bank could commence the tapering of its current \$120bn per month asset purchase programme sometime in 2021 on the basis that the economic rebound in the US in mid-2021 would justify such a move. This resulted in a sell-off in US bonds with the yield on the benchmark 10 Year Treasury Note climbing to 1.20% at one point. On Thursday however Fed Chair Powell assuaged market concerns by saying that the US economy was still some way off the Fed's goals for inflation and employment and that now was not the time to consider exiting its current policy programme. As a result, the yield on the US 10 Year note fell back to 1.10%.

This move lower in yields would have been greater but for the announcement by President-Elect Biden of a \$1.9trn stimulus plan which he said would be funded by additional debt rather than through spending cuts and increased taxes. With the US budget deficit already at record levels following years of support for the US economy following the financial crises and in particular by fiscal measures previously announced since the start of the pandemic, the prospect of an additional \$1.9trn of debt with more to follow possibly as soon as February, capped any further move lower in yields. This stimulus announcement by Mr. Biden fits in with our previously stated belief that the new administration would commit to additional fiscal spending to support the US economy which when added to the long-term commitment for accommodative monetary policy, provides significant support for equity markets.

In Europe too, the ECB reiterated its dovish policy stance with the central bank's President Christine Lagarde saying that further policy action could be required through a possible increase in the size of its Pandemic Emergency Purchase Programme (PEPP), a comment justified by the minutes of the banks December meeting which said that the short-term outlook for the single currency block had weakened despite the delivery of vaccines. With virus cases reaching record numbers and talk of lockdown measures lasting for longer than originally expected, the likelihood of further policy action has increased significantly in recent weeks.

The fourth-quarter 2020 reporting season kicked off in the US on Friday with a mixed set of results from the US banking sector. We expect the upcoming results season to exceed forecasts for a year-over-year decline of 8.8% (Source: Factset) given the fact that major economies saw fewer restrictions during the period however with the resumption of lockdowns and renewed disruption to business, we expect outlook statements to be cautious particularly from those sectors sensitive to economic reopening such as travel & leisure and consumer discretionary. We do however expect sectors more sensitive to a stay-at-home environment such as technology, to report strong results and issue more positive forward guidance. We therefore would use the recent period of underperformance in our preferred technology names of Microsoft, Amazon and PayPal Holdings (all Core Portfolio holdings) as an opportunity to add exposure to portfolios.

This week in the Weekly Trader we focus on US technology group **Microsoft** ahead of its results which are due to be released on 26th January and on UK builders merchant/DIY group **Grafton** which last week issued a very positive trading update. We also provide the regular weekly update on the **MIM Multi-Asset Fund range**.

Major Markets Last Week

	Value	Change	% Move
Dow	30,814	-283.71	-0.91%
S&P	3,768	-56.43	-1.48%
Nasdaq	12,999	-203.48	-1.54%

MSCI UK	15,194	-116.61	-0.76%
DAX	13,788	-261.80	-1.86%
ISEQ	7,523	-123.27	-1.61%

Nikkei	28,242	103.18	0.37%
Hang Seng	28,816	907.28	3.25%
STOXX 600	408	-3.32	-0.81%

Brent Oil	54.78	-0.88	-1.58%
Crude Oil	52.2	-0.05	-0.10%
Gold	1835	-8.65	-0.47%

Silver	25.03	0.11	0.45%
Copper	362.95	6.50	1.82%

Euro/USD	1.2077	-0.01	-0.61%
Euro/GBP	0.8903	-0.01	-0.97%
GBP/USD	1.3564	0.00	0.34%

	Value	Change
German 10 Year	-0.55%	-0.05
UK 10 Year	0.29%	0.00
US 10 Year	1.08%	-0.06

Irish 10 Year	-0.24%	-0.03
Spain 10 Year	0.06%	0.01
Italy 10 Year	0.65%	0.08

BoE	0.1	0.00
ECB	0.00	0.00
Fed	0.25	0.00

All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Microsoft Corp

Closing Price: \$212.65



Key Metrics	2021e	2022e	2023e
Revenue (\$'Mn)	157915	175554	197973
EPS (\$)	6.75	7.43	8.56
Price/ Earnings	31.51x	28.61x	24.83x
Div Yield	1.03%	1.11%	1.25%

