

Between the lines

Week
41

Quilter Investors

Multi-asset investment thinking from the Quilter Investors team.



PULESTON
WEALTH MANAGEMENT

Is Elon Musk the real life Iron Man?

He may be getting too big for his rocket boots, but Musk's innovation is re-shaping six different industry sectors.

Elon Musk

Net Worth:
\$19.2bn

Education:
**Physics,
Economics**

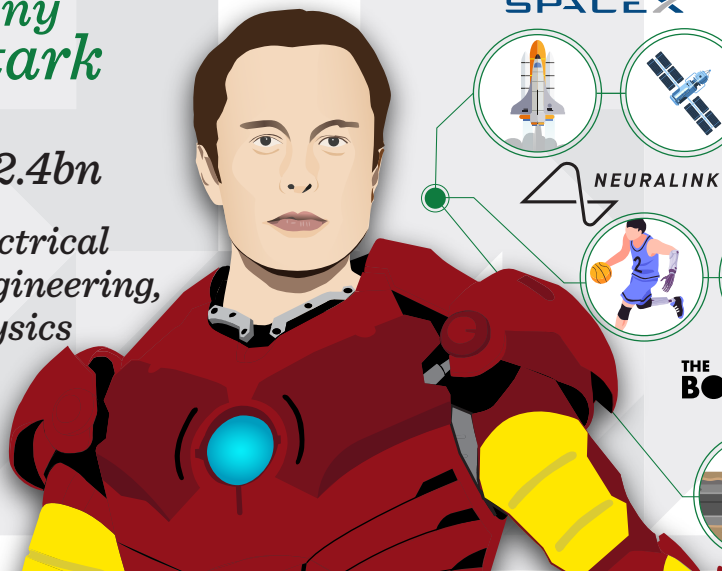
Age: 41

Tony Stark

\$12.4bn

**Electrical
Engineering,
Physics**

42



Source: Quilter Investors



Credit: Antonio Scorza/Shutterstock

Brazil's strongman lifts stock market

Right-wing presidential candidate Jair Bolsonaro polled almost half the votes cast in Sunday's general election and electrified Brazil's stock market. After gaining 4% last week, the embattled Bovespa index jumped 5% on Monday and the real rallied over 2%.

Among the biggest gainers were the country's banks, Banco Santander (Brasil), Banco Bradesco and Itau Unibanco. They each saw gains of more than 5% last week before adding around 9% on Monday. The index heavyweight Petrobras and other power companies that could soon be privatised made similar gains.

Despite his nostalgia for Brazil's military junta and his nauseating views on women, gays and the poor, Bolsonaro's promise to implement market-friendly policies continues to revitalise Brazilian assets.



Credit: Reuters

Passive investors beware

This week, markets sold-off when a combination of bullish rhetoric from US Federal Reserve Chairman, Jerome Powell, and corresponding gains in US Treasury yields (which hit seven-year highs) caused investors to question current stock market valuations – especially those in the tech sector.

As head of investments for Quilter Investors, Anthony Gillham, observes, "This feels a little like a re-run of February's cold snap when stronger than expected US employment numbers sent an inflationary shiver through markets. This time around it's the 'risk premium' that's rising and this is making life hard for stocks with demanding valuations. As tech stocks have dominated US market returns over the last year, this will be an especially painful phase for passive investors."



Credit: Goran Jakus/Shutterstock

Stellar numbers from Constellation brands

The latest figures from Constellation Brands – the maker of Corona beer – significantly beat analysts' expectations last week pushing up the shares by as much as 4.5%.

Strong gains in revenue and earnings were powered by a booming beer business that seems impervious to pressures elsewhere in the sector. Its beer division delivered an improved operating margin of 41.3% in the second quarter and Constellation remains the only US consumer packaged goods company to be raising earnings guidance.

The next spur to earnings growth could come from its recent \$4bn foray into the legalised cannabis market. In August, it built its stake in Canopy Growth, the world's largest publicly traded cannabis company, to 38% helping to spark the current gold rush for such stocks.



