N° 406
2 May
2017

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

OPTIMISM STRUGGLING TO MATERIALISE

Highlights:

Sluggish business pick-up in US

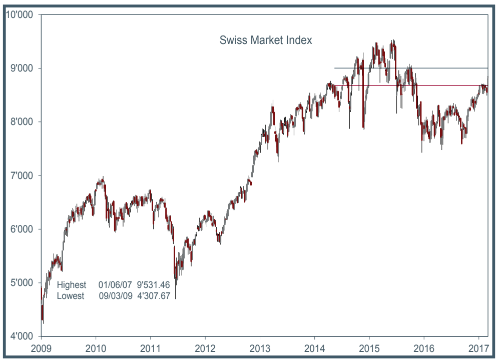
Less volatility in FX market

Overview

Since Trump's election win, stats gauging confidence among the general public and business leaders have soared into uncharted territory. Yet the mood – which can be said to be bordering on euphoria – has still to play out on Main Street. Measures tracking economic growth, job creation and retail sales in the US are for now showing only a minimal pick-up. Take for example last Friday's release of first-quarter GDP, concerning which growth came in at a miserly 0.7%. This disparity between expectations and reality is probably down to the numerous about-turns performed by the White House's latest resident since the beginning of the year. As a result, economic agents, though upbeat, are hesitating whether to translate this enthusiasm into deeds, notably because they are not sure which directional slant their investments should be given. It will therefore probably take several months (or even quarters) to gain a clearer outlook on the politics. Only then will companies take the risk of investing more proactively on American soil. In the meantime, the market's fuel will be hope and expectation.

The lack of bounce in the economy is also echoed in interest rates, which are flirting with year lows around 2.30% as regards US 10-year government paper. Another tell-tell sign is the price of crude oil, which has fallen back below the 50 dollar mark. Conversely, equities – which are more sensitive to investor sentiment – are surging, reflecting a confident outlook on the future. Tax cuts, renewed infrastructure investment and repatriation of manufacturing jobs remain the watchwords of the presidential programme. And there is no doubt that economic prospects (assuming these elements come to fruition) are encouraging. The job will now be implementation, which means winning a long string of battles.

While the US remains centre-stage, investors should not forget that several points of uncertainty have been dispelled around the globe. In Europe, the political earthquake has not happened. In China, business remains brisk, while Japan has seemingly reverted to a growth track. It also seems that currencies have found equilibrium levels. Consequently, volatility in exchange rates has fallen considerably. Investing conditions are solid, suggesting that risk assets ought to remain belle of the ball, even though some of the valuations are starting to look heady.



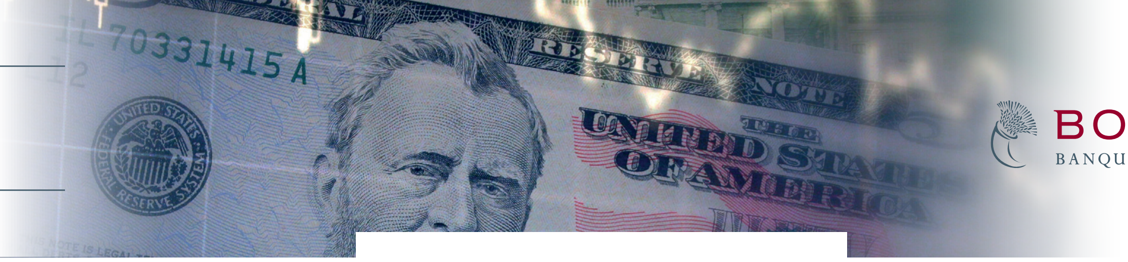
The SMI was indeed able to break upside of its trading-range and is set to resume its ascent towards 9000 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.99	1.08	8'812.67	3'559.59	12'438.01	5'267.33	7'203.94	2'384.20	6'047.61	19'196.74	977.96
Trend	➡	➡	⬆	⬆	⬆	⬆	➡	➡	⬆	⬆	⬆
%YTD	-2.46%	1.18%	7.21%	8.18%	8.34%	8.33%	0.86%	6.49%	12.34%	0.43%	13.42%

(values from the Friday preceding publication)

N° 406
2 May
2017



BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

SPOTLIGHT ON STOCKS

NOVARTIS

Alphabet

Novartis AG
(ISIN: CH0012005267, price: CHF 76.55)

The Basel-based pharma giant has reported first-quarter results broadly in line with analysts' estimates. Sales edged down by 1% relative to the prior-year period, but this was on a headline basis: at constant exchange rates the top line increased by 2%.

It was margins that took a small hit. Net profit fell by 17% as a result of sales erosion caused by generics and owing to spending associated with subsidiary Alcon. Costs to market Entresto (indicated for heart failure) also ate into profits.

The group reiterated its full-year guidance for unchanged sales relative to 2016. Novartis is still an attractive holding because of its intrinsic potential. But it is also attractively valued relative to Roche based on the ratio between the two issues' prices.

Hold recommendation with a target of CHF 85.

Alphabet INC-CL C
(ISIN: US02079k1079, price: USD 912.60)

Alphabet continues to release jaw-dropping results, shattering estimates in several business segments. Revenue in the first quarter totalled USD 24.75bn. Earnings shot up by 22%, leading to EPS of USD 7.73. Operating margin was slightly improved, reflecting a tighter grip on costs.

Growth in ad revenues is showing no signs of slowing, once again boosting the top line with a sizeable increase in the number of clicks on mobile devices (+44%).

YouTube exhibited brisk growth despite the boycott by several advertising clients, who think that certain types of inappropriate content slips through the net owing to poor security. YouTube has reportedly taken a range of measures to resolve the issue.

Sales also rose sharply (+49% versus the prior-year period) in the Other revenue segment, which includes hardware, Google Play and the rapidly expanding Google Cloud business.

Buy recommendation with a target of USD 1,100.

Authors:

Jean-Paul Jeckelmann, CIO, CFA
Françoise Mensi, Ph.D in Economics.
Pierre-François Donzé, M. Sc. in Economics
Julien Stähli, MBF Boston University
Valentin Girard, CFA
Nathaniel E. Burkhalter, M. Sc. in Economics

Contact:

Banque Bonhôte & Cie SA
2, quai Ostervald
2001 Neuchâtel / Switzerland
Tel. +41 32 722 10 00
info@bonhote.ch
www.bonhote.ch

facebook.com/banquebonhote
linkedin.com/company/banque-bonh-te-&-cie-sa
twitter.com/alexnvincent