N° 449
12 March
2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

US JOB CREATION SHATTERS EXPECTATIONS

Highlights :

Fed might be lagging

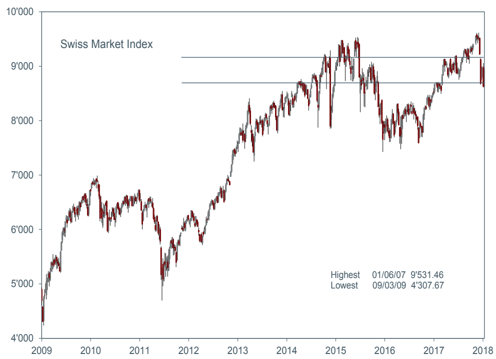
US takes a protectionist turn

Overview

US employment figures for February, released last Friday, have focused investors' attention. The rise in wage costs could influence the Fed's current policy on Fed Funds because of the inflationary impact that higher pay might have. Indeed, there is room for asking whether the Fed, which will meet on 20 and 21 March under the leadership of Jay Powell, is not behind the curve on tightening interest rates at a time when the economy has shown itself consistently strong. The Fed may therefore want to play catch-up. Successively, a breach of the 3% mark by the US 10-year yield could trigger a shift in market psychology.

Job creation shot past expectations, clocking in at 313,000. This figure (combined with the upward revision to January's figure) is significantly higher than the 100,000 new monthly jobs needed to keep pace with growth in the working-age population. The unemployment rate remained unchanged at 4.1%, which can be seen in a positive light because more people are getting back to work, judging by the participation rate at 63% versus 62.7% in January. This means that the reserve of potential employees is not completely used up. In addition, wage growth slowed down compared to the previous month, at +0.1% (+2.6% year-on-year), which eased fears about inflation and reassured equity investors. As a result, stocks showed a marked increase over the week. We believe that, in the short term, this movement will continue – to the detriment of bonds.

By imposing high customs barriers on imported steel and aluminium, the trade policy pursued by Donald Trump's administration has taken a decidedly protectionist turn. And when the latter says that «trade wars are good, and easy to win», one is tempted to believe him, given the EU's retaliatory threat merely to tax «peanut butter, orange juice and bourbon» if itself – like Canada and Mexico – is not exempted from the import duties.



SMI has bolstered initial support at 8750 points and is picking up towards 9200.

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	0.95	1.17	8'931.85	3'420.54	12'346.68	5'274.40	7'224.51	2'786.57	7'560.81	21'469.20	1'207.23
Trend	↑	↑	→	→	→	→	→	↑	↑	→	↑
%YTD	-2.35%	0.08%	-4.80%	-2.38%	-4.42%	-0.72%	-6.03%	4.22%	9.52%	-5.69%	4.21%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

VP Bank AG
(ISIN: LI0315487269, price: CHF 150)

The bank's 2017 results rose sharply to beat estimates. Revenue was up 10% and net profit adjusted for one-off items rose by 15%. Shareholders will be offered a one-franc increase in the dividend to CHF 5.50, equating to a yield of 3.7%. The most positive surprise was the increase in net inflows, which after a poor 2016 started rising again (+ CHF 1.89bn). This, combined with market performance, led to a healthy increase in client assets.

The group started hiring relationship managers again to help increase assets under management. The newcomers accounted for one-third of the net new money. So far, although only one-third of hires have been made, the cost base is likely to take a hit.

The share has markedly outperformed the sector over the past three years so we advise taking profits. Concurrently, EFG has lost 25% of its market value year to date. However, the costs for integrating BSI have been signalled as lower than expected, and synergies are starting to pay off.

We recommend selling VP Bank and buying EFG (ISIN: CH0022268228, price: CHF 8.10).

BMW
(ISIN: DE000519003, price: EUR 85.13)

BMW has reported record sales and earnings for 2017 even though it had further increased its R&D expenditure. Reporting net profit of EUR 8.7 billion and operating profit above the EUR 10 billion mark for the first time in its history, BMW well and truly beat analysts' estimates.

Overall, the group has sold more than 2 million vehicles worldwide, thanks in particular to the success of the urban 4x4s in its X range. BMW achieved its objective of selling more than 100,000 electrified vehicles (hybrid or 100% electric). The group has set itself a sales target of 140,000 electric vehicles in 2018 and more than half a million by the end of 2019. BMW is expecting a new sales record in 2018, thanks in particular to the launch of new models such as the Z4 or the 8 series.

Investments in future technologies, centring around electric, connected or self-driving cars, are becoming increasingly substantial. Expenditure on research and development last year increased by more than 18% to over EUR 6 bn. The company proposes an increase in the dividend to EUR 4 per share, which represents a dividend yield of approximately 4.7% relative to the current share price.

The share is valued below French carmakers (Renault and Peugeot). Now would be a good time to buy.

Buy with a target at EUR 100.

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