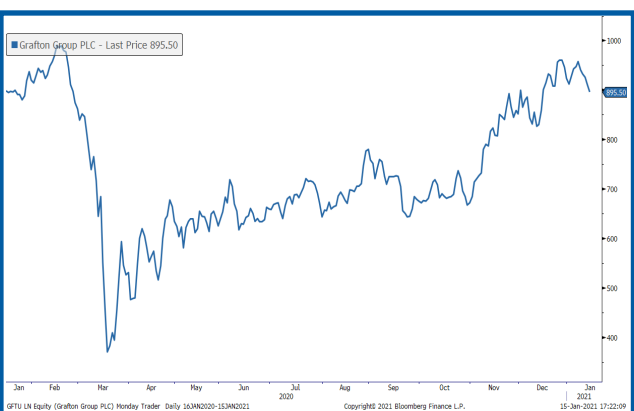
Total Return	1 Mth	3 Mth	1 Year
MSFT US	-2.72%	-2.93%	28.61%

Source: All data & charts from Bloomberg & CFI

- We continue to see value in Microsoft, particularly at current levels and re-iterate our Buy recommendation. Our unchanged peer-comparative derived price target of \$245 would have the stock trading at parity with its FANG+ peer group. This implies a 15% upside to the current price and is backed with a well-supported dividend currently yielding 1.1%. Note that the company trades at an even greater discount to its business-based peer base (c.20%) but we value the stock against “peers” of similar market cap as Microsoft’s largest direct business-related peer, Intel, is 15% its size. Microsoft also consistently returns capital to shareholders through share buybacks, having committed an average of \$19.91bn per annum to this over the past six years, which in FY20 alone (year-end June) represented a further 1.3% return per share.
- We believe that there will be continued demand for server and office products and services as remote working and online commerce continues to dominate the global economy for longer than previously thought as, vaccine rollouts notwithstanding, we face into extend third phase lockdowns. We believe that such growth will be augmented with continued strong demand for the company’s new Xbox Series X console, providing a further upside catalyst.
- Microsoft’s business model is highly cash generative operating as it does at an EBITDA margin of over 45%, with free cash flow conversion averaging 3.2x over the past three years. As such, the balance sheet has reported net cash for the past six years. While management is continually adding to the business both organically (six-year average capex of \$10.57bn) and through acquisitions (\$6.14bn spent on average per annum), as noted above management has also consistently returned capital to shareholders, with an average of \$19.91bn per annum having been deployed in share buybacks, with a further \$12.40bn, on average, given back in dividends.

Grafton Group PLC

Closing Price: £8.95



Key Metrics	2020e	2021e	2022e
Revenue (£'Mn)	2495.4	2688.2	2827.6
EPS (£)	0.49	0.57	0.64
Price/ Earnings	18.16x	15.62x	14.01x
Div Yield	1.60%	1.90%	2.14%

Total Return	1 Mth	3 Mth	1 Year
GFTU LN	-3.55%	31.40%	0.06%

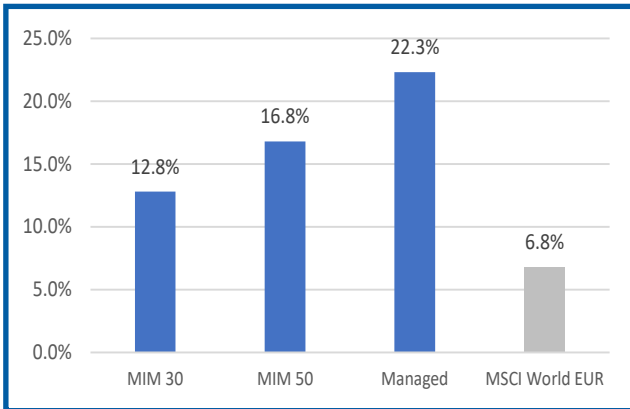
Source: All data & charts from Bloomberg & CFI

