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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

WEIGHTING OF CHINESE STOCKS IN MSCI EM SET TO INCREASE

Highlights:

US GDP growth of 3.1% in 2018

China-US talks make headway

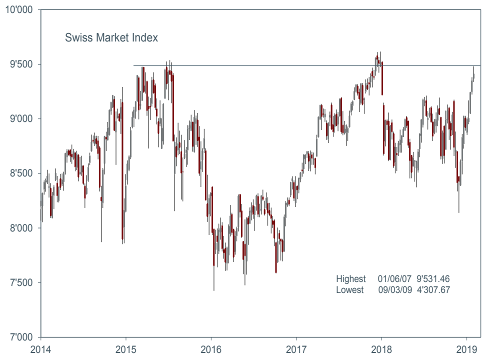
Overview

February was a positive month for stocks, with indices ending with a gain of 3% on the whole. Investors continue to price in a favourable denouement of the China-US trade tiff. Meanwhile, corporate sales and earning guidance for upcoming quarters has been on the cautious side, and economic growth is broadly slowing. At the same time, inflation is hardly belting along. The good news is that the spectre of recession is no longer lingering. US GDP grew by 3.1% in 2018 – the best year in the current 116-month growth cycle. As there tends to be a three-year gap between a peak and a trough, concerns have abated for now. Another boost for the markets has come from Fed chief Jerome Powel, who made it clear in his testimonial before Congress last week that US monetary policy will be calibrated to both economic data and global developments. Considering that inflation is low, patience is the name of the game.

The China-US trade talks appear to be advancing well. China is apparently willing to cut import duties on cars and chemicals, among other things. US Trade Representative Robert Lighthizer told Congress that he wanted structural changes, not simply promises to buy stuff. China must stop forcing US firms to hand over their intellectual property to Chinese business partners. Donald Trump and Steven Mnuchin, by contrast, have been more upbeat, and this is the message that has prevailed among investors. Meanwhile, a video showing children singing the praises of Chinese smartphone manufacturer Huawei has become a global hit on the web.

In China, the Caixin manufacturing index – released last Friday – clocked in higher than expected in February at 49.9. In addition, MSCI has announced that it wants to include significantly more mainland Chinese stocks (A-shares listed in Shanghai and Shenzhen) in its emerging-markets equity index. In late November, it is planned that their weighting will increase from the current 0.8% to 3.2%, with the potential of generating inflows of around USD 70bn into mainland Chinese equities on the part of index fund managers.

The Chinese People's Congress will start in Beijing tomorrow. The highlight will be announcement of the 2019 GDP growth target, which might be slightly lower in 2019 than in 2018 – potentially in a range between 6% and 6.5%. A combination of a more expansive fiscal policy and a neutral monetary policy ought to produce a number at the higher end of the range.



The SMI is back in the starting blocks for an upswing. Major resistance is situated at 9550 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	9'412.02	3'312.10	11'601.68	5'265.19	7'106.73	2'803.69	7'595.35	21'602.69	1'051.54
Trend	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	➡
%YTD	1.74%	0.89%	11.66%	10.35%	9.88%	11.30%	5.63%	11.84%	14.47%	7.93%	8.88%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Adecco
(ISIN: CH0012138605, price: CHF 52.50)

Revenue growth in the fourth quarter of 2018 was virtually unchanged, in line with expectations. Earnings were hit by a goodwill writedown linked to German operations, amounting to EUR 270m.

This impairment was due in part to a regulatory change affecting the permitted duration of temporary employment in Germany and also to the slowdown observed both in the country as a whole and in its automotive sector, which accounts for 30% of the group's German-source revenue. The charge has no effect on cash flow or dividend policy. Adecco will continue cost cutting, with the goal of reducing costs by a further EUR 50-70m this year.

The group seems to be more intent on offering a generous dividend. Adecco will recommend paying a dividend of CHF 2.5 per share, representing a yield of around 4.8%. It now describes its policy as "progressive", even if a recession were to hit Europe. However, despite tough conditions in the fourth quarter (which continued into January), the group posted a profit of some CHF 500m for 2018. Moreover, despite the weak showing in Germany, the Americas (36% of revenues) and Japan (7% of revenues) are performing solidly.

The share is a good buy at 10x forward earnings. It remains on our Recommended List.

Celgene
(ISIN: US1510201049, price: USD 85.96)

A cloud of uncertainty is hanging over Bristol-Myers Squibb's takeover of fellow US firm Celgene, as announced in January this year. Lately, asset manager Wellington Management threw fuel on the fire by stating in the press that it "does not believe that the Celgene transaction is an attractive path towards" business for Bristol Myers, in which Wellington holds a 7.7% stake. Following this news, Celgene's share price plummeted by almost 10%, at the opening bell on Thursday.

Bristol-Myers Squibb's record offer of USD 74bn has never fully convinced investors. It values Celgene's share at USD 100 whereas the price has never exceeded USD 91. No wonder, then, that the market is nonplussed. Investors fear that Bristol Myers does not have broad enough shoulders to bear the costs of the buyout and think that other alternatives for generating growth should be explored.

The merger of these two multinationals could generate synergies in the currently crowded market for cancer treatments. Bristol Myers produces Opdivo, a drug that accounts for 25% of its sales, but it lags behind a treatment by rival Merck. Celgene needs to find a successor to its flagship drug, Revlimