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Subject: Fw: Some thoughts from my trip to Germany y'day and a trade idea

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From: Nick Lawson
Sent: Wednesday, February 11, 2015 01:28 PM
Subject: Some thoughts from my trip to Germany y'day and a trade idea

I saw the biggest multi-asset managers in Frankfurt yday with Ozan my co-head of MAC who incidentally is seeing more clients in Munich today. On the plane home I jotted down some feedback as there seemed to be an element of consensus and also from it a potential trade idea.

There is no doubt, that for the people we met, that the events in the Ukraine weigh heavier than Greece. There was a feeling that Greece could be contained and although there would be more 'to-ing and fro-ing' as regards negotiations it was something that could be ultimately resolved without Grexit. What worried German managers more was the Ukraine. It is evident in Germany the country is behind Merkel but are skeptical over what she can achieve in Minsk.

Oil was not an issue and it was felt contango would persist until the OPEC commentary on production in July. Other issues were the low availability of broker dealer liquidity across all asset classes was discussed.

Most expected a Fed hike in the summer and had a number circa 3% for 10yr UST and no one felt any need to keep pushing the UST or the US HY trade. The MSFT offering was discussed and people understood that some pension funds had to take this deal but all felt 153bps over ignored the duration risk.

If the US recovery keeps improving and rates rise reversing the hunt for yield then loses from a stronger USD, margin pressure and wage price rises mean that the trade will be Europe over US for the rest of 2015.

So what to own in Europe? There was little for owning bond-like proxies in equity. As the move in 5yr UST showed on Friday on a strong payroll number that if bond yields rise then things that look and smell like bonds will also see their yields rise. Case in point the 4% fall in S&P Utilities on Friday.

Everyone felt if a lid is put on Greece or the Ukraine then they want to own blue chip Eurozone cyclicals with a decent yield and USD earnings. As was pointed out if there was a war in the Ukraine and a Grexit these same stocks would fall 10-15% so there was patience to this trade but all meetings distilled down to this subgroup.

On my return to London I had our Synthetic research team this morning screen for the following criteria.....

European Listed names with over 30% of sales to US, a market Cap over \$10bn and a dividend yield f/c for this year over 2%. We also removed highly defensive names, oils and banks from the list to reach a more cyclical and non-bank exposure. The final list is below and the blended average yield of the thirteen names is 3.1%. We can turn this into a basket if you so wish. Nick ♦

Ticker

Name

Sector

Industry

Country

Market Cap (mn, USD)

Div Yield

AIR FP Equity

AIRBUS GROUP NV

Industrials

Aerospace & Defense

FRANCE

44154

2.3

MAERSKB DC Equity

AP MOELLER-MAERSK A/S-B

Industrials

Marine

DENMARK

42921

2.9

CCL LN Equity

CARNIVAL PLC

Consumer Discretionary

Hotels Restaurants & Leisure

UK

33990

2.5

WPP LN Equity

WPP PLC

Consumer Discretionary

Media

BRITAIN

29313

2.6

CPG LN Equity

COMPASS GROUP PLC

Consumer Discretionary

Hotels Restaurants & Leisure

BRITAIN

29050

2.5

SAF FP Equity

SAFRAN SA

Industrials

Aerospace & Defense

FRANCE

28555

2.0

EXPN LN Equity

EXPERIAN PLC

Industrials

Professional Services

IRELAND

17922

2.2

TEN IM Equity

TENARIS SA

Energy

Energy Equipment & Services

LUXEMBOURG

17628

2.9

PSON LN Equity

PEARSON PLC

Consumer Discretionary

Media

BRITAIN

17322

3.7

AGN NA Equity

AEGON NV

Financials

Insurance

NETHERLANDS

15823

3.5

SGSN VX Equity

SGS SA-REG

Industrials

Professional Services

SWITZERLAND

15601

3.8

SW FP Equity

SODEXO

Consumer Discretionary

Hotels Restaurants & Leisure

FRANCE

15585

2.4

RTL LX Equity

RTL GROUP

Consumer Discretionary

Media

LUXEMBOURG

14988

6.5

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