

Between the lines

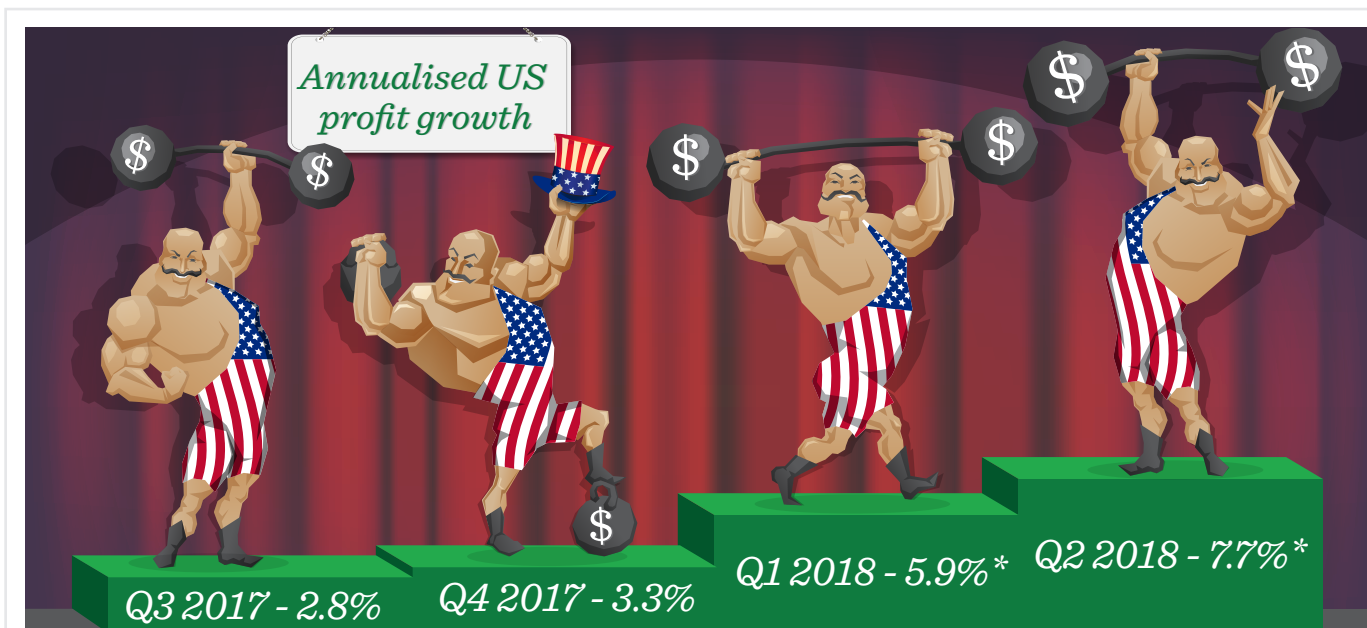
Week
36

Quilter Investors

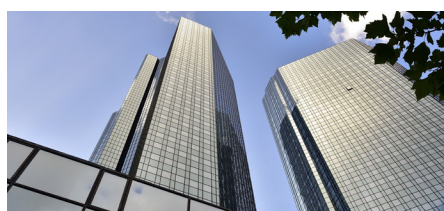
Multi-asset investment thinking from the Quilter Investors team.

From strength to strength

US company profits have seen seven consecutive quarters of positive growth and, thanks partly to the impact of President Trump's tax breaks, annual profit growth in the second quarter of this year was the highest since September 2014.



Source: Bloomberg/Quilter Investors. *Tax break assisted.



Deutsche Bank to fall out of Euro Stoxx 50

Germany's largest lender has been dealt yet another blow with the news that it will shortly be removed from the Euro Stoxx 50 Index.

In July, its fortunes appeared to improve when preliminary figures suggested profit had beaten estimates by 150%. However, a sharp decline in the bank's market capitalisation this year means it will leave the index on 24 September.

The bank has had a troubled start to the year announcing a series of cost-cutting measures amid plans to restructure its corporate and private bank. It also failed US banking stress tests on internal controls. The bank said its plans would be "unaffected by the index provider".



Casino gambling with borrowed money

The French supermarket Casino has become so mired in debt and obfuscating financial structures that its plunging share price – down some 50% this year – is threatening to sink its heavily indebted parent Rallye when €670m (£603m) of debt comes due this year.

To meet its bond obligations, Rallye needs to pledge its Casino shares as collateral on its short-term credit lines, but analysts are warning that with Casino's share price at a 22-year low, it lacks the wherewithal to meet its commitments.

As Quilter Investors credit analyst Tim Li, observes, "The company is a Russian doll of debt; it's been 'robbing Peter to pay Paul' for years, but the ride is coming to an end."



