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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

CEASEFIRE IN TRADE SPAT

Highlights:

Turnaround in US equities

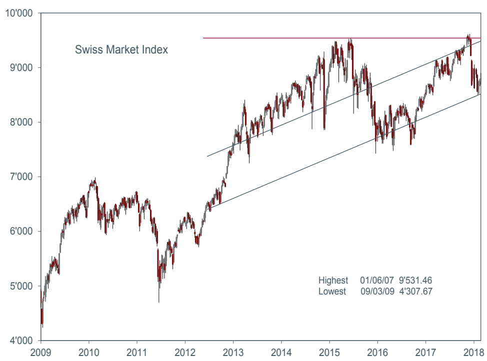
Swiss GDP dips in real terms

Overview

Investors had been eagerly awaiting the G20 summit in Buenos Aires, where Donald Trump and Xi Jinping on Saturday announced a ceasefire in the trade war between the US and China. Washington will not go ahead with plans – on 1 January 2019 – to increase customs duty on $200bn of Chinese goods from 10% to 25%. In return, Beijing has pledged to buy a substantial volume of US-made goods to help narrow the yawning trade deficit between the two countries. The reprieve is set at 90 days. If the two countries fail to see eye to eye in trade talks, tariffs will be increased as planned. But investors are just happy that some kind of agreement was found at the summit.

Main equity benchmarks in the US started rising last Wednesday, breaking a three-week losing streak after Fed chair Jerome Powell stated that interest rates were now not far from neutral. Investors had for several months been fearful of too steep a hike in interest rates and so took this as a sign that the Fed will shift to a less hawkish policy. The Fed also revised its trajectory based on signals of slowing growth trends around the globe. Expect therefore a lighter touch from the central bank. Starting in 2019, Jerome Powell will hold eight annual press briefings as opposed to four this year.

In Switzerland, the economic outlook took a turn for the worse as the economy ground to a halt in the third quarter after an 18-month uptrend. Defying all expectations, GDP contracted by 0.2% in real terms relative to the previous three months. Year on year, the economy grew by 2.4%, which though solid fell short of latest market expectations.



This week is looking decidedly bullish, with the market climbing over initial resistance at 9100 and heading to the earlier top around 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	1.13	9'037.76	3'173.13	11'257.24	5'003.92	6'980.24	2'760.17	7'330.54	22'351.06	994.72
Trend	➡	➡	⬆	➡	➡	➡	➡	⬆	⬆	⬆	⬆
%YTD	2.42%	-3.37%	-3.67%	-9.44%	-12.85%	-5.81%	-9.20%	3.24%	6.19%	-1.82%	-14.13%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Georg Fischer
(ISIN: CH0001752309, price: CHF 777)

The group has recently won some huge contracts in the US aerospace industry. With its three divisions, which are piping systems (40% of revenue), automotive castings (35%) and machining solutions (25%), the Swiss mini-conglomerate has fallen by the wayside as investors have turned away from any company connected with the automotive sector or exposed to customs tariffs. Even so, the group has been lifted by various market trends such as the growing need for cooling systems in industrial buildings (computing centres) and rising demand from the automotive sector for lighter components (involving aluminium castings).

Despite the 40% plunge in the share price this year, financials results for 2018 are set to be strong, and this cyclical stock – whose market capitalisation exceeds CHF 3bn – combines a series of advantages that call for a price recovery following the unfair drubbing that the share has taken. Trading at a 30% discount to its sector and past multiples, Georg Fischer has faced one of the harshest reductions in its valuation this year. Another asset is the dividend yield, which exceeds 3%.

At 11 times 2019 earnings and less then 7 times EBITDA on the basis of enterprise value, the share has definite appeal and has been added to our recommended list.

Palo Alto Networks
(ISIN: US6974351057, price: USD 172.95)

Operating in the field of IT security, the group is market leader in next-generation firewalls. Its solutions anticipate, detect and respond to attacks via scalable software that can react quickly to any situation encountered.

The cyber-security market is in fine form – it is forecast to grow by an estimated 10-11% annually over the next five years. Attacks are on the increase and becoming more complex, extending now to mobile devices and cloud storage.

Palo Alto's latest quarterly results and guidance came in well above the consensus. Revenues increased by 31% to $656m versus an expected $632m. In addition, an increasing proportion of revenues stemmed from subscriptions, which is helping expand free cash flow.

The only glitch is soaring operating expenses (+22%). But like many fast-growing tech companies, Palo Alto is facing significant costs, particularly in R&D (17% of revenue) and marketing.

In the short term, margins are sacrificed to boost gains in market share.

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