ATLANTIC CAPITAL MARKETS

The Week Ahead, 26th October 2020

ANALYSTS BACKGROUND

Fiona has a deep understanding of market fundamentals gained through 14 years' experience in the financial markets. She provides up to the minute analysis and insight into the financial markets, as well as the broader economy and monetary policy in the UK, Europe, US and Asia. She is regularly quoted in the global financial press, with her name often seen on Bloomberg, Reuters, Financial Times and the Telegraph. Fiona is a familiar face after years of regular TV appearances across the globe on the likes of BBC, Sky News and Reuters.

Our pick of the top macro data points and companies reporting this week. Those in bold are discussed below.

ECONOMIC DATA

Monday 26th October	German IFO Business Climate
Tuesday 27th October	US Durable Goods

Wednesday 28th October	BoC Interest Rate Decision EIA Crude Inventories
Thursday 29th October	BoJ Interest Rate Decision **ECB Rate Interest Decision** US GDP Q3 US Jobless Claims
Friday 30th October	**EZ GDP Q3** EZ CPI
COMPANY ANNOUNCEMENTS	
Monday 26th October	Carnival PZ Cussons
Tuesday 27th October	**HSBC** **Whitbread** **BP** Caterpillar (US)

	Pfizer (US) Microsoft (US)
Wednesday 28th October	GlaxoSmithKline **Next** Deutsche Bank Santander Boeing (US) GE (US)
Thursday 29th October	**Lloyds** **Royal Dutch Shell** Standard Chartered WPP Smith & Nephew BT Group **Apple (US)** **Facebook (US)** **Alphabet (US)** **Amazon (US)**
Friday 30th October	**NatWest** Glencore

	Total Exxon Mobil

KEY THEME

Earnings Season, Elections, Covid & Brexit

With Covid cases surging across Europe and lockdown restrictions tightening concerns over the fragile economic recovery being derailed will be in focus. With US elections now just a week away, politics & US stimulus talks will also play a big part in driving sentiment

Corporate earnings releases are in full swing this week with a barrage of major names releasing their latest earnings including HSBC, Lloyds, NatWest, BP and Next. Whilst in the US several of the largest companies in the world will be reporting such as Apple, Alphabet, Amazon & Facebook.

.

THE WEEK AHEAD

Monday

N/A

Tuesday

HSBC

In August HSBC, Europe's largest bank by assets, warned that bad debt charges could reach $13 billion as the covid crisis hit both its retail and corporate clients globally. The pandemic hit came as the bank was already in the midst of restructuring. Profits in H1 were down 69% more job losses are expected. HSBC has not only been facing covid headwinds and Brexit headwinds but also geo-political headwinds as relations with China deteriorate. Hardly ideal for a firm that derives most of its profits from Asia. Whilst a strong rebound in economic activity in China could offset some weakness from Europe & US, the outlook for the bank remains particularly gloomy. The stock has picked up from a 25 year low struck earlier this month and trades -45% YTD.

Whitbread

Whitbread is due to release H1 results. Premier Inn owner has already informed that sales had slumped -77% in the first 6 months of trading. This means that pre-tax losses will reach -£285 million, down from £285 million profit in the same period a year ago. Investors are expected to focus on the outlook and restructuring programme.

BP

BP is due to report Q3 results which could make for pretty grim reading. The share price has shed an uncomfortable 28% since Q2 results and the strategy reset. The most likely explanation for the selloff is that the strategy change hasn't gone down so well with investors, as the shift towards renewables is unlikely to generate any serious cashflow or earnings for another 5 years or so. BP have already lowered production guidance for the quarter.

Wednesday

Next

Next is expected to update the market on Wednesday, just a month after releasing its results. A strong online offering boosted online sales supporting the bellwether through the pandemic. Investors will be keen to see how this trend has fared since the end of the summer. Is Simon Wolfson still as confident that Next can turn a profit and cut debt even as the broader economic picture is deteriorating and consumers face a very challenging winter? The fear is that during prolonged financial hardship customers could switch down from the mid-range retailer to a cheaper retailer such as Primark. The latest guidance pointe to a 59% fall in profit to £300 million, with sales -12%.

.

