



## GEOPOLITICS DOMINATING THE SCENE

### Highlights :

**Geopolitical tensions stress out financial markets**

**US corporate earnings season just beginning**

### Overview

Geopolitical tensions are on the rise, triggering stress in different corners of the financial market. The trade dispute between the US and China is boiling up. In Syria, the US – backed by France and the UK – has taken military action against Assad's regime and its main sponsor, Russia.

However, the effect on financial assets is not constant. Such events are often ignored by market participants up to a certain threshold, at which point they start having an impact. The length of the stress period caused by the brief bombardments over the weekend will also depend on perceptions of economic fundamentals, which at the moment are relatively solid around the globe. Low dollar volatility and the price of crude oil after the attack suggest a contained impact on equity indices. We believe, however, that the undeclared war between several major powers will remain the focus of investor concerns in the weeks ahead.

The first-quarter corporate earnings season has just kicked off in the US, providing a welcoming distraction from all the geopolitical tensions. On 18 April, aluminium producer Alcoa, whose stock price recently benefited from the aluminium price rally following the US sanctions imposed on its Russian competitor

Rusal, will report its financials. In the current reporting season, analysts expect solid results and solid forecasts from companies. But downside could stem from the financial sector, as major banks reporting last Friday sent mixed signals. JP Morgan may have benefited from higher interest rates and tax relief in the first quarter but investment-banking revenues declined and lending stagnated.

In conclusion, increased geopolitical uncertainty is at this stage having a negative influence on equity markets that is cancelling out the positive effect provided by the solidity of economic fundamentals. The upshot is an additional source of portfolio volatility. In these conditions, investors are looking for safe havens capable of diversifying the perceived risk. Gold has proven its resilience in a difficult market environment over recent weeks.



Support is still at 8500 points while resistance is at 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	0.96	1.19	8'776.17	3'448.00	12'442.40	5'315.02	7'264.56	2'656.30	7'106.65	21'778.74	1'170.09
Trend	➡	➡	➡	⬆	⬆	⬆	⬆	➡	➡	⬆	➡
%YTD	-1.24%	1.41%	-6.46%	-1.60%	-3.68%	0.05%	-5.50%	-0.65%	2.94%	-4.33%	1.00%

(values from the Friday preceding publication)



## SPOTLIGHT ON STOCKS

### SULZER

**Sulzer AG**  
(ISIN: CH0038388911, price: CHF 113)

Sulzer, which makes industrial pumps, became caught up in quite some turmoil following the US government's decision to sanction 24 Russian nationals in reaction to Russian interference in the US presidential election. Sulzer was at the time 63% owned by Renova, an investment company owned by Viktor Vekselberg, a Russian oligarch targeted by the sanctions. As a result, Sulzer became a target of the Americans; and the news sent the stock price plunging by 16% last Monday.

The stakes are high, because 23% of the company's revenue is generated on American soil. In the end, the group was able to wriggle free from the sanctions by buying back its shares from Renova so that the stake fell below the 50% mark. Consequently, the share closed up by a sharp 19.5% on Thursday but is still 10% below the pre-incident level.

Even if Sulzer can resume business normally, we prefer to stay away from the share for now. On Thursday, the group will reveal the status of its order book, which should give an indication about the possible consequences of this misadventure.

**Hold, as we wait for the dust to settle.**

### L'ORÉAL

**L'Oréal**  
(ISIN: FR0000120321, price: EUR 191.15)

The world leader in cosmetics has reported solid quarterly figures. Sales amounted to EUR 6.78 billion, powered by the luxury goods division, for which sales reached EUR 2.25 billion. First-quarter revenues grew 6.8% organically, the strongest organic growth since 2010.

L'Oréal's luxury goods wing was again the best-performing division, reporting revenue growth of 14%. This was followed by L'Oréal Active (+10.2%), whose business was driven by demand from Chinese consumers. Group sales shot up by 21% in Asia-Pacific; growth in China was even stronger than this. This time round, Asia accounted for 75% of growth, which exceeded the US.

Over the full year, the group reiterated its target for a significant increase in sales and higher margin.

The share is trading close to its all-time high, but this is warranted by the strength of the group's business and the rosy outlook.

**Hold, with target at EUR 210.**

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