

Between the lines

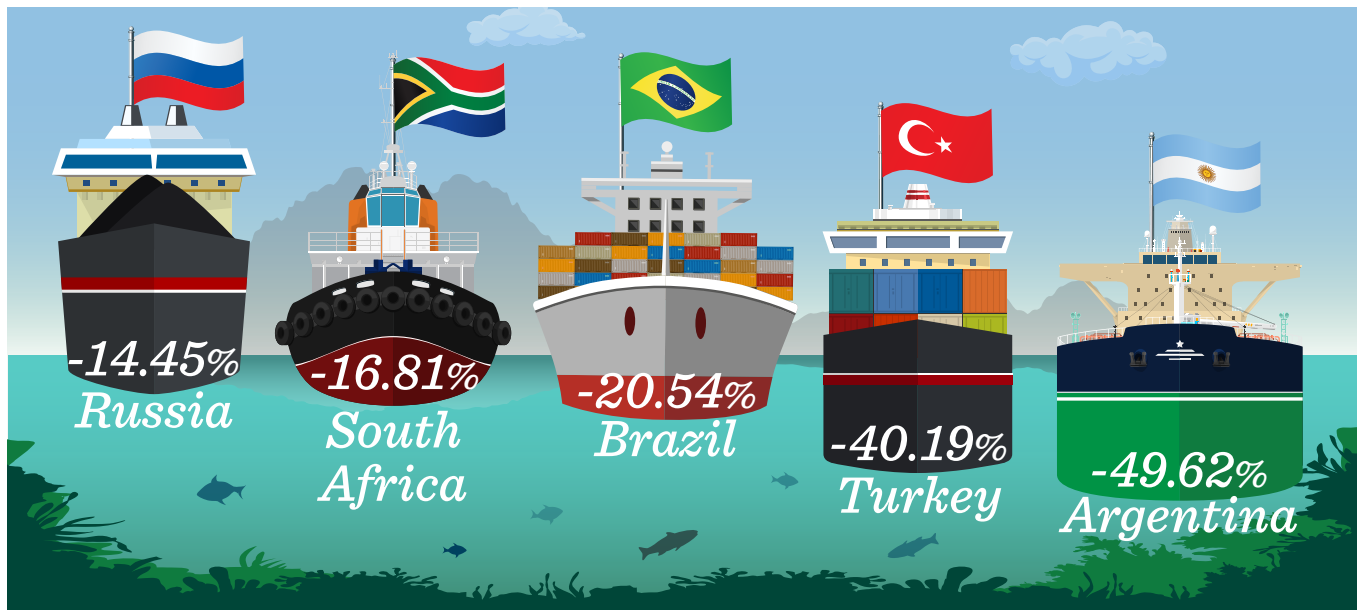
Week
38

Quilter
Investors

Multi-asset investment thinking from the Quilter Investors team.

Taking on water

Thanks to the power of the US dollar, continuing trade anxieties and a host of domestic squalls, emerging market currencies have suffered some heavy seas this year.



Source: Quilter Investors/Bloomberg as at 18 September 2018.



European banks in hot water over laundering

Shares in Denmark's Danske Bank fell more than 11% last week amid allegations that it helped to launder at least \$234bn from 20 or more Russian entities through the bank's Estonian subsidiary.

An independent investigation uncovered that \$30bn was laundered through Estonia in 2013 alone. The bank's own report came out this week.

It's a similar story at ING in the Netherlands. It's just paid a €775m fine after prosecutors estimated that it had laundered hundreds of millions for dubious clients. Reluctantly, the bank's CFO, Koos Timmermans, has finally fallen on his sword. Danske's CEO and Estonia architect, Thomas Borgen, followed suit on Wednesday.



Weak sterling fuels UK M&A boom

Although Brexit continues to dismay both UK industry and UK investors, its effect on sterling and on stock market valuations has triggered a feeding frenzy for overseas corporates.

Recent deals such as Coca-Cola's £4bn bid for Costa, Michelin's £1.3bn purchase of Fenner, Takeda's mammoth £46bn bid for Shire and the bidding war for Sky underline that, backed by cheap money, foreign companies are lining up to get a piece of the UK pie.

Paul Craig, manager of the Cirilium portfolios, observes, "Many UK stocks have been performing worse than their emerging market peers and global managers are still heavily underweight to the UK. This is fertile ground for UK stock pickers."



Editorial credit: MattiaMarasco/iStock.com

Long, hot summer hits Zalando profits

German online fashion retailer Zalando has issued a second profit warning in six weeks, blaming the unusually hot summer for lower revenue growth and an earnings shortfall.

