

DOLMEN WEEKLY TRADER



Weekly Market Commentary May 24th 2010

We believe the risk/reward for investing in equity markets now looks more attractive following the sharp pull back that has been observed over the last four weeks. With US and European equities correcting between 10% - 15% we believe that on a valuation basis stocks have become attractive again with the S&P and FTSE trading at 13.4x and 10.1x 2010 earnings. As a result, we are now recommending investors to take un-hedged position in equities on a staged basis. While clearly concerns remain and sovereign debt risk is at the forefront of markets at the moment, we do not foresee a credit crunch similar to that observed over the last number of years. While downgrades to European growth are a real possibility, the depreciation in the Euro will improve export markets. The recent tightening of monetary policy in China has been due to strong growth, and while concerns remain about the sustainability of growth, comments from large cap US companies continue to remain positive to the region. In addition, corporate balance sheets are as strong as they have ever been. With companies cutting costs and increasing free cash flow over the last two years to pay down debt, corporates are in a strong position to absorb tightening in credit markets. On the currency front and despite the end of week bounce in €/£ we continue to recommend selling the currency pair on strength as we expect the depreciation in the Euro to continue. As for next week, focus will remain on the Euro area and movement in peripheral debt. On the data front, key releases will come from the US with housing and durable goods data the main releases.

Trading Recommendations

Chevron - Buy Previous close (\$74.48) Target (\$90.00) **Analyst:** Brian Gallagher

Low Refining Capacity: Smallest refiner of the supermajors which provides the company with a limited exposure to what is an oversupplied refining market.

Geographical Exposure: A significant number of the refineries Chevron operates have advantageous geographical positions in that they're located close to growing Asian markets.

Expanding Production: Set to benefit from expanding production as major projects in West Africa, Brazil and the Gulf of Mexico.

Risks: Greater regulation as a result of the fallout from the BP disaster in the Gulf of Mexico.

Next catalyst: AGM 26th of May and Q2 Results 30th July.

Technology Stocks

Analyst: Stephen Taylor

Last week shares in technology companies came back sharply in line with the market. While there is no doubt risks remain to global growth as a result of the issues surrounding Europe at the moment we believe the outlook for large cap technology stocks remains extremely favourable. Tech companies with new innovative product offerings, a global footprint and exceptionally strong balance sheets in our opinion offer exceptional long-term value. **Microsoft and Apple are two cases in point.** Microsoft is in the midst of its strongest product upgrade cycle in its history with the recent successful launch of Windows 7. In addition the company has also released Office 2010 for corporates which we believe is a key catalyst for the corporate PC upgrade cycle. In addition Microsoft has one of the strongest balance sheets in the world with c. \$34bn of net cash on its balance sheet. Apple's strong product offering has helped it withstand the global downturn with demand for its products at the higher end of the market continuing to grow strongly. We expect this trend to continue and like Microsoft, Apple has one of the strongest corporate balance sheets in the world with c. net cash of \$40bn.

\$ Exposure Stocks

Analyst: Stephen Taylor

One of our key non-equity calls this year has been to sell the €/£ currency pair. We expect the € to continue its down trend over the coming months and as a result should boost the translation effects of profits to European companies. Three of our key calls are cyclical in nature and are all well placed to take part in the global recovery in addition to having strong balance sheets. **CRH** generates c. 50% of its revenue in the US and recently signalled in a trading statement that it was starting to see a pick up in demand in particular at its Materials division. **Siemens** is one of the most diversified companies in the world through its product offering from industrial to consumer products. Siemens also generates c. 27% of its revenue from the US. We view Michelin as a more defensive way to play the auto sector with c. 70% of its revenue generated from the replacement market. **Michelin** recently issued a positive outlook for the remainder of 2010. Trading at just 5x this years EBITDA we believe the stock looks excellent long-term value. Michelin generates c. 25% of its revenue from the US and will also be a beneficiary of the weak euro.

Earnings Previews

Analyst: Brian Gallagher & Edward Keeling

Antofagasta, the FTSE 100 listed Chilean copper miner, is due to report results this Thursday. Consensus revenue is forecasted at \$940mln with eps expected to be \$0.31. We are confident heading into this release as copper has traded well above \$3/lbs in the first quarter and Antofagasta reported strong production figures at the start of May. The miner is also a beneficiary of the Australian "Super Tax" particularly as the major miners begin to reassess projects that will be affected.

C&C are due to release full year results this Tuesday 25th May and market expectations are for operating profit of €90m, the top end of management's guidance. Two key areas of focus will be the groups' ongoing integration progress and the performance of Magners in the UK. We expect Magners' market trends will have improved significantly, benefitting from the group's more diversified product offering. In addition we believe that risks to management's synergy guidance lay firmly on the upside.

This Week's Market Events

MONDAY

Corporate

HSBC Holdings AGM, BHP Billiton Seminar

Economics

CBOJ Monthly Report JN, Chicago Fed Index US, Existing Home Sales US, Existing Home Sales US

TUESDAY

Corporate

C&C Group FINAL, Greencore INTERIM, Marks and Spencer Group PRELIM, Readymix AGM, Societe Generale AGM, Glanbia EGM/AGM

Economics

GDP UK, Government Spending UK, Imports UK, S&P/CS Composite-20 YoY US, Richmond Fed Index US, Consumer Confidence US, House Price Index MoM US, ABC Consumer Confidence US

WEDNESDAY

Corporate

Rio Tinto PLC AGM, National Bank of Greece Q1, Trintech Group PLC Q1, Cable & Wireless Plc FINAL

Economics

MBA Mortgage Applications US, Durable Goods Orders US, New Home Sales US

THURSDAY

Corporate

Deutsche Bank AG AGM, Costco Wholesale Q3, Antofagasta Q1, Elan Corp AGM, Man Group Plc PRELIM

Economics

Core PCE US, Initial Jobless Claims US, Continuing Claims US, Consumer Price Index GE

FRIDAY

Corporate

HSBC Holdings AGM

Economics

Personal Income US Personal Spending US, PCE Core US, Chicago Purchasing Manager US, U. of Michigan Confidence US, NAPM-Milwaukee US

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