

Between the lines

Week
44

Quilter Investors

Multi-asset investment thinking from the Quilter Investors team.



PULESTON
WEALTH MANAGEMENT

The incredible shrinking company

Once the world's biggest company, disposals, mounting losses and an outdated business model have left GE a shadow of its former self.



Source: Quilter Investors/Macrobond.



UK Budget puts digital firms in the cross hairs

The Chancellor announced in this week's Budget that the UK is to consult on plans for a digital services tax (DST) of 2% on the UK revenues of certain companies.

Planned for April 2020, it will apply to revenues generated from activities such as search engines, social media platforms and online marketplaces, targeting businesses with global revenues in excess of £500m.

It follows plans by the EU to impose a 3% levy on the revenues of digital firms, although this has divided opinion, with some wanting higher rates while others claim it could breach international treaty obligations.

The UK said it would only apply the DST until an "appropriate long-term solution is in place."

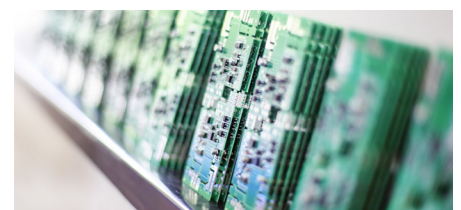


Restaurant Group uses noodle to buy Wagamama

The Restaurant Group (TRG), owner of Garfunkels, Frankie and Benny's and Chiquito's, has bought Wagamama in a deal valuing the chain at £559m.

TRG paid £357m for the equity in Wagamama and plans to expand the brand throughout the UK by converting 15 of its existing sites by December 2020. The company said the acquisition is an opportunity to "create a business which can pursue a truly multi-pronged growth strategy".

The deal follows a 2016 TRG review that identified issues with its leisure brands, resulting in a turnaround plan. The eatery business said while it had made progress in re-establishing the competitiveness of its brands they "remain exposed to headwinds."



Cheap as chips...

The rout of the semi-conductor industry continues.

This week saw major industry names such as Advanced Micro Devices, Texas Instruments, STMicroelectronics and MKS Instruments all taking punishment due to a chorus of disappointing earnings.

As Quilter Investors' head of dealing, Maz Alamouti, observes, "The semi-conductor market is now down around 20% from its March high having crashed through two key technical supports this month. Trade fears, China growth worries and backed up inventories have created a toxic cocktail for the sector to swallow.

"As many analysts see it as a leading indicator for the Nasdaq, its struggles could well be a harbinger of things to come in the tech sector."



Big Blue's new Red Hat

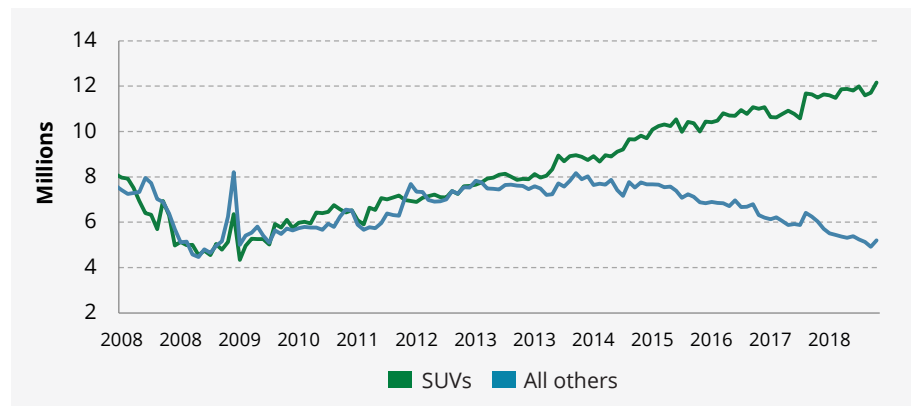
Shares in the open-source software developer, Red Hat, jumped 45% on Monday following a \$34bn cash bid from IBM, known in the industry as 'Big Blue'.

IBM is paying what amounts to a 40% premium for Red Hat in return for the opportunity to grow its hybrid cloud business (combining on-site private servers with third-party cloud facilities) after arriving late to the party for conventional cloud offerings.

Red Hat has been seeking a buyer for some time meaning other potential suitors such as Cisco, Oracle or Google will need to make heroic bids if they are to pip IBM. The deal follows Microsoft's \$7.5bn acquisition of the code-sharing business, GitHub, earlier this year.

Chart of the week

Have saloons had their last chance? Sales of the classic saloon car have crashed while US sales of SUVs have trebled in the last decade...



Source: Quilter Investors/Macrobond.

Market data – % change in week ending 01/11/2018

Equities	% Change GBP	% Change USD
FTSE All-Share (UK)	1.76	1.47
MSCI AC World	1.09	0.81
S&P 500 (US)	0.51	0.23
NASDAQ (US)	-0.42	-0.70
MSCI Europe ex UK	1.86	1.57
TOPIX (Japan)	2.82	2.53
MSCI Asia ex Japan	0.93	0.64
MSCI Emerging Markets	0.92	0.63
Fixed Income¹		
BB Global-Aggregate TR Index	-0.08	-0.05
BB Global-Agg Treasuries TR Index	0.02	0.04
BB Global-Agg Corporate TR Index	-0.29	-0.26
BB Global High Yield TR Index	-0.20	-0.17
Commodities		
S&P Energy Index	-2.01	-2.29
S&P Precious Metals Index	-1.23	-1.50
S&P Industrial Metals Index	-3.23	-3.50
S&P Agriculture Index	-0.02	-0.30
Currencies²		
JPM UK FX Exchange Rate Index	0.02	0.02
JPM US FX Exchange Rate Index	0.97	0.97
JPM Euro Area FX Exchange Rate Index	-0.06	-0.06



General Electric blows a fuse with \$23bn loss

The US conglomerate General Electric (GE) saw its shares fall roughly 9% on 30 October after its latest results revealed a loss of \$22.8bn in the third quarter forcing it to slash its dividend to just a penny a share.

The company, which has seen its value fall over \$500bn since the turn of the century, announced the \$23bn goodwill writedown because promised profits from its power business are now unlikely following new CEO Larry Culp's plans to restructure the division.

The former industrial titan also confirmed the US Securities and Exchange Commission and Department of Justice had expanded their accounting investigations of GE to include the most recent loss.

Trade fears, China growth worries and backed up inventories have created a toxic cocktail...

Maz Alamouti, head of dealing, Quilter Investors

Index data as at COB Wednesday 31 October 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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