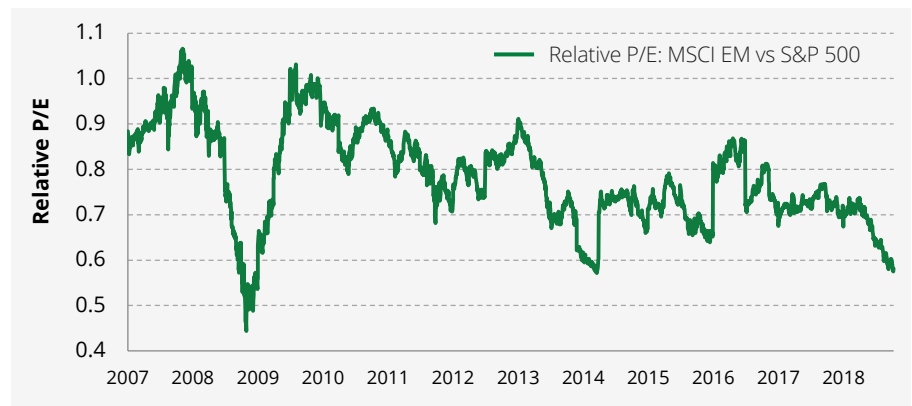
Between a rock and a hard place...

After moving into bear market territory in September, the most recent decline in the MSCI Emerging Markets Index has taken its constituents to a 10-year low relative to the S&P 500 on a price to projected earnings (P/E) basis.

As Hinesh Patel, assistant portfolio manager at Quilter Investors explains, "Emerging markets have been pummeled from all sides. Their stocks still look a touch overpriced and lack technical support while US rates are rising and semiconductor companies are being punished. Meanwhile, current accounts are falling as is earnings growth. And that's before you ladle on worries about a trade war, sanctions, ballooning oil the prices, political turmoil, currency weakness and a few full-blown financial crises. It's an ugly picture," he says.

Chart of the week

Falling on hard times: The last time emerging market equities were this cheap relative to the S&P 500, the global financial crisis was still in full swing.



Source: Macrobond

Market data – % change in week ending 11/10/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	-3.72	-2.45
MSCI AC World	-4.72	-3.47
S&P 500 (US)	-5.25	-4.00
NASDAQ (US)	-7.17	-5.95
MSCI Europe ex UK	-4.94	-3.68
TOPIX (Japan)	-2.50	-1.21
MSCI Asia ex Japan	-4.37	-3.10
MSCI Emerging Markets	-3.77	-2.50

Fixed Income¹

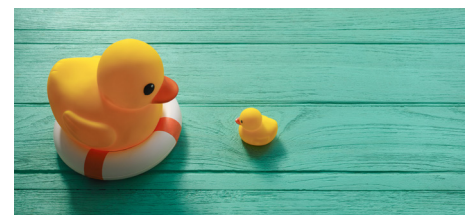
BB Global-Aggregate TR Index	-0.18	-0.16
BB Global-Agg Treasuries TR Index	-0.21	-0.19
BB Global-Agg Corporate TR Index	-0.20	-0.19
BB Global High Yield TR Index	-0.58	-0.57

Commodities

S&P Energy Index	-2.83	-1.55
S&P Precious Metals Index	-2.08	-0.79
S&P Industrial Metals Index	-3.90	-2.63
S&P Agriculture Index	-1.19	0.12

Currencies²

JPM UK FX Exchange Rate Index	1.42	1.42
JPM US FX Exchange Rate Index	-0.01	-0.01
JPM Euro Area FX Exchange Rate Index	0.12	0.12



Tencent loses 50%

Wednesday's slump in US tech stocks may have been the worst in seven years but it's a bug on the windscreen compared to what's been happening at Asia's largest company, Tencent.

It fell as much as 7.5% in Hong Kong trading on Thursday, extending a losing streak of biblical proportions that has seen China's answer to Google fall in value by over \$250bn this year.

Between listing in 2004 and January 2018, the company returned more than 67,000% to investors. Since then, it's declined in value more than any other company in the world and crashed out of the world's top 10 stocks. Even so, this 'falling knife' still trades at 25 x projected earnings.

As tech stocks have dominated US market returns over the last year, this will be an especially painful phase for passive investors.

Anthony Gillham, head of investments, Quilter Investors

Index data as at COB Wednesday 10 October 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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