

Between the lines

Week
34

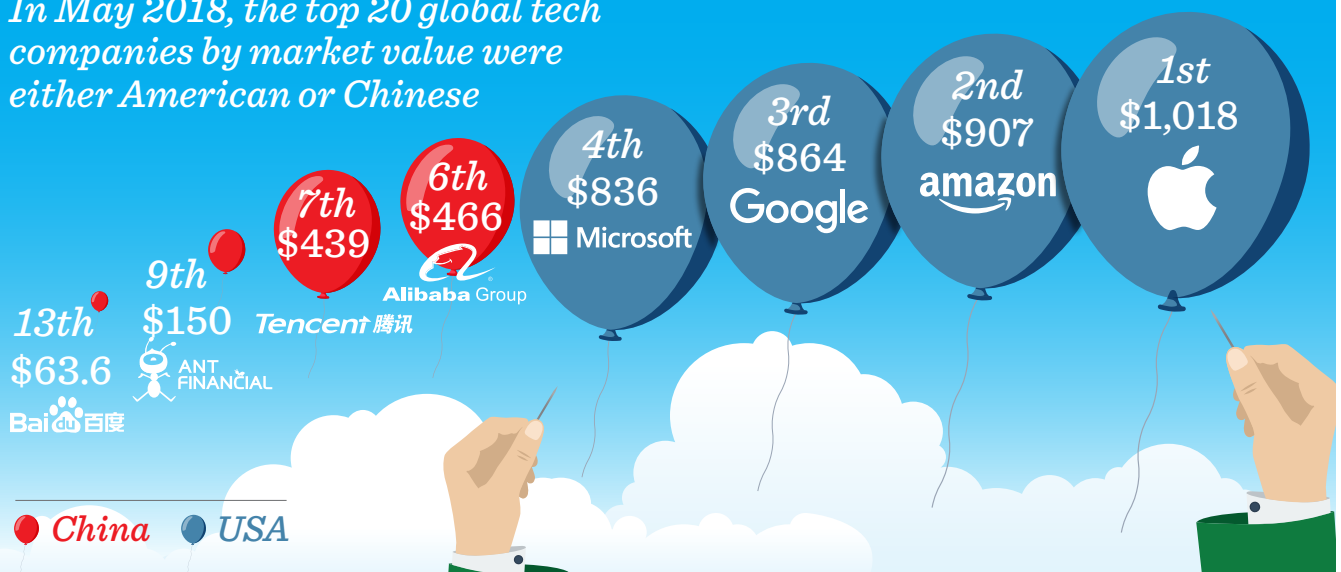
Quilter Investors

Multi-asset investment thinking from the Quilter Investors team.

Could the technology balloons be popped?

The US and China are the home of the 20 largest technology companies in the world, but this concentration and connectivity could come at a cost, with the recent fall in technology prices, including Tencent and Facebook, perhaps signalling that the bubble could burst.

In May 2018, the top 20 global tech companies by market value were either American or Chinese



Source: Kleiner, Perkins, Caulfield & Byers – Internet Trends Report 2018, US\$bn as of 29 May 2018; Nasdaq and Bloomberg as of 8 August 2018.



Editorial credit: flickr, Mike Mozart, CC BY 2.0

Pepsi targets new market with SodaStream deal

Drinks giant PepsiCo has agreed a deal to acquire sparkling water brand SodaStream in a deal worth \$3.2bn (£2.5bn).

PepsiCo, which owns brands including Tropicana, will acquire all outstanding shares of SodaStream for \$144 per share in cash, a premium of 32%.

PepsiCo chief executive, Indra Nooyi, who steps down in October, said the deal was an “inspired match” and aligned with the philosophy of making more nutritious products.

Given the growing trend away from sugary soft drinks, encouraged by changes such as the UK sugar tax, PepsiCo highlighted the deal fits with its strategy of “finding new ways to reach consumers beyond the bottle”.



Greece completes EU bailout programme

Greece has completed its latest three year European stability support programme, but public debt levels remain the highest of any EU member state.

The country has been receiving financial assistance from the EU and International Monetary Fund (IMF) since 2010, equating to €288.7bn. But the completion of the latest bailout means Greece will now “be treated like any other Europe area country”, says Pierre Moscovici, EU Commissioner on Economic and Financial Affairs. However, while Greece can now borrow at market rates, it still has the highest debt to GDP ratio in the EU, at 178.6% at the end of 2017, and will be under enhanced surveillance by the EU to ensure it continues to deliver its planned reforms.



Editorial credit: Shutterstock

Mulberry hit by House of Fraser troubles

The luxury brand Mulberry Group saw its shares tumble almost 30% after it issued a profit warning over the impact of the administration and acquisition of House of Fraser by Sports Direct.

