

FLASH BOURSIER

EUROPEAN MARKETS DISTRESSED BY ITALIAN BUDGET ANNOUNCEMENT

Highlights :

Fed raises short-term rates

European bourses static

Overview

The final week of the third quarter followed the usual pattern seen this year, namely there were striking performance gaps amongst global markets and individual issuers, whose securities tended to overreact to either good or bad news.

As expected, the US Federal Reserve last week tightened by a quarter-point and guided towards a further rate rise before the end of the year. Fed Chair Jerome Powel was also clear about wanting to continue raising borrowing rates in 2019, considering the fine state of the US economy and the low unemployment rate (3.8%). US official job numbers, due this Friday, are expected to show 138,000 additions.

European equity markets – widely considered to be affordable based on valuation metrics – are going nowhere just as US indices are setting new records. Performance is pinned back by trade ructions with the US, especially as this affects the automotive sector, and by a lack of unity amongst Eurozone members regarding key themes such as immigration and public spending.

Long-term yields on Italian bonds started rising towards the end of the week, with the return on the 10-year government bond edging up by 27bp to 3.2%, after the government there announced a 2.4% target for the public deficit in 2019 – three times more than publicised initially. This budget is highly controversial from a European standpoint and could still be rejected in Italy. Statements by the populist government – according to which a public spending splurge will stimulate economic growth, leaving the debt/GDP ratio stable at 132% or reducing it slightly – beggar belief.

Consequently, European banks continue to feel the heat, despite the benefits that ought to flow from higher interest rates.



SMI continues slow recovery. Nearest resistance is 9500 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	0.98	1.14	9'087.99	3'399.20	12'246.73	5'493.49	7'510.20	2'913.98	8'046.35	24'120.04	1'047.91
Trend	↑	→	↑	→	→	↑	↑	→	→	↑	↑
%YTD	0.76%	-2.61%	-3.13%	-2.99%	-5.19%	3.41%	-2.31%	8.99%	16.56%	5.95%	-9.54%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Lonza



LONZA
(ISIN: CH0013841017, price: CHF 335.-)

Lonza, a maker of speciality chemicals and biopharmaceuticals, last week held its investor day. The impression from the event was positive. The group has two business plans: one for “Pharma&Biotech” segment, which has been steadily growing, and one for “Speciality Ingredients”.

Lonza has two strong points in the bio-drug sector: its ability to offer tailor-made solutions to pharmaceutical groups and to manage increasing product complexity. These advantages allow it to maintain comfortable margins in the segment and keep barriers to entry nice and high. Today, more than 45% of its revenue stems from biological products. Lonza is making significant investments to take advantage of the growth opportunities offered by this business.

The valuation is on a par with the rosy outlook. Using forecast 2019 earnings, the share is pricey, based on a price/earnings ratio over 25x and an EBITDA/enterprise value of almost 17x (earnings before interest, tax, depreciation and amortisation).

We advise against investing at such giddy heights. Retracement to around CHF 275 would be a buying opportunity.

Nike
(ISIN: US6541061031, price: USD 84.72)

Sports goods manufacturer Nike reported higher-than-expected sales and earnings for its first financial quarter. Sales rose by 10% to USD 9.95 billion while net profit increased by 15%. Investors were somewhat disappointed by the small increase in margins

Overall, results were solid. Sales rose across its four operating regions, including a 24% increase in China to USD 1.4 bn.

Nike's sales were boosted by its latest but controversial advertising campaign. The company had chosen to use the face of American football player Colin Kaepernick, who had a habit of going down on one knee during the American national anthem before matches to draw attention to racist police violence.

The share has been the best performer in the Dow Jones, having put on 35% year to date.

Given current multiples, we advise pocketing part of the profits.

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