

Between the lines

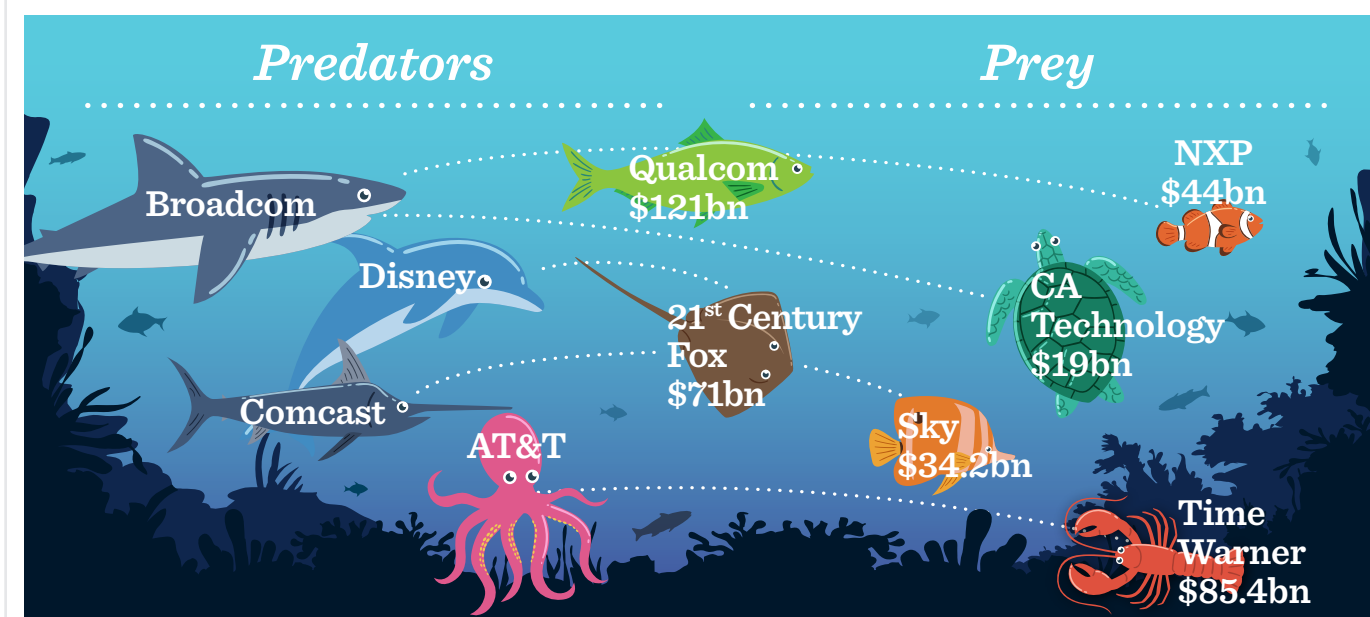
Week
30

Quilter Investors

Multi-asset investment thinking from the Quilter Investors team.

The fish are biting:

Under pressure to achieve critical mass, a 'feeding frenzy' has broken out among leading digital and tech names.



Source: Quilter Investors as at 25 July 2018.



Editorial credit: SpVVK/iStock.com

As easy as A, B, C...

Tech giant Alphabet, parent company of Google, saw its share price rise 3.4% in late trading on 23 July after it significantly beat expectations in its second quarter results.

It reported \$26.2bn of quarterly revenue, exceeding average analyst estimates of \$25.6bn, while its advertising business grew 24% and its 'other' revenue streams, including cloud services climbed 37% to \$4.4bn.

Alphabet reported a diluted earnings per share (EPS) figure of \$11.75. However, to take into account the record \$5.1bn (£3.9bn) fine levied by the European Commission on 18 July for breaching EU antitrust rules, the company's adjusted diluted EPS figure came in at just \$4.54. Alphabet is appealing the fine.



Miners caught in cave-in

Alcoa, the biggest aluminium producer in the US, took a major hit last week thanks to unintentionally finding itself in the front line of President Trump's escalating trade war.

Shares in the mining giant fell 13% – the company's worst post reporting performance for more than a dozen years – when it reported that the president's trade crusade would likely drag profits below its previous estimate.

It wasn't the only metal miner to feel the heat last week. Copper mining compatriot Freeport-McMoran fell by 7.5% on 19 July while Canada's First Quantum Minerals lost more than 8% on the same day. Meanwhile, the prices of copper, lead and zinc all plummeted 12-month lows last week.



Editorial credit: Tramino/iStock.com

OPEL is a diamond in the rough

PSA Group, the French auto giant behind marques such as Peugeot and Citroen, pulled away this week thanks to a sparkling set of results that set it apart from European peers that have been 'rear ended' by trade war concerns in recent months.

Shares in the group sped away by 13% on Tuesday – their biggest move in six years – thanks to a neatly executed U-turn at its Opel/Vauxhall operation.

Only a year ago, a troubled General Motors unloaded the ailing unit for €1.2bn after nearly 20 years of losses. However, bold cost cutting and labour negotiations by PSA have created a unit that delivered more than €500m of profits in the first half of the year.

Suitable for retail investors.