Mulberry, known for its designer handbags, operates 21 House of Fraser concessions across the UK and said it expects the collapse of the department store would result in £3m in potential costs for the six months to 30 September.

Since it reported in June, it said the UK market had been challenging and sales in House of Fraser stores had been particularly affected, warning if the trend continued then Mulberry's full year profit “will be materially reduced”.



Venezuela pegs money to cryptocurrency

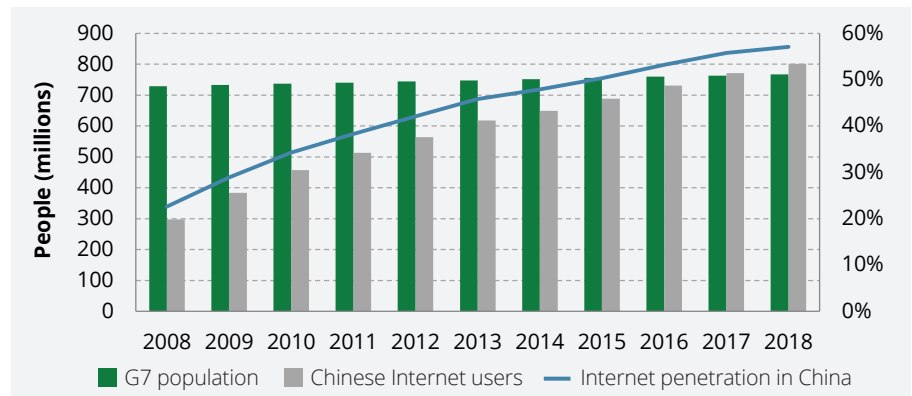
Nicolas Maduro, the president of Venezuela, devalued the currency by 95% and launched the sovereign bolivar, pegged to the country's cryptocurrency Petro, to curb hyperinflation.

Venezuela has been in a recession for four years, with the IMF predicting inflation to hit 1,000,000% by the end of 2018. It is unclear, however, if Maduro's tactics, including raising the minimum wage by more than 3,000%, will have any real effect given the Petro has already been sanctioned by the US in March.

Hinesh Patel, portfolio manager at Quilter Investors, says: "Venezuela is now a tenth of the size of Turkey, so while it's clearly a problem for sentiment, it's not a huge issue for EMs in aggregate. Having said that we must pay ever closer attention to these falling dominos."

Chart of the week

Web surge: Chinese internet users exceeded 800m in June, more than the combined population of the G7, and with room to grow this may offer support to the internet giants.



Source: China Internet Network Information Center: 41st/42nd China Statistical Report; IMF World Economic Outlook April 2018. G7 countries - Canada, UK, US, Japan, France, Germany and Italy.

Market data – % change in week ending 22/08/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	0.35	1.82
MSCI AC World	0.00	1.44
S&P 500 (US)	-0.70	0.74
NASDAQ (US)	-0.77	0.68
MSCI Europe ex UK	1.37	2.84
TOPIX (Japan)	-0.53	0.93
MSCI Asia ex Japan	1.41	2.89
MSCI Emerging Markets	1.20	2.68



Preparing for no-deal

As the UK government publishes its first technical notices preparing for a 'no-deal' Brexit, the team at Quilter Investors has looked at the potential impact on markets and their views on mitigating possible risks.

While a no-deal could hit the UK economy, and lead to falling UK equity indices and sterling, it could also provide investment opportunities outside the UK. Past events such as the EU referendum result and election of Donald Trump, highlight the importance of a globally diversified portfolio and the ability to use all the available resources to adapt to a changing environment.

Read the story on our *Shared Thinking* webpage.

Venezuela is a problem for sentiment, but not a huge issue for EMs in aggregate; [but] we must pay attention to these falling dominos.

Hinesh Patel, portfolio manager, Quilter Investors

Fixed Income ¹	% Change GBP	% Change USD
BB Global-Aggregate TR Index	0.12	0.15
BB Global-Agg Treasuries TR Index	0.12	0.15
BB Global-Agg Corporate TR Index	0.12	0.15
BB Global High Yield TR Index	0.30	0.30

Commodities	% Change GBP	% Change USD
S&P Energy Index	2.72	4.22
S&P Precious Metals Index	0.04	1.50
S&P Industrial Metals Index	-0.30	1.15
S&P Agriculture Index	-3.87	-2.47

Currencies ²	% Change GBP	% Change USD
JPM UK FX Exchange Rate Index	0.40	0.40
JPM US FX Exchange Rate Index	-0.82	-0.82
JPM Euro Area FX Exchange Rate Index	1.23	1.23

Index data as at COB Wednesday 22 August 2018. All sources Quilter Investors unless otherwise stated.

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

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