N° 480
15 October
2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
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CHALLENGING WEEK

Highlights:

Stock indices in the red

IMF cuts global growth outlook

Overview

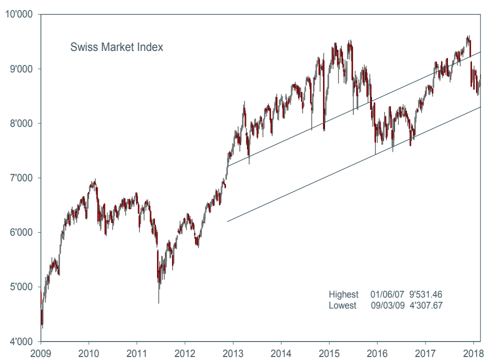
Equity market indices ended the week firmly in the red. In Switzerland, the SMI fell by close to 3% on Thursday alone, dragged down by the plunge on US indices on the previous day and the copycat action of Asian markets overnight. Wednesday was indeed the worst day for US equities since February. The tech-heavy Nasdaq was down by over 4%, marking its most negative session in the past two years.

Investors have been spooked by the quicker rate of tightening suggested by the Federal Reserve in its future decision-making. This has incurred the ire of Donald Trump, a frequent critic of the Fed's monetary policy. He even went as far as blaming last week's correction on the Fed. On paper, the Fed is independent and so has no choice at the moment than to restore monetary policy to a more business-as-usual configuration. Its monetary policy cannot reflect the president's wishes.

Another point of concern among investors is the escalating trade spat between the US and China. The International Monetary Fund (IMF), which last week lowered its global growth forecast for the first time in over two years, did nothing to help dispel the mood of anxiety.

Equities experienced a broad-based recovery on Friday as results reported by US banking majors exuded a positive sentiment at the end of a turbulent week. China's foreign trade figures also gave Asian markets a shot in the arm. The numbers revealed a rise in exports, while at the same time imports remained brisk. All this was thanks to strong demand inside and outside China – despite the deteriorating state of relations with the US.

This week will be crucial for Brexit. The UK wants a deal and the EU expects one. Theresa May is due to meet EU counterparts on Wednesday. A deal may be forthcoming or, if enough progress is made, an extraordinary summit may be scheduled for mid-November.



The SMI fell further last week but without setting new lows. Trend support is at 8500 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	1.15	8'660.38	3'194.41	11'523.81	5'095.98	6'995.91	2'767.13	7'496.89	22'694.66	980.09
Trend	↑	→	↓	↓	↓	↓	↓	↓	↓	↓	↓
%YTD	1.91%	-1.95%	-7.69%	-8.83%	-10.79%	-4.08%	-9.00%	3.50%	8.60%	-0.31%	-15.40%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Credit Suisse Group AG
(ISIN: CH0012138530, price: CHF 13.42)

Banking majors JP Morgan, Citigroup and Wells Fargo have kicked off reporting season each with an encouraging set of earnings figures.

Credit Suisse is due to report its figures on 1 November. In the meantime, the bank is turning the corner after a tough time in which it was hit by several US fines, leading to a capital outflow of around CHF 15bn. The restructuring process is coming to an end, resulting in the loss of 1,600 jobs over a period of three years (10% of the Swiss workforce). The number of branches is due to be cut from 150 to 135.

Clearer skies are now ahead for the second-biggest banking group in Switzerland. CEO Tidjane Thiam projects a net profit of CHF 5-6 billion for the next two years. The yield curve is also likely to steepen in the future, which will doubtless benefit commercial banks' margins.

Investment recommendation: Buy, target price CHF 19.

LVMH
(ISIN: FR0000121014, price: EUR 262.50)

The group has reported figures in line with market forecasts. The pace of growth remains intact, with revenues rising by 10% in the latest quarter.

LVMH, the world's largest luxury goods concern, for the first time reported ninth-month revenues above EUR 33 billion. The fashion & leather goods division, representing the group's main business (featuring the star Vuitton brand), outdid earlier months, showing a 14% increase in revenues during the latest quarter.

But these solid results did nothing to soothe anxiety regarding the luxury goods sector, which suffered sharp corrections last week. Investors are concerned about the prospective drop in demand from China, concurrent with the downturn on the Shanghai stock exchange, yuan depreciation and the hit to China's growth from the trade war. Chinese buyers account single-handedly for almost one-third of luxury goods purchased worldwide. Tighter controls of what Chinese travellers can buy abroad are also making investors nervous.

The share's correction has been too harsh, in our opinion. LVMH is still one of our top picks in the sector because of its solid earnings growth and high degree of diversification.

Investment recommendation: Hold.

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