N° 441
15 January 2018

BONHÔTE
BANQUIERS DEPUIS 1815

# FLASH BOURSIER

## UPTICK IN YIELDS

**Highlights:**

**Upturn in bond yields**

**US dollar struggling to firm up**

### Overview

Fears relating to less generous monetary policies worldwide – as the easy-money era draws to a close – have sent bond yields rising almost across the board, a sign that the balancing act to date is easy to upset. With economic growth in a solid state, investors are desiring brisker (but not too brisk) inflation and are happy to see monetary stimulus being scaled back (but do not want to see the plug pulled). So far this year, all it has taken to send the dominos tumbling is news from the Bank of Japan that it is scaling back long-dated sovereign debt purchases for January as well as the minutes released by the ECB containing more hawkish language. Indeed, the ECB now seems surer of the inflation trend, has plans to slow bond-buying and has talked tougher by stating that a continued easing in financing conditions is not warranted.

But what really lit the flame has been speculation of the Chinese government wanting to reduce purchases of US Treasuries, even though this has been denied by the main parties involved. Additionally, US inflation ended the year slightly higher: December headline prices rose by 0.1% month on month, as expected, but core inflation (excluding food and energy) grew by a quicker 0.3%. As a result, the probability attached by the market to a rate rise when the Fed meets on 20-21 March has increased to 88%. The yield on two-year Treasury Notes – the maturity most exposed to changes in expectations about Fed moves – has swung upwards of the 2% mark.

The crux of the matter is now whether interest-rate rises will continue. Continued tightening has been expected for several quarters given the stronger state of the global economy and demand for loans. In the meantime, higher yields are set to continue helping banks, insurers and financial services firms, as reflected by latest quarterlies from the like of US bank JP Morgan.

On the currency front, the dollar is still struggling to strengthen despite the better yield prospects relative to the euro. In fact, it is the euro that has firmed up, responding to news of a possible agreement between Angela Merkel's CDU and Martin Schulz's SPD to form a governing coalition. The euro has ascended upwards of 1.22 to the US dollar and 1.18 relative to the Swiss franc.


The SMI remains above its support at 9500 points. The uptrend remains in place, heading to a target at 9900 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** | 0.97 | 1.18 | 9'546.61 | 3'612.61 | 13'245.03 | 5'517.06 | 7'778.64 | 2'786.24 | 7'261.06 | 23'653.82 | 1'208.17 |
| **Trend** | ↓ | → | ↑ | ↑ | → | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ |
| **%YTD** | -0.69% | 0.86% | 1.76% | 3.10% | 2.53% | 3.85% | 1.18% | 4.21% | 5.18% | 3.90% | 4.29% |

(values from the Friday preceding publication)

N° 441
15 January 2018

BONHÔTE
BANQUIERS DEPUIS 1815

# FLASH BOURSIER

## SPOTLIGHT ON STOCKS

### Sonova
**(ISIN: CH0012549785, price: CHF 151.50)**

Sonova's share price is down by almost 20% compared to the high of CHF 180.00 established last November. Investors are concerned about the group's US business, specifically business with the government – the public authorities being a huge market for hearing-aid manufacturers. Sonova's positions in this market slipped back in November and December, then broker downgrades did the rest of the damage.

However, Sonova is still competitive and posts solid sales growth. Its sales of hearing aids increased by 9.5% over the last six months, compared to 4-5% for the market. A new generation of devices will be launched in November this year, which should benefit sales.

The price drop, which we see as too severe, has pushed the stock back into the buying zone that was recommended in our Flash Boursier on 20 November 2017. The share is trading in line with its average P/E over the last five years, despite the solid growth.

**Buy with a target at CHF 180 in focus.**

### Kering
**(ISIN: FR0000121485, price: EUR 408.90)**

The group has announced plans to distribute shares equating to 70% of Puma, which it has controlled since 2007, to its shareholders. The associated resolution will be put to vote at the AGM in April. If the transaction is completed, Kering will retain some 16% of Puma's outstanding equity (compared with 86.3% currently).

Artémis, the Pinault family holding company, which holds 40.9% of Kering's share capital, is set to become Puma's long-term strategic shareholder based on a holding of 20.9%. Puma's free float is due to increase from 16% to 55%. After looking at several options, Kering has decided for this distribution as opposed to a trade sale. The main problem was that, with a valuation of EUR 5.7 billion, it might have been difficult to find a buyer for Puma.

Following this spin-off, Kering will become a luxury pure play, boasting first-class rates of growth. Gucci (whose sales growth was 49.4% in the third quarter), Yves Saint Laurent (which is also in fine form) and Balenciaga (which is strongly developing business) are all doing well.

Kering is keen to focus exclusively on the luxury business, which earns fatter margins than sportswear. Expect it to start trading at a normal premium for its sector.

**Hold with a target at EUR 450 in focus.**

**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

**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