Editorial credit: monticello/istock.com

Coca-Cola brews new plans for Costa Coffee

Drinks giant Coca-Cola has agreed a deal to buy UK coffee chain Costa from Whitbread for \$5.1bn (£4bn).

Launched in London in 1971, Costa now has an international presence with a footprint in more than 30 countries across Europe, the Middle East and Africa.

James Quincey, president and CEO of Coca-Cola, claimed the deal was a "coffee strategy not a retail strategy", adding that Costa is the key to unlocking the "fast-growing, half-a-trillion-dollar [coffee] category".

The deal is expected to complete in the second half of 2019 and follows the recent news of rival Pepsi buying Sodastream in an attempt to widen its customer base.



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Nike's big gamble

Nike has seen its share price slip and protestors burning its products after it chose former NFL star Colin Kaepernick to spearhead its 30th Anniversary Just Do It campaign.

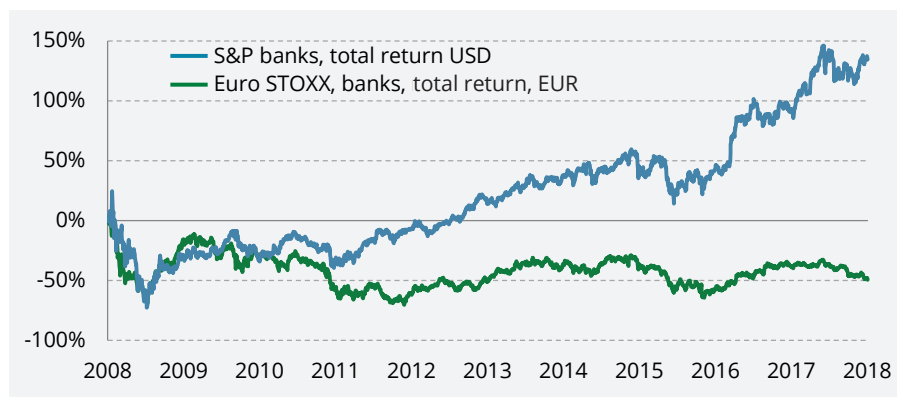
The quarterback is a controversial choice as he led NFL players in kneeling during the national anthem at games to highlight racial injustice, a move that infuriated President Trump.

Nike called Kaepernick "one of the most inspirational athletes of this generation" but the campaign generated a backlash on Twitter with the hashtags #JustBurnIt and #BoycottNike trending. Trump said the campaign sent a "terrible message".

With other high profile names such as (Nike sponsored) Serena Williams backing the ads, time will tell if Nike's big gamble pays off.

Chart of the week

Crash victims: While returns on US bank stocks have exceeded 100% since the financial crash, Europe's banks are still down 50% over the past decade.



Source: Quilter Investors/Macrobond as at 5 September 2018.

Market data – % change in week ending 05/09/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	-1.67	-2.01
MSCI AC World	-1.12	-1.49
S&P 500 (US)	-0.08	-0.43
NASDAQ (US)	-1.22	-1.56
MSCI Europe ex UK	-2.53	-2.87
TOPIX (Japan)	-1.80	-2.14
MSCI Asia ex Japan	-2.68	-3.03
MSCI Emerging Markets	-2.91	-3.25

Fixed Income¹

BB Global-Aggregate TR Index	-0.10	-0.08
BB Global-Agg Treasuries TR Index	-0.02	0.00
BB Global-Agg Corporate TR Index	-0.34	-0.32
BB Global High Yield TR Index	-0.30	-0.27

Commodities

S&P Energy Index	-1.23	-1.57
S&P Precious Metals Index	-0.18	-0.53
S&P Industrial Metals Index	-2.91	-3.25
S&P Agriculture Index	0.73	0.38

Currencies²

JPM UK FX Exchange Rate Index	-0.55	-0.55
JPM US FX Exchange Rate Index	0.47	0.47
JPM Euro Area FX Exchange Rate Index	-0.02	-0.02



Another Chinese billionaire in the dock (or not)

The Chinese internet retailer JD.com had fallen around 16% by Wednesday following the US arrest of its CEO (Richard) Liu Qiangdong on suspicion of raping a Chinese student at the University of Minnesota.

This is just the latest woe for the NASDAQ stock which has nosedived 40% this year. After being held overnight Mr Liu, worth an estimated \$7.3bn, was released and immediately returned to China.

Liu naturally denies any wrongdoing while state-sponsored online chatter in China has been quick to suggest a US conspiracy against the company which includes the likes of Tencent, Walmart and Google among its largest investors.

The company is a Russian doll of debt; it's been 'robbing Peter to pay Paul' for years, but the ride is coming to an end.

Tim Li, credit analyst, Quilter Investors

Index data as at COB Wednesday 5 September 2018. All sources Quilter Investors unless otherwise stated.

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

UK: Suitable for retail investors. Rest of Europe and Singapore: For professional investors only.

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