N° 467
16 July
2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

TIME IS TICKING ON BREXIT

Highlights :

Theresa May wants UK goods in the Single Market

The plunge in sterling continues

Overview

Last Thursday, amid the resignation of two pro-Brexit cabinet ministers and a growing rebellion within her own party, Theresa May published the most controversial document since taking office two years ago, in which the government pledges to keep the UK tightly linked to the EU Single Market after Brexit. This 98-page White Paper details precisely the kind of trade relationship that the UK would like to maintain with the EU.

But the litmus test will be how the EU reacts. So far it has not turned down the plans outright. Yet time to reach an agreement before the October deadline is running out. And Theresa May's proposal says nothing new about an open Irish border and the customs checks that would be required if that thorny issue cannot be resolved.

Making matters worse, Theresa May is having to contend with an intensifying reaction from among Eurosceptics within the Conservative Party, fuelled by the resignations of foreign secretary Boris Johnson and Brexit secretary David Davis in protest against her plans.

Neither did Donald Trump need any encouragement to chime in. A few hours before landing in the UK, he sharply criticised his host, saying that May was not delivering electors the Brexit deal they had asked for.

None of this news has helped sterling, which was already bowing under the weight of the stronger dollar. It has since fallen further and is changing hands at its lowest level since November last year.

Investors will breathe a sigh of relief as reporting season kicks off and diverts attention away from the trade question. The tussle between the US and China seems to have eased slightly as Beijing looks to be watering down its riposte to Trump's threat of tariffs. It probably has an eye on its slowing economic growth, weaker equity markets and the dollar's gains against the yuan.

We remain bullish on the SMI above 8750 points, targeting 9000 points. A downside breakout past 8500 points would set a target at 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	1.00	1.17	8'861.05	3'454.54	12'540.73	5'429.20	7'661.87	2'801.31	7'825.98	22'597.35	1'075.64
Trend	→	→	↑	→	→	↑	→	↑	↑	↑	→
%YTD	2.81%	0.03%	-5.55%	-1.41%	-2.92%	2.20%	-0.34%	4.78%	13.36%	-0.74%	-7.15%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

EFGN
(ISIN: CH0022268228, price: CHF 7.32)

EFG's takeover of Ticino private bank BSI is entering its final phase after 18 months of twists and turns.

Outflows of funds have exceeded CHF 13 billion since the acquisition was announced, although 2018 is likely to be the last such year, based on an annual outflow estimated at CHF 2 billion.

From next year, EFG expects business as usual at the former BSI. Positively, it expects net new money from its acquired unit as well as a cost-income ratio below 70%, which is a respectable target relative to the competition.

The most noteworthy news was the excellent ratio of asset under management to market capitalisation, which was twice as high as the peers' average.

Investment recommendation: With synergies with BSI of CHF 240 million expected from 2019, a brand-new IT system and a capital adequacy ratio exceeding 18%, EFG is one of the financials with real potential to outperform share-price expectations.

Morgan Stanley China A Share Fund
(ISIN: US6174681030, price: USD 22.73)

Chinese equities have corrected sharply year to date, hurt by government measures aimed at reducing debt leverage (which has in turn decreased liquidity), fears of slower economic growth and the trade tiff with the US. Today they are back trading on attractive multiples.

Morgan Stanley China A Share Fund is a closed-end fund investing in the A-class shares of Chinese firms listed on mainland Shanghai and Shenzhen exchanges. The investment process combines macroeconomic top-down analysis with bottom-up research based on companies' growth prospects and market valuations.

Past performance is impressive relative to the MSCI China A Onshore index, with the five-year return at an annual 18% versus the benchmark's 7%. Additionally, the fund is currently trading 16% below its net asset value.

Investment recommendation: This fund offers an attractive way of investing in the prospective recovery by Chinese equities.

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