



FLASH
BOURSIER

FED'S STRESS TESTS ON BANKS

Overview

Highlights :

**Investors brief
a sigh after
Fed tests**

**Swiss defen-
sives under-
performing**

The Fed last week revealed the results of its stress tests on banks. All the banks examined made it over the first hurdle investigating whether they had sufficiently strong capital buffers to cope with a biting recession. The second stage focused on banks' capital planning, regarding which only one bank failed to make the grade. That was Deutsche Bank, whose test revealed serious weaknesses at its US unit. As part of the process, the scores achieved by six non-US banks – including UBS and Credit Suisse – were made public for the first time. The Fed's decisions based on the test results provided some reassurance to investors following the thirteen-day slide by S&P 500 financials.

In its media release, the Fed stated it had required some of the major Wall Street banks to tone down their ambitious plans to return cash to shareholders. In the hours following the announcement, more than 20 firms spelt out how they would reward investors over the next four quarters. For instance, Wells Fargo plans to increase payouts by 70% to some USD 33 billion, while JP Morgan aims for a 16% increase to USD 32 billion. But the news from the Fed was not good all round. It said it had turned down initial proposals from the likes of Goldman Sachs, Morgan Stanley and

American Express, all of which wanted to be more generous to shareholders.

In Switzerland, defensive stocks have dashed expectations, underperforming their European peers year to date after being hit by downward revisions to earnings. That was in spite of already low price/earnings and price/book value multiples. But if the simmering trade war and the emerging market situation were to worsen and affect global GDP, Swiss equities would probably be back on investors' radar screens.



The index defended support at 8500 points after a spike down to 8375 and once again ended with week upwards of 8600 points. The next upswing could drive the index to 9200 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	1.16	8'609.30	3'395.60	12'306.00	5'323.53	7'636.93	2'718.37	7'510.30	22'304.51	1'069.52
Trend	➔	➔	➔	⬇	⬇	⬇	➔	⬇	⬇	⬇	⬇
%YTD	1.67%	-1.13%	-8.23%	-3.09%	-4.73%	0.21%	-0.66%	1.67%	8.79%	-2.02%	-7.68%

(values from the Friday preceding publication)



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SPOTLIGHT ON STOCKS



Novartis
(ISIN: CH0012005267, price: CHF 75.28)

Several important pieces of news connected to Novartis emerged last week.

1. It published the largest-ever study into migraines following US marketing approval for its Aimovig drug in May. The research showed that productivity fell by half among migraine sufferers. This will help the group negotiate good reimbursement terms for the drug among healthcare insurers.
2. Novartis also announced it would be spinning off Alcon, which it bought from Nestlé in 2008. The news was already in the press on Tuesday. In the past, the group had several times said that was an option. The spin-off paves the way for both Novartis and Alcon to focus on their respective core businesses.
3. Novartis plans to repurchase 2.6% of share capital through buybacks out to end-2019. This will be amply covered by the recent divestment of the joint venture with Glaxo SimthKline, which generated proceeds in excess of CHF 12 billion.

Investment recommendation: at 13.7x 2019 earnings, Novartis is still trading at a high price relative to rivals (Roche 12.8x/Sanofi 11.8x). The share price is back where it was in January 2001. The pharma sector has underperformed the broad market in both Europe and the US by 20% over the past two years, due mainly to pressure on drug prices. And that pressure is unlikely to abate.



Nike
(ISIN: US6541061031, price: USD 79.68)

The group – the global leader in sportswear and shoes – announced higher-than-expected quarterly earnings, boosted by a slew of products launches. Nike returned to growth in the US, its main market, despite the sales blitz by Adidas in the country. Sales were up 3% in the period under review – a return to form that was widely appreciated by investors, who sent the share soaring by over 10%. Net profit for the period rose by 13% to USD 1.1 billion. China was the growth powerhouse. Sales there shot up by 35% to USD 1.5 billion.

Last year, Nike slimmed down its distribution network, to increase margin, and began selling products directly on Amazon and Instagram in an attempt to see off competition from Adidas. The Nike Direct division, which houses online sales and sales from directly owned stores, saw its top line increase by 12% (online +25% and Nike stores +4%).

Nike has raised full-year guidance. It still expects single-digit growth but now at the upper end of the initial forecast range. It also plans to buy back USD 15 billion worth of stock in the next four years.

Hold with a target at USD 90.

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