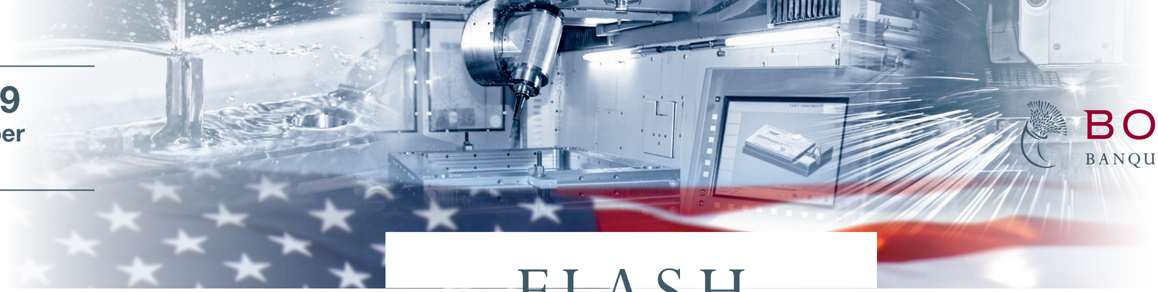
N° 479
8 October 2018



FLASH BOURSIER

US 10-YEAR YIELDS OVERCOME ANOTHER HURDLE

Highlights:

US economy continues expanding

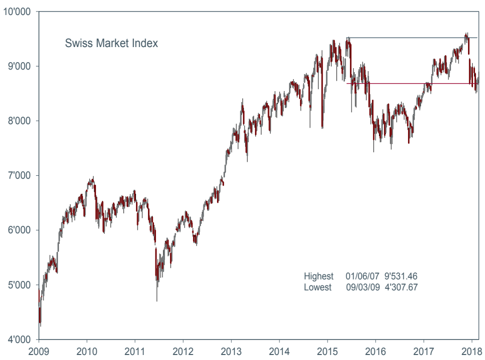
Chinese equity market plunges

Overview

US economic indicators remain in fine form. Services activity is clearly in expansion territory at 61.3%, its highest level since 1997. In the US bond market, the yield on 10-year government paper exceeded 3.2%, probably as an overreaction to Wednesday's ADP jobs report, which showed the economy creating 230,000 jobs. Official government job stats, reported on Friday, fell short of estimates (134,000 vs. 185,000 forecast), but this was partly down to seasonal factors. Jerome Powell did nothing to help. Sounding an upbeat note on the country's economic outlook, he gave a message deemed as more hawkish than previously in which he hinted that tightening could take short-term rates beyond even the neutral point (estimated to be 3%). With unemployment at just 3.7%, fears of widespread pay rises and higher interest rates, both of which could hurt corporate profits and valuations, dampened the performance of equity indices last week. For instance, Amazon last week raised its minimum hourly wage to USD 15. The tech sector, in particular, took a hit after news broke alleging that Chinese microchips infiltrated several US corporations. Whether or not this was true, the news hurt tech stocks badly.

The sums are not adding up in Italy, where the planned spending splurge has not exactly won the hearts and minds of its European partners. The Italian government has agreed on a budget targeting a fiscal deficit of 2.4% of GDP for 2019, falling to 2.2% in 2020. But talks between the coalition members are tense, and only scant details have emerged about the measures and investments that this financial black hole is designed to stimulate. The spending plans will be examined by the European Commission on 15 October. Doubts about whether Italy can get its ratio of debt to GDP back under control have sent the yields on its sovereign debt spiking, especially as the credit rating (currently BBB) could be lowered.

After a closure lasting several days, the Chinese equity market opened down sharply today. The central bank has lowered the reserve requirement for commercial banks by 1 point to 14.5%, corresponding to an estimated USD 175 billion in potential lending to underpin the Chinese economy. This measure was seen negatively by investors, stoking fears of slower economic growth on account of the trade war.



SMI constituents continue to move erratically, preventing a broad upturn.

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	1.14	9'042.08	3'345.51	12'111.90	5'359.36	7'318.54	2'885.57	7'788.45	23'783.72	1'000.76
Trend	↑	→	→	→	→	↓	↓	→	↓	↑	↓
%YTD	1.80%	-2.30%	-3.62%	-4.52%	-6.24%	0.88%	-4.80%	7.93%	12.82%	4.48%	-13.61%

(values from the Friday preceding publication)

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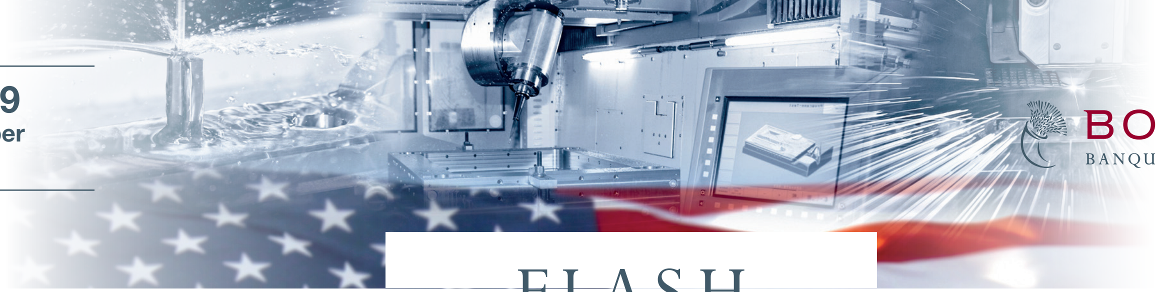

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FLASH BOURSIER

SPOTLIGHT ON STOCKS

EMS-Chemie Holding AG
(ISIN: CH0016440353, price: CHF 568.00)

EMS-Chemie Holding, based in Graubünden (Switzerland), manufactures and markets chemicals for the automotive, textile and transport sectors.

The company reported a 10.8% revenue increase over the first nine months of the year, driven by its flagship high-performance polymer division. However, these encouraging figures fell slightly below analysts' expectations. Signs of a slowdown are perceptible, arising from the trade conflicts impacting the company –particularly in the key automotive market.

EMS-Chemie's management team is cautious about business prospects. The strong Swiss franc remains an obstacle for the company, which hopes to counter any economic slowdown through the efficiency drive beginning at the start of the year.

The stock's valuation is high, but this is partly justified by the medium-term growth outlook.

The share would be worth buying on a dip at around CHF 520.

Samsung
(US7960502018, price: EUR 690)

Samsung, the world's leading manufacturer of smartphones and memory chips, said that according to initial estimates, it has generated its highest quarterly profit in its history.

The group expects an operating profit of EUR 13.5 billion, representing an increase of more than 20%. This would represent a profit of EUR 150 million per day. The South Korean giant expects an operating margin of 26.9%, higher than Apple's latest quarterly number.

Even if the group remains the largest producer of smartphones, this division now generates less than 15% of operating profit. It is also facing an onslaught from cheaper Chinese models (Huawei, Xiaomi and Oppo). To stand out from the pack, Samsung is working on a new foldable smartphone.

Chips now account for 80% of Samsung's operating profit, following the increase in DRAM memory prices fuelled by the cloud-driven surge in demand for data centres.

We have a Hold recommendation.

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