EX- Dividends

FTSE 100: Unilever

FTSE 250: Foresight solar Fund, City Of london Investment Trust, Hilton Food Group, Vesuvius

Thursday

ECB rate decision

With covid cases rising steeply and the latest PMIs for the region showing the business activity is in contraction again, concerns over a double dop recession are on the rise. Given a lack of immediate fiscal stimulus for the bloc owing to a lack of consensus, the ECB is under more pressure to act. However, with growing divisions within the governing council, agreeing on action in the short term could still prove problematic. Given the now expected economic weakness in the coming quarter investors will be listening carefully to see how much support the central bank is prepared to give in the coming months.

Friday

Lloyds & NatWest

Barclays kicked off the UK banks earnings on Friday giving a taste of what's to come. Barclays' bad loans provision was significantly less than analysts had forecast at £608 million vs £1 billion forecast. This was also well down in bad loan provisions from the previous 2 quarters (£1.6 billion Q2 & £2.1 billion Q1). This bodes well for Lloyds and NatWest which are more vulnerable than Barclays given their less diversified business. Whilst some improvement in bad loan provisions are expected, net interest income is expected to remain under pressure as interest rates are at record lows and fears linger over negative rates. Lloyds saw NII drop from 2.79% to 2.4% in Q2. The share price in both banks has struggled to recover from mid-March lows.

Royal Shell Dutch Shell

Q3 is not by any means expected to be a quarter to write home about, but it is at least expected to be competitive. As oil process have recovered and in the absence of any large write off's upstream expectations are improving. However, downstream, oil products are being hampered by weak margins. Shell's share price has lagged its peers, and this is likely more to do with the dividend cut rather than the financials.

Facebook

In Q2 Facebook topped expectations but experienced its slowest revenue growth since its 2012 IPO, FB gets a lot of advertising from local businesses due to its well targeted advertising options. Many of these local businesses now don't exist. A large chunk of advertising also comes from travel companies, event providers, restaurants, in other words industries which won't recover from the covid hit overnight. With this in mind, revenues could remain moderated. User growth grew reflecting increased engagement from consumers who are spending more time at home. However, costs have also increased on hiring people to regulate controversial content. Antitrust accusations continue to gain momentum. Facebook is up just 26% YTD, behind its peers. Expected EPS $1.82 on revenues $19.4 billion.

Apple Q4

The results come after Apple unveiled its iPhone 12, the first major product release in 2 years. Even so, Apple became the first company to achieve a 2 trillion-dollar valuation in August. Apple trades 65% higher YTD as covid made us more digitally dependent that ever. Beyond new devices the Services segment is expected to see continued momentum driven by a robust performance in App Store, Apple Music, video and cloud services. Looking to Apple suppliers for clues, Jabil Inc which makes castings for Apple's iPhone & iPads posted stronger than forecast Q4 earnings. A positive sign for Apple? Expected EPS $0.70 on revenue $63.63 billion.

Alphabet

Alphabet generates the lion share of its revenue from digital ads, which may be showing signs of rebounding in the early days of Q3. Drawing comparisons with Snap. which reported sales jumped 32% in the first 19 days of Q3, this bodes well for Alphabet's results. Ultimately digital spending could be boosted by explosive e-commerce growth. The company's cloud business is also growing rapidly, in Q2 the cloud units' revenue jumped 43% to $3 billion YoY, accounting for nearly 10% of the company's revenue. Expected EPS $11.80 on revenues $43.66 billion

Amazon

Amazon has had a phenomenal performance so far this year significantly benefitting from the spread of covid and importantly Amazon's strong run is expected to continue. Amazon's e-services have become essential for customers, whilst covid fuels online shopping. Furthermore, Amazon's Web Services is being used by businesses around the world to power their business operations. Amazon is due to release a slew of new products and then there is prime day, which often translates to high sales. Expected Q3 EPS $6.08 on revenue of $92.1 billion

EU GDP Q3

The third quarter GSP is expected to show a solid rebound over the summer months. Yet this is already likely to be old news. As previously mentioned more recent PMIs have highlighted the struggles in the EU economy, particularly the services sector which slipped more deeply into contraction. EU GDP is expected to post growth of +9% after contracting 11.8% in the April – July period. Watch Euro & EU indices.