

Between the lines

Week
43

Multi-asset investment thinking from the Quilter Investors team.

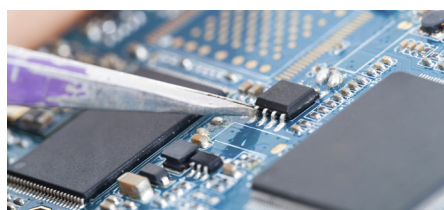
Quilter Investors



PULESTON
WEALTH MANAGEMENT

The year of the bear

2018 has seen \$3 trillion wiped from the value of China's stock markets.



Apple core supplier AMS takes a tumble

Austrian chipmaker AMS saw its shares fall 25% on 22 October after questions were raised about its ability to hit its 2019 revenue target in an environment of weakening demand.

The chipmaker, which specialises in sensors, is heavily reliant on its relationship with Apple; however, despite announcing two new deals with Asian smartphone producers including Huawei, analysts were sceptical of its ability to meet its targets with some claiming the Q4 guidance was “disappointing”.

A rout in chipmaker shares has continued through the week, with AMD shares falling roughly 18% after its Q3 revenue missed estimates, while Nvidia posted its worst day since 2011 as it slipped almost 10% on 23 October.



Credit: Jonathan Weiss/Shutterstock.com

P&G makes biggest one-day gain in a decade

Shares in the world's biggest personal care goods company, Procter & Gamble, jumped almost 8% last Friday to deliver their biggest one-day gain since 2008.

The company behind brands like Tide, Oral-B, Pampers and Gillette saw organic sales (which excludes new acquisitions and currency fluctuations) jump 4%, its best numbers for five years, thanks to surging demand for its beauty and shaving products in markets like China.

Ominously, the company won over investors with announcing price rises in key product segments demonstrating its ability to pass costs on to the end consumer – especially in emerging markets. P&G's European peers Nestle and Unilever also delivered rising sales this quarter after raising their prices.



Auto sector becomes a “binary bet”

This week the French carmaker Renault blamed a slump in key emerging markets for a 6% fall in quarterly revenues. The decline took 5% from its share price which is now down 22% this year.

The news follows profit warnings from BMW and Daimler (down 6% on Friday) and from suppliers like Michelin (which fell almost 9% between Friday and Tuesday), Valeo, Continental, Schaeffler and Leoni.

As Quilter Investors portfolio manager Hinesh Patel observes, “Many of the marques and their suppliers that have been around for a century or more are trading at valuation metrics last seen in the depths of the global crisis. With such cynicism being priced in, the autos opportunity is more binary than ever.”



Australian coal IPO is damp squib

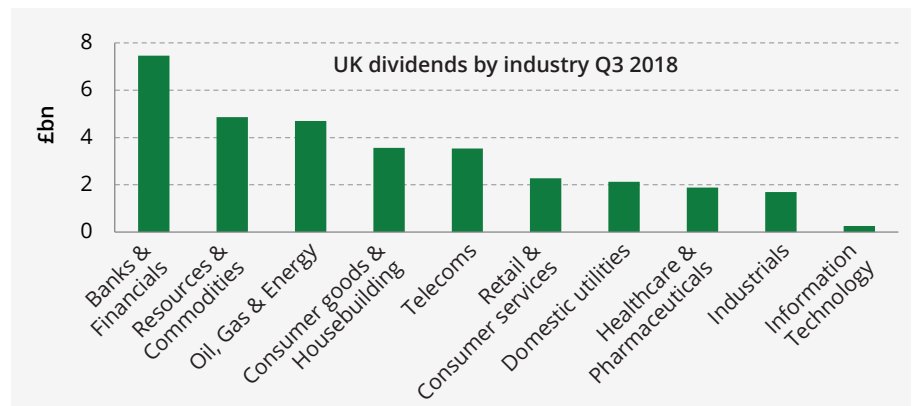
Coranado Global Resources, one of the world's largest coal producers, saw its listing on the Australian Stock Exchange disappoint as its shares slipped as much as 8.5% on its debut.

The company had repositioned its listing to the lower end of its offer range, but it debuted at A\$3.80, roughly 5% below the issue price of A\$4.00, and fell as low as A\$3.66 in early trading.

Investor wariness may stem from concerns that prices for coking coal, which is used in steel making, look set to fall on declining demand from China. It's the latest in a string of IPOs that have disappointed around the globe, including Aston Martin.

Chart of the week

Dividend loyalties: UK equities have been out of favour with investors, yet profitability is relatively healthy and feeding dividend growth, with financials and miners leading the way.



Source: Quilter Investors/Macrobond.

Market data – % change in week ending 25/10/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	-1.26	-2.50
MSCI AC World	-2.42	-3.63
S&P 500 (US)	-2.85	-4.07
NASDAQ (US)	-3.38	-4.59
MSCI Europe ex UK	-2.46	-3.68
TOPIX (Japan)	-1.89	-3.11
MSCI Asia ex Japan	-0.36	-1.60
MSCI Emerging Markets	-0.62	-1.86



Credit: Tero Vesalainen/Shutterstock.com

PayPal makes it pay

PayPal shares surged on Friday when it beat analyst expectations again. The shares gained well over 9%, recovering most of the 12% fall seen since the start of the month.

The payments giant reported a 14% jump in annual revenue, expanding operating margins and stronger earnings per share than expected. It also added over 9m new users, taking its customer base to 254 million, up 15% on the same period last year.

Meanwhile, mobile payments now account for 40% of its c10 billion annual online transactions while new initiatives such as 'Funds Now' for merchants, strategic partnerships with American Express and Walmart and the fast growth of its new Venmo app for paying back friends, all augur well.

With such cynicism being priced in, the autos opportunity is more binary than ever.

Hinesh Patel, portfolio manager, Quilter Investors

Fixed Income ¹	% Change GBP	% Change USD
BB Global-Aggregate TR Index	0.20	0.23
BB Global-Agg Treasuries TR Index	0.29	0.32
BB Global-Agg Corporate TR Index	0.01	0.04
BB Global High Yield TR Index	-0.37	-0.32

Commodities	% Change GBP	% Change USD
S&P Energy Index	-1.53	-2.76
S&P Precious Metals Index	1.39	0.12
S&P Industrial Metals Index	0.74	-0.52
S&P Agriculture Index	-0.09	-1.34

Currencies ²	% Change GBP	% Change USD
JPM UK FX Exchange Rate Index	-0.71	-0.71
JPM US FX Exchange Rate Index	0.41	0.41
JPM Euro Area FX Exchange Rate Index	-0.47	-0.47

Index data as at COB Wednesday 24 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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To speak to one of our Investment Directors call 0207 167 3700 or email enquiries@quilterinvestors.com