US banks flex muscles

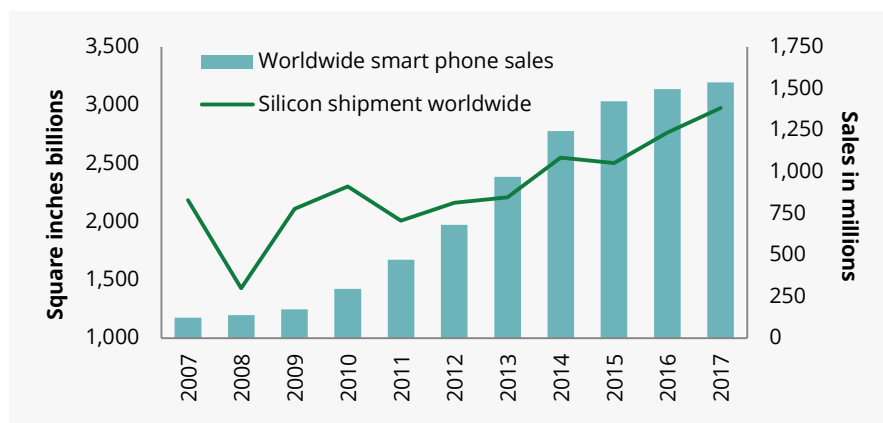
Results from the first 25% of companies to report suggest another bumper US earnings season with its banks among the surprise early winners.

Bank of America saw its share price gain 5.5% last week while Morgan Stanley made similar progress. Meanwhile, the likes of Citizens, Comerica, JP Morgan, Peoples Bank, PNC and SunTrusts Banks (among others) also beat expectations.

As head of investments, Anthony Gillham, observes, "What stands out is that so many reported decent loan growth. This means that US banks offer an attractive combination of inflation-proofing and potential growth as loan books are fattening despite the five rate hikes already telegraphed by the US Federal Reserve."

Chart of the week

Cheap as chips? Smartphone sales may be plateauing at around \$500bn a year but the internet of things is pushing demand for semi-conductors ever higher.



Source: Quilter Investors/Macrobond as at 25 July 2018.

Market data – % change in week ending 25/07/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	-0.40	0.73
MSCI AC World	0.09	1.23
S&P 500 (US)	0.35	1.48
NASDAQ (US)	0.98	2.12
MSCI Europe ex UK	-0.41	0.72
TOPIX (Japan)	0.83	1.97
MSCI Asia ex Japan	1.04	2.18
MSCI Emerging Markets	1.38	2.52



'Year of the dog' for China's 'long-life' bio-tech

Former investor favourite, Changsheng Bio-tech has been outed for supplying fake DPT (diphtheria, whooping cough and tetanus) vaccines to children, bribery and falsifying data to support its rabies vaccine.

Until last week the company, which receives extensive government subsidies, was China's second-largest supplier of rabies and chickenpox vaccines, but it now faces de-listing.

Its shares fell almost 50% (circa £1.2bn) by 24 July, while the company faces further fines, penalties and restrictions on shareholder sales. Meanwhile, its billionaire chairwoman, Gao Junfang, and other senior executives, face potential criminal charges.

US banks offer an attractive combination of inflation-proofing and potential growth as loan books are fattening...

Anthony Gillham, head of investments, Quilter Investors

Fixed Income ¹	% Change GBP	% Change USD
BB Global-Aggregate TR Index	-0.35	-0.32
BB Global-Agg Treasuries TR Index	-0.44	-0.40
BB Global-Agg Corporate TR Index	-0.22	-0.19
BB Global High Yield TR Index	0.22	0.25

Commodities	% Change GBP	% Change USD
S&P Energy Index	0.94	2.08
S&P Precious Metals Index	-0.49	0.63
S&P Industrial Metals Index	1.90	3.05
S&P Agriculture Index	2.24	3.39

Currencies ²	% Change GBP	% Change USD
JPM UK FX Exchange Rate Index	0.68	0.68
JPM US FX Exchange Rate Index	-0.84	-0.84
JPM Euro Area FX Exchange Rate Index	-0.07	-0.07

Index data as at COB Wednesday 25 July 2018. All sources Quilter Investors unless otherwise stated.

¹ Bloomberg Barclays index data. ² JP Morgan Real Broad Effective Exchange Rate CPI Indices.

Suitable for retail investors.

Important information

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back any of the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares. Exchange rate changes may cause the value of overseas investments to rise or fall.

This communication is issued by Quilter Investors Limited ("Quilter Investors"), Millennium Bridge House, 2 Lambeth Hill, London, United Kingdom, EC4V 4AJ. Quilter Investors is authorised and regulated by the Financial Conduct Authority.

This communication is for information purposes only. Nothing in this communication constitutes financial, professional or investment advice or a personal recommendation. This communication should not be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be

a complete statement or summary of the securities, markets or developments referred to in the document.

Any opinions expressed in this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or companies within the same group as Quilter Investors as a result of using different assumptions and criteria.

Quilter Investors is not licensed or regulated by the Monetary Authority of Singapore ("MAS") in Singapore. This document has not been reviewed by MAS.

QIL-032-18/SK18218

Further information for financial advisers:

Visit www.quilterinvestors.com to read our latest thinking, download portfolio data and watch investment updates from our portfolio managers.

To speak to one of our Investment Directors call 0207 167 3700 or email enquiries@quilterinvestors.com