



FLASH BOURSIER

A COMPLEX STEP TOWARDS BREXIT

Highlights:

UK banking shares tank

Fed confident in US economy

Overview

UK banking stocks nosedived last week – dragged down by the political turmoil in the UK surrounding the draft Brexit agreement that the prime minister had clinched with her EU negotiating counterpart. This deal is not seen positively by the City. That is because Brexit, in its current incarnation, endangers the working relationship built up over many years between the UK financial sector and the Continent. Companies on both sides of Channel want to avoid ending up in some kind of non-man's land once Brexit comes into effect.

Theresa May also had to deal with a rebellion, from within her own ranks, on the day after her cabinet had approved the draft agreement. Under the terms of the deal banks, insurers and asset managers in the UK will have restricted access to EU financial markets after the transition period, beginning in March next year and ending in December 2020. But the deal, with its 568 pages, holds out little in the way of hope of such an alliance – which would provide broader terms of access and better protection in the event of sudden losses of entitlements – ever coming to fruition.

Several ministers, including Brexit minister Dominic Raab, slammed the door on the government, ushering in a political crisis – made

worse by the prospect that the draft deal will be rejected by the Northern Irish Democratic Unionist Party (DUP), on whose support Theresa May depends to retain her parliamentary majority.

Finally, macroeconomics. At a public event in Houston, Fed chair Jerome Powell once again sounded a confident note about the US economy's rude health, pointing to solid recently released job numbers. Although still broadly upbeat about the outlook, for the first time he cited three possible growth hurdles that could emerge in 2019. These are slower business trends outside the US, weakening fiscal stimulus and the delayed effect of Fed interest-rate rises on the economy.



An upswing is expected. Resistance is still between 9350 and 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	1.00	1.14	8'907.39	3'180.74	11'341.00	5'025.20	7'013.88	2'736.27	7'247.87	21'680.34	986.30
Trend	➡	➡	➡	➡	➡	➡	➡	➡	➡	➡	⬆
%YTD	2.63%	-2.45%	-5.06%	-9.22%	-12.21%	-5.41%	-8.77%	2.34%	4.99%	-4.76%	-14.86%



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SPOTLIGHT ON STOCKS



ABB
(ISIN: CH0012221716, price: CHF 20.06)

ABB rose in the market towards the end of last week on speculation that it would divest its Power Grids division, which has been a controversial part of the group for many years on account of its paltry margins.

Defying some of its shareholders, management instead opted to keep and develop this division. This was the right call because in Q3, the division's operating margin was lifted to close to 14%. Whatever happens from here, the division is in better shape, whether it remains within the group or is sold to a foreign buyer (there has been talk of Hitachi or Mitsubishi Electric).

Concurrently, ABB has inaugurated a new business park in China costing more than CHF 300m and where several of the groups units will operate. China has become a key player in technological research on the international scene. ABB saw this coming, having set up research centres in China covering domains as diverse as robotics and battery chargers.

We advise holding the share, which is a core investment in our discretionary mandates.



Semiconductor blues

Semiconductors have one after the other let down analysts with their guidance figures for the first quarter of 2019. Nvidia sees revenue below expectations, hit by lower sales of GPUs in the field of cryptocurrencies and games. Applied Materials, the largest maker of semiconductor capital equipment, said that it has seen a turning point in the industry, in the shape of lower spending on microchips and memory modules, despite the price cuts.

Each chipmaker has its own reasons for expecting lower orders. But one underlying theme is the inventory glut that now needs to be mopped up, as demand slows for PC servers and mobile devices. Fears of a slower replacement cycle for smartphones, with buyers reluctant to trade-up for a new iPhone XS, for example, have triggered a wave of profit warnings and plunges in the share prices of component suppliers.

All this is a reminder that semiconductors is a cyclical industry. At the moment it is exposed to the haze surrounding the slowing Chinese economy, amongst other considerations. But the many new sources of growth such as AI, mobile infrastructure and self-driving cars mean that stabilisation will probably be quicker in coming than in the past.

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