The company's shares dropped as much as 19% after its revised guidance stating revenue growth would be at the "low end" of its 20-25% target and that adjusted earnings before interest and taxation (EBIT) of €150-190m was down from €220-270m.

It claimed that summer heat had frazzled demand resulting in higher discounts and a delay in switching to its higher margin Autumn/Winter range. While warning that Q3 figures would significantly miss estimates, it somehow maintained that its "growth story remains intact."

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



Chinese unicorn Nio leaps the fence

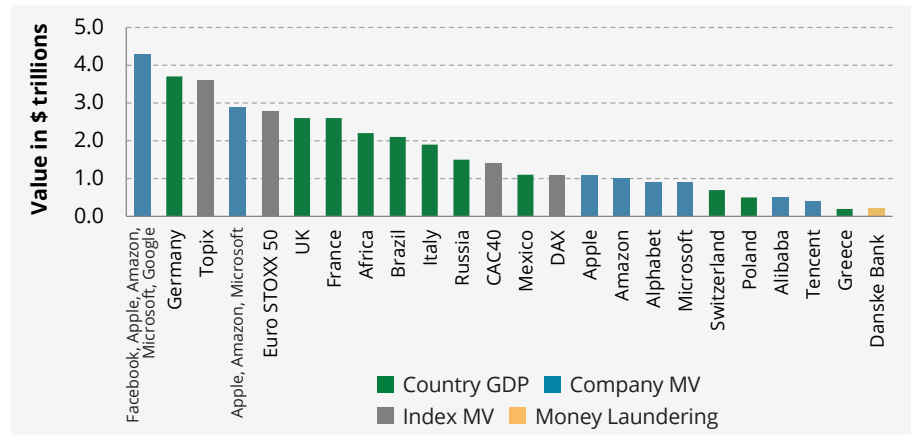
The Chinese electric vehicle maker Nio debuted on the New York Stock Exchange last week, raising \$1bn with shares priced at \$6.26. This was the lower end of its valuation range thanks to trade war concerns and disappointments from its rival, Tesla.

The company had been one of China's biggest 'unicorns' – private companies worth more than \$1bn – following investment from the likes of Tencent, Baidu and Sequoia Capital.

Its IPO values the company at around \$6.4bn, in a Chinese market expected to see annualised growth of 40% to 2022. However, the company filing noted that it had yet to make a profit and highlighted years of losses, including \$759m in 2017 alone.

Chart of the week

What's big these days? Comparing countries to companies and market indices.



Source: Quilter Investors/Goldman Sachs Research, August 2018.

Market data – % change in week ending 19/09/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	0.77	1.22
MSCI AC World	0.26	0.70
S&P 500 (US)	-0.32	0.13
NASDAQ (US)	-1.38	-0.94
MSCI Europe ex UK	0.35	0.80
TOPIX (Japan)	3.50	3.96
MSCI Asia ex Japan	0.65	1.10
MSCI Emerging Markets	0.77	1.22

Fixed Income¹

BB Global-Aggregate TR Index	-0.37	-0.35
BB Global-Agg Treasuries TR Index	-0.33	-0.31
BB Global-Agg Corporate TR Index	-0.43	-0.42
BB Global High Yield TR Index	0.29	0.32

Commodities

S&P Energy Index	1.78	2.24
S&P Precious Metals Index	-0.41	0.03
S&P Industrial Metals Index	-0.27	0.18
S&P Agriculture Index	-0.67	-0.22

Currencies²

JPM UK FX Exchange Rate Index	0.32	0.32
JPM US FX Exchange Rate Index	-0.20	-0.20
JPM Euro Area FX Exchange Rate Index	-0.01	-0.01



US 'war on vaping' boosts tobacco stocks

Shares in the tobacco majors Altria and Philip Morris took off last week following news that the US Food and Drug Administration (FDA) was cracking down on the e-cigarette industry.

The FDA issued warning letters to dozens of US retailers including online businesses and national chains such as 7-Eleven, Chevron and Walgreens following a report in April that showed the number of high school students who used e-cigarettes had jumped from 1.5% in 2011 to 16% in 2015.

The news saw Altria shares jump 7% on Wednesday last week – its biggest gain in a decade – while Philip Morris climbed the most in more than three years.

Many UK stocks have been performing worse than their emerging market peers... This is fertile ground for UK stock pickers.

Paul Craig, fund manager of the Cirilium portfolios

Index data as at COB Wednesday 19 September 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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