- In a trading update last week, Grafton reported a stronger than expected end to FY20 noting that revenue and profitability in the last two months of the year were “ahead of expectations”. The company is now guiding that adjusted operating profit is expected to come in more than 5% ahead of current consensus of £174m from full year revenue of £2.51bn. While revenue will be down 6.1% on FY19 revenue it is marginally ahead of market expectations at £2.49bn. The Group’s financial position remains “very strong” with liquidity of c.£800m at the year-end.
- Management reports a continued strong recovery in business that started at the end of the first lockdown in July following the sharp decline in Q220 caused by the pandemic. Demand was strongest in Woodies and Chadwicks in Ireland and Selco in the UK. The 6.1% dip in Group revenue is a combination of a 14.6%, 0.2% and 22.7% decline in UK Merchanding, Ireland Merchanding and the Manufacturing divisions, balanced by a 20.0% increase in Retailing and 30.6% increase in the Netherlands merchanding business.
- Despite the positive read on FY20 numbers, the stock subsequently drifted down 5% on non-stock specific market moves and is trading flat on where it was this time last year, having fully recovered from the March market self-off. We believe this short-term weakness provides an ideal opportunity to pick up stock in a growth company at good value.
- Grafton is trading at 15.7x FY21 P/E and 9.3x EV/EBITDA, a 5% discount to its 10-year average and 13% discount to its peers. We believe that given its stronger than expected end to FY20, coupled with its FY21 growth prospects (the market is currently forecasting 16% earnings growth), the stock deserves to trade at least at parity with its peers. This implies a share price of 1030p and 15% upside to the current price. Buy.

Opportunities this week

CFI Research Team

Merrion Investment Managers Multi Asset Range (30/50/Managed)



Total Return	1 Year
MIM 30	
MIM 50	
Managed	
MSCI World (EUR)	

Returns as of the 31/12/2020
Gross Returns

- MIM multi asset (30/50/70) funds offer well-diversified exposure with the ability to perform in different market environments. Year to date the funds have outperformed peers and benchmarks during both strong and weak market episodes.
- Excellent choice across the range, to suit the different risk profiles of clients.
- Diversification with active management can deliver very strong returns with reduced volatility in times of market stress.
- MIM positioning is largely unchanged on the week with some trading around individual positions given the moves over the last month. MIM enter 2021 continuing to highlight what they have been positioned for since March and continue to be positioned for.
- Whilst the vaccine news is very positive, in the near-term rising covid-19 case numbers and hospitalisations may dent market confidence.
- Within equities, they are overweight structural growth themes but also have exposure to covid-19 recovery / cyclical value opportunities.
- Despite the short-term uncertainties, equity markets will look to the combination of zero rates and fiscal expansion which will continue to drive investment into the industries that will dominate the next decade.
- The continued benefit of MIM's active approach, driven by a strong, coherent, and well-tested investment process should be evident over the course of this year.

Cantor Core Portfolio - In Detail

Performance YTD	%
Portfolio	2.8%
Benchmark	2.0%
Relative Performance	0.8%
P/E Ratio	32.46x
Dividend Yield	2.2%
ESMA Rating	6
Beta	0.96

Sector Weights	Portfolio	Benchmark	+ / -
Communication Services	6.7%	6.9%	
Consumer Discretionary	6.7%	10.6%	
Consumer Staples	0.0%	10.8%	
Energy	0.0%	3.0%	
Financials	6.7%	12.7%	
Health Care	6.7%	14.8%	
Industrials	26.7%	11.9%	
Information Technology	13.3%	16.5%	
Materials	20.0%	6.5%	
Real Estate	0.0%	2.4%	
Utilities	6.7%	4.0%	
Emerging Markets	6.7%	0.0%	

FX	Portfolio	Benchmark
EUR	53%	32%
GBP	13%	13%
USD	33%	40%
Other	0%	16%

Currency YTD %		
GBP	0.38%	
USD	0.42%	

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Contribution
STOXX Europe 600	EUR	39	Neutral	60%	2.3%	-0.8%	408	1.4%
S&P 500	USD	28	Neutral	40%	0.4%	-1.5%	3768	0.6%
Total				100%				

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Price	*Contribution
Verizon Communications Inc	USD	4.3%	H	Communication Services	6.67%	-1.3%	-0.7%	57.38	0.0%
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	6.67%	-4.7%	-2.5%	3104.25	-0.2%
JPMorgan Emerging Markets Trust	GBP	1.1%	H	Emerging Markets	6.67%	5.1%	1.2%	1.38	0.4%
Allianz Se	EUR	4.8%	H	Financials	6.67%	0.7%	-1.7%	202.15	0.0%
Sanofi	EUR	3.9%	H	Health Care	6.67%	3.6%	3.5%	81.53	0.2%
Vinci Sa	EUR	1.8%	H	Industrials	6.67%	4.1%	-1.1%	84.72	0.3%
Siemens Gamesa Renewable Energy	EUR	0.1%	H	Industrials	6.67%	3.5%	-8.0%	34.24	0.2%
Fedex Corp	USD	1.1%	H	Industrials	6.67%	-2.7%	3.1%	252.56	-0.1%
Ryanair Holdings Plc	EUR	0.0%	H	Industrials	6.67%	-2.8%	1.2%	15.80	-0.2%
Paypal Holdings Inc	USD	0.0%	H	Information Technology	6.67%	2.4%	-1.1%	239.79	0.2%
Microsoft Corp	USD	1.0%	H	Information Technology	6.67%	-4.4%	-3.2%	212.65	-0.2%
Rio Tinto Plc	GBP	5.7%	H	Materials	6.67%	8.7%	-5.8%	5946.00	0.6%
Smurfit Kappa Group Plc	EUR	3.3%	H	Materials	6.67%	5.7%	-0.6%	40.20	0.4%
CRH Plc	EUR	2.1%	H	Materials	6.67%	7.9%	-3.2%	36.70	0.5%
Engie	EUR	4.0%	H	Utilities	6.67%	8.7%	2.3%	13.62	0.6%
Total									

All data taken from Bloomberg up until 15/01/2021.

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

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
	Bank of America Corp Netflix Inc Goldman Sachs Group	ASML Holding NV UnitedHealth Group Morgan Stanley United Airlines	IG Group Holdings Intel Corp International Business Machine Gilead Sciences Inc M&T Bank Corp	
Economic	Economic	Economic	Economic	Economic
Chinese Industrial Output Chinese Retail Sales Chinese GDP US Market Holiday - Martin Luther King Day	German ZEW Economic Sentiment Irish Residential Property Prices (Nov)	German Producer Prices UK CPI UK PPI EU Final HICP US Presidential Inauguration	ECB Refi Rate Announcement US Housing Starts US Initial Jobless Claims US Philly Fed Manufacturing Index	UK Consumer Confidence UK Retail Sales EU Flash Manufacturing PMI US Flash Manufacturing PMI US Existing Home Sales

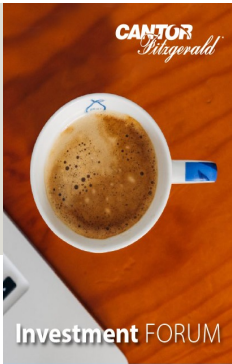
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Issuer Descriptions: (Source: Bloomberg)

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.

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

Danone: Danone operates as a food processing company.

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

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

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

SAP: SAP is a software corporation that makes enterprise software

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products

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

Total: TOTAL S.A. explores for, produces, refines, transports, and markets oil and natural gas. The Company also operates a chemical division which produces polypropylene, polyethylene, polystyrene, rubber, paint, ink, adhesives, and resins.

Newmont Goldcorp: Newmont acquires, explores, and develops mineral properties.

Greencoat Renewables: Greencoat operates as an investment company. The Company invests in wind and renewable electricity generation assets.

Sanofi: Sanofi operates as a pharmaceutical company. The Company manufactures prescription pharmaceuticals and vaccines. Sanofi also develops cardiovascular, thrombosis, metabolic disorder, central nervous system, and oncology medicines and drugs.

Engie: Engie is a global energy and services utility company

FedEx: FedEx delivers packages and freight to multiple countries and territories through an integrated global network

Kennedy Wilson: Kennedy-Wilson Holdings, Inc. operates as a global real estate investment company

ING Groep: ING Groep is a global financial institution providing retail and wholesale financial services.

BT Group: BT Group is a UK based telecommunications company.

Carnival: Carnival operates and owns cruise ships

Siemens Gamesa: SGRE designs and manufactures renewables energy equipment

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