



FLASH BOURSIER

VOLATILITY SPIKE SPREADS TO CORPORATE BONDS

Highlights :

Volatility
uptick

Wider IG
spreads

Overview

Equity markets experienced a renewed upswing in volatility last week, with the Dow Jones Industrial Average trading in a range of nearly 1300 points in a single day as investors expressed concern about simmering trade tensions between the US and China.

Now equity market volatility is spreading to corporate bonds, as measured by a moderate increase in the credit spread of investment grade bonds relative to Treasury bills. This spread shows the effective yield on a corporate bond relative to government paper. It compensates investors for taking on the extra risk.

While seeing spreads widen can sometimes be alarming, as for example it may reflect deteriorating fundamentals, we have not seen similar movements on the credit spreads of high-grade debt. So if the move has nothing to do with fundamentals, then what is the cause? In fact, there has been a splurge of new bond issues. There has also been the need to finance major mergers and acquisitions, with companies not wanting shareholders to take too much of a hit. And of course, the potential for a trade war has also impacted investment-grade companies as they tend

to have greater exposure to cross-border income than their smaller speculatively rated counterparts, which are more focused on their home market (in this case, the US).

As we have not observed any significant stress on high-grade spreads, there should be no cause for concern for investors who are investing conservatively. However, we will continue to monitor this indicator for possible signs of a deterioration. The average return on the Bloomberg Barclays USD Baa Investment Grade index has climbed above 4% for the first time since January 2016, which is certainly to investors' liking.



The SMI has swung to and fro on a daily basis. If the current upswing can continue, it will have scope to reach 9000 points. If 8500 points is punched in, the target will be 8250 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	0.96	1.18	8'671.04	3'408.10	12'241.27	5'258.24	7'183.64	2'604.47	6'915.11	21'567.52	1'161.97
Trend	➡	➡	⬇	➡	➡	➡	⬆	⬇	⬇	➡	⬇
%YTD	-1.56%	0.65%	-7.58%	-2.74%	-5.24%	-1.02%	-6.56%	-2.59%	0.17%	-5.26%	0.30%

(values from the Friday preceding publication)



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SPOTLIGHT ON STOCKS



Burckhardt Compression (ISIN: CH0025536027, price: CHF 310.40)

The company is a leading manufacturer of piston compressors for the oil refining, gas transportation, chemical and air conditioning industries. The group's aim now is to strengthen and develop a services wing, including the servicing of third-party products. A sharp increase in this division's revenue contribution is expected over the next 5 years.

Diversification away from the manufacturing and marketing of compressors is intended to offset the stagnation in the group's primary market, oil and gas. Margins are also set to receive a boost. The group will be able to leverage the high quality of its products in a market where entry barriers are high and where compressor reliability is decisive for its target customers.

Burckhardt has a strong balance sheet but the current consolidation phase may last a while longer.

On technicals, any retracement to the CHF 280 area would constitute a buying opportunity.



Spotify Technology (ISIN: LU1778762981, price: USD 147.90)

Spotify, the world's largest streaming music service, was floated on the stock exchange last Tuesday at a reference level of USD 132. Since its founding in 2006, the Swedish company has raised nearly USD 2.5 billion from various investors.

The company has an edge over nearest competitors Apple, Amazon and Google thanks to its scale and the degree of customisation of its service. At the end of 2017, the number of subscribers to its premium paid service (at an attractive price of USD 9.99 per month) stood at 71 million. The number of active users worldwide was not far from the 160 million mark.

Exposure to emerging markets, with their young populations, plus the growing trend towards online music listening should provide for a stable revenue stream. The number of users is set to double in the next five years.

Spotify is not profitable yet, but initiatives are being taken to optimise margins. It is reinvesting in technology and is expected to generate an operating profit by around 2020 on the back of market share gains.

Buy now, target: USD 170.

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