Daily Update

Your daily market news, moves and outlook

SEASPRAY PRIVATE
Wealth Management Solutions

Wednesday, 19th of January

Markets Outlook

Equities: Markets around the world took a step lower on Tuesday as still-rising bond yields continued to make investors question equities and their elevated valuations. European markets are looking to make up some of this lost ground this morning, the EuroStoxx50 index currently trading about 0.30% higher. Futures in the US this morning are flat to marginally lower, having been dragged down recently by the tech sector. Interestingly, the tech-heavy Nasdaq is now over 10% lower than its all-time high while the S&P500 is down 5%. VIX is slightly higher at $22.65 at the time of writing.

Currencies: The US Dollar has been pulled higher this week by rising Treasury yields and a drop in general risk sentiment, bringing EUR/USD back down to around 1.134. EUR/GBP sits at its 2-year lows this morning at around 0.833, trading marginally higher after stronger than forecast CPI figures out of the UK earlier. Currency traders will continue to watch oil prices, the greenback remains supported by rising oil prices, since it raises the Dollar needs of non-US entities who have to buy fixed amounts of oil.

Safe-havens: This morning Germany's benchmark 10yr bond has seen its yield move into positive territory for the first time since Q2 2019, however the bonds real yield of course remains deep in negative territory with inflation remaining high in Europe. Likewise, US Treasury yields continue to climb, US 10yr now at 1.89%, 2yr at 1.06%.

Looking ahead: This afternoon will see the release of monthly Canadian CPI inflation, we will also hear from the BOE Governor Andrew Bailey during the afternoon. Today is Day 1 of the WEF meetings in Davos, Switzerland, with much of the meetings being carried out virtually, for the second year in a row. In terms of Q4 results: later today we are due to hear from P&G, UnitedHealth Group, Bank of America, Morgan Stanley and United Airlines, followed on Thursday by Netflix, American Airlines, Sandvik AB, Costco, and many more.

Key Events to Watch

19/01/2022 - WEF Annual Meetings, Day 1
21/01/2022 - UK Retail Sales
24/01/2022 - European & US PMIs
26/01/2022 - Fed Rate Decision

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,577	-1.83%	-3.96%
DAX	15,772	-1.01%	-0.71%
EuroStoxx	4,257	-1.03%	-0.94%
ISEQ	8,337	-1.62%	-1.26%
FTSE	7,563	-0.63%	2.42%
Nikkei 225	27,467	-2.80%	-4.60%

FX	Value	Daily Change	YTD Change
EUR/USD	1.1325	-0.72%	-0.22%
EUR/GBP	0.8329	-0.34%	-0.69%
GBP/USD	1.3594	-0.37%	0.51%
USD/CHF	0.9173	0.38%	0.42%
USD/JPY	114.61	0.01%	-0.61%
EUR/JPY	129.80	-0.70%	-0.84%

Fixed Income	Value	Daily Change
US 10yr	1.875	0.066
US 2yr	1.046	0.043
German 10yr	-0.018	0.008
Irish 10yr	0.361	0.007
UK 10yr	1.214	0.023
Japanese 10yr	0.131	-0.011

Financial News Round Up

UK Inflation

The UK's December CPI (Consumer Price Index) inflation readings have come in stronger than expected, causing bonds to sell off in the region and equity markets in the UK to take a break from their recent move higher. The main CPI result was 5.4% when compared with the same month in 2020, ahead of analysts' expectations for 5.2% and the previous month's 5.1%. This inflation result is the highest seen in the United Kingdom since March 1992, and of course adds pressure to the Bank of England to raise interest rates again next month. According to the Office for National Statistics, the largest impact came from food and drink prices, followed by restaurants and hotels.

The Core CPI figure, which strips out volatile items like food and energy, came in at a y/y result of 4.2% vs estimates for 3.9% and the prior 4.0%.

We note that rapidly increasing inflation is becoming an issue for Boris Johnson and the Tories, who are now facing calls from the opposition and from charities to offset an expected 50% rise in the regulated household energy prices this April.

The Bank of England is currently forecasting that the region will see a peak in CPI inflation of around 6% y/y, due to come in April, and expected to take up to two years for it to return to 2%.

ASML

Dutch multinational photolithography system developer and manufacturer ASML, who are currently the largest supplier of photolithography systems for the semiconductor industry, reported Q4 results this morning. The firm saw a net profit for the fourth quarter of €1.77b vs €1.51b expected and the €1.35b seen one year earlier.

Net revenues came in at €4.99b vs the prior €4.25b, while gross margin was 54.2% compared y/y with 52%. ASML importantly is forecasting for 20% sales growth this year

Shares are over 1% stronger at €649.30 following the release, having pulled back by 16.5% from their record high back in November. This pullback has reduced ASML's significant P/E premium to the market and the stock now trades on a forward P/E of under 40 times. This, in our view, is still reasonable when we consider ASML has been one of the most impressive growth stories in the large-cap European equity space.

We note that the firm (whose shares have quadrupled since 2018) is the sole supplier of EUV photolithography machines in the world. We reiterate our price target of €890, which would imply some 37% upside potential from current levels for the name. ASML currently yields a relatively small dividend at 0.4%, choosing instead to reinvest most of its earnings back into the company.