N° 493
28 January 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

DOOM AND GLOOM

Highlights:

Chinese Q4 GDP +6.4%

Inflation still low

Overview

Last week was mostly doom and gloom, as leaders meeting in Davos each issued their downbeat projections for the future. In contrast, equity markets levelled off in response to earnings reports that were by and large reassuring. For example, forecasts issued by semiconductor firms – widely seen as a bellwether for industrial demand – were generally positive.

China's GDP growth of 6.4% year-on-year in Q4 2018 initially shocked investors, even though it was in line with estimates. However, the stimulus measures for the banking industry that were announced by authorities, which will encourage more lending to companies, gave rise to renewed optimism. Meanwhile, the IMF warned that mounting trade tensions are casting a cloud over the global economy, and it cut its 2019 and 2020 growth forecasts by 0.2 and 0.1 percentage points, respectively, to 3.5% and 3.6%, mainly as a result of the growth slowdown in Europe, where industrial production and business investment are losing momentum. The IMF's outlook on the US is unchanged at 2.5% growth, thanks to robust domestic demand. In Germany, the decline in leading indicators continued. Manufacturing PMI fell below 50 and the Ifo index clocked in weaker than expected – reflecting slowing demand from China and the current woes of the automotive sector.

Regarding central banks, there is scope for a more dovish tone given the persistently weak inflation figures. The ECB has taken note of the increased risks hovering over the euro area. Mario Draghi also pointed out that the benchmark rate will remain at its current level (in the red) until next summer at the earliest. Moreover, the ECB will continue rolling over maturing bond investments for a long time to come. The Fed meets this week and could on Wednesday announce a change to forward guidance (specifically the pace of tightening) for 2019.

Considerable buzz surrounds trade negotiations between the US and China this week, with Chinese Vice Premier Liu He due to arrive in Washington on Wednesday. According to Trade Secretary Wilbur Ross, the US and China are miles away from finding common ground. Donald Trump and White House economic advisor Larry Kudlow on the other hand sounded a more positive note.

The SMI remains midway in its trading-range. The first resistance is located around 9200 points and major support remains at 8600 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	1.13	8'922.49	3'163.24	11'281.79	4'925.82	6'809.22	2'664.76	7'164.86	20'773.56	1'032.34
Trend	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆
%YTD	1.20%	0.66%	5.85%	5.39%	6.85%	4.12%	1.21%	6.30%	7.98%	3.79%	6.90%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Huber + Suhner AG
(ISIN: CH0030380734, price: CHF 77.50)

Swiss-based Huber + Suhner, a global supplier of connectivity solutions, has reported sales and order intake for 2018. Both show a significant increase compared to the previous year, rising by 14% and 11% respectively.

Huber + Suhner is active in three markets: communication, transport and manufacturing, providing expert electrical and optical connection systems. Its client markets were supported in 2018 by megatrends such as the growing need for bandwidth (data traffic) and up-and-coming mobility solutions (electric cars). Its business portfolio is nicely diversified and global in its scope: only 7% of sales are generated in Switzerland.

The share price has performed remarkably, adding 28% in 2018 and even +18% so far this year, especially as the prices of other Swiss equities more or less stood still last year. The group will report detailed results on 19 March followed by a press conference.

Emerging Markets / China
Xtrackers Harvest CSI 300
(ISIN: US2330518794, price: USD 23.88)

Rising yields on US Treasuries, the lofty level of the dollar, trade tensions, slowing economic growth and geopolitical flashpoints together made 2018 a tough year for emerging-market assets.

Nevertheless, the downswing halted in the autumn, and these markets have started outperforming developed countries. We therefore recommend maintaining exposure to this asset class. The US dual deficit and a more cautious Fed are likely to push down the US dollar, which will in turn help emerging economies.

China offers the best opportunities because share-price valuations are extremely attractive at 9.5x estimated earnings of Shanghai Shenzen CSI 300 constituents. Chinese authorities are expected to continue dishing out the fiscal stimulus. Plans by MSCI to quadruple the weighting of Chinese equities in its benchmark indices is expected to accelerate capital inflows. The Made in China 2025 strategic plan, through which China is aiming for self-sufficiency in all key technologies, will be a genuine catalyst in the medium term.

We recommend investing through an ETF replicating the SHSZ CSI 300 index.

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