

Between the lines

Week
02

Quilter Investors

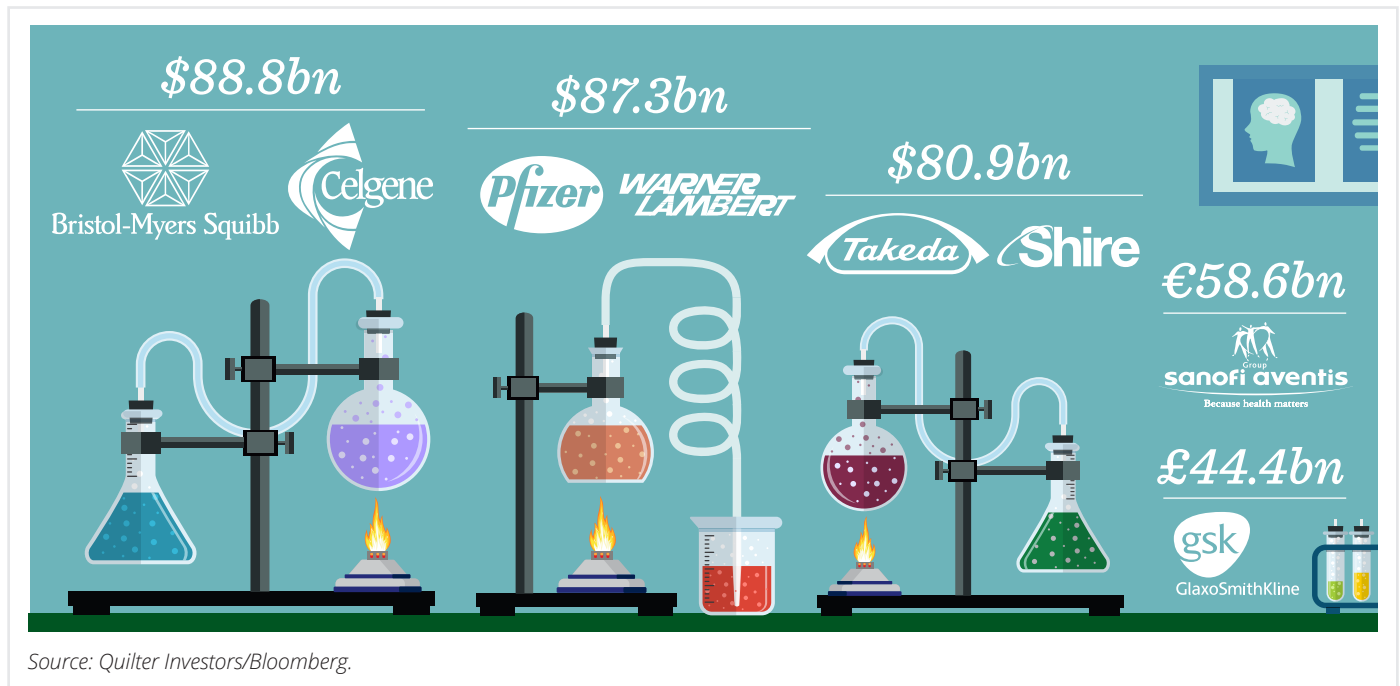
Multi-asset investment thinking from the Quilter Investors team.



PULESTON
WEALTH MANAGEMENT

Will Celgene damp Squibb?

Bristol-Myers Squibb's \$89bn bid for Celgene is the biggest ever acquisition in the pharmaceutical and biotech sphere.



Credit: Nikada/Stock

Apple's China crisis

Apple – the most closely watched stock in the world – managed to surprise analysts last week when it cut its revenue outlook blaming weaker demand in China. The shares plummeted almost 10% on Thursday taking Apple to its lowest valuation in 18 months and sending shock waves through equity markets.

As Quilter Investors portfolio manager Rasmus Soegaard opines, "Markets took a nasty fright from what was quite a foreseeable, stock-specific event.

"As of last year, Apple no longer reports unit sales while slowing growth in China has been a headline for two years or more. With the average income in China still under \$12,500, the fact that sales of \$1,000 Apple phones have plateaued should have come as no surprise."



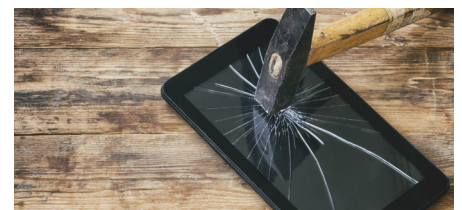
Big pharma gets bigger

Last week the US pharma giant Bristol-Myers Squibb announced a record-breaking \$88bn bid for the biotech business Celgene in a deal that furthers its grasp on cancer-related drugs and treatments.

Following Celgene's troubled \$9bn purchase of Juno Therapeutics last year its shares fell almost 40% in 2018 making it ripe for takeover. The stock and cash bid, when including Celgene's debt, is the biggest deal in the sector's history.

Combining the eighth and ninth largest US drug makers could catapult the combined entity to fourth place in the US and seventh globally based on revenues.

Shares in Bristol-Myers Squibb tumbled almost 15% last Thursday while Celgene saw its shares gain almost 21% on the day.

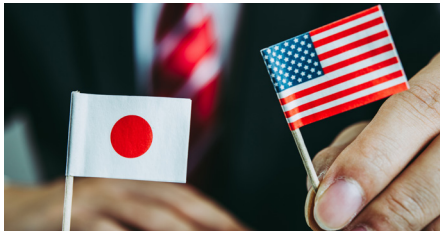


Thanks for the memory: Samsung profits hammered

Samsung Electronics, one of the biggest suppliers of smartphones and semi-conductors, has warned fourth quarter profits could fall 29% and first quarter profits would remain subdued due to lacklustre demand for memory chips.

The South Korean firm said weaker than expected demand from data centre customers adjusting inventories had driven down chip prices and hurt earnings in a period of macro uncertainty.

However, rival chipmaker Advanced Micro Devices (AMD) this week helped the semiconductor index to record its biggest two-day rally since 2015, ahead of the CES Technology Conference in Las Vegas, following on from its run as the best performer in the S&P 500 index in 2018.



Japanese companies primed for US invasion

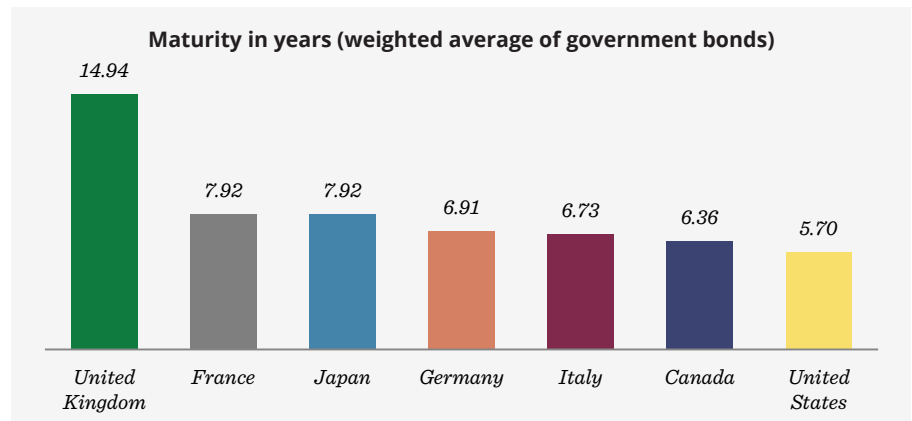
A week into 2019 and the biotech/pharma sector has already witnessed two major deals – Bristol-Myers Squibb/Celgene and Eli Lilly/Loxo Oncology – with the former set to dwarf last year's record \$62bn takeover of Shire by Japan's Takeda. But Japan's appetite for western acquisitions is still immense.

In 2018 its companies announced more than 1,000 offshore acquisitions worth a combined \$191bn, overtaking China for the first time since 2012. With more than \$890bn in cash on their balance sheets, mounting shareholder pressure to use resources more efficiently and anaemic growth at home, Japan's biggest companies are naturally eyeing overseas acquisitions. The US, the largest and fastest growing developed market, is seen as the most likely target for such ambitions.



Chart of the week

Mature appeal: The UK stands out among its G7 peers for having the longest maturity of government debt outstanding. All things being equal, this should mean it's better insulated should borrowing costs start to climb.



Source: Quilter Investors/Bloomberg.

Brexit set to downsize UK plc

The UK could fall from fifth place to seventh in the table of the world's largest economies after it leaves the European Union, PwC has warned.

The accountancy firm sees the UK being overhauled by France and India in 2019 when UK economic growth is forecast at 1.6% – providing we avoid a 'no-deal' Brexit – compared with 1.7% in France and 7.6% in India.

The rankings, based on US dollar values, suggest that subdued UK growth in 2018 and 2019 will be sufficient for both France and India – the world's fastest-growing large economy – to edge ahead. Meanwhile, parliament is currently slated to vote on the latest Brexit deal on 15 January.

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Rasmus Soegaard, portfolio manager, Quilter Investors.

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