

# Associated British Foods PLC

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## Morgan Stanley turns bearish on global stocks as 'downside risks' build up

Morgan Stanley has turned bearish across stocks around the world for the first time in five years, seeing earnings expectations as too optimistic across US, Europe, Japan and emerging markets.

The investment bank downgraded its rating on global equities to 'underweight' from its previous 'equal weight' stance as it felt the risk/reward outlook for the next three months is "poor".

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"It is time to act," strategists at Morgan Stanley said, having seen growing signals from its economic indicators in recent weeks, with a continued deterioration in global economic survey data suggesting a macro environment "with plenty of downside risks".

The 'pause' in US-China trade tensions post the G20 meeting "does little to address these [worries]", the strategists said in a note to clients, distributed on Monday.

Meanwhile, higher equity price valuations now mean Morgan Stanley's expected 12-month returns for global equities are near their lowest levels in six years, based on bottom-up company forecasts or top-down macro approaches.

"Those valuations face additional pressure as we think consensus earnings in the US, Europe, Japan and emerging markets remain too high," the note said, with genuine economic risks indicated by the continued weakness in global PMI surveys and commodity prices.

Further policy easing in line from central banks "could boost markets", although the effect is felt likely to be offset by weaker data and already high central bank expectations.

### How to play the market

Preferring European and Japanese equities to emerging market (EM) and US stocks, Morgan Stanley said it was increasing allocations to EM and Japanese government bonds.

"Elevated equity risk premiums mean that the cost of running underweight equities for extended periods is high; we think there are enough challenges for these premiums to be offset over the next 3-6 months."

While, at face value, the more cautious view on global equities "suggests that investors should have a fairly defensive portfolio at this time", the strategists said the high valuations of "quality and defensive" stocks made this difficult.

Looking for stocks in traditionally defensive sectors where average relative valuations are in the bottom half of their 10-year range, threw up 'overweight'-rated companies including Associated British Foods plc (LON:ABF), Tesco PLC (LON:TSCO), National Grid PLC (LON:NG.), Anheuser Busch Inbev and Bayer.

**Price:** 1805.5

**Market Cap:** £14.29 billion

### 1 Year Share Price Graph



### Share Information

**Code:** ABF

**Listing:** LSE

**52 week High Low**  
2730 1554

**Sector:** Food & drink

**Website:** www.abf.co.uk

### Company Synopsis:

Associated British Foods is a diversified international food, ingredients and retail group with sales of £10.2 billion and 97,000 employees in 44 countries.

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"Expensive cyclicals" to sell included Sage Group (LON:SGE), Adidas, Assa Abloy and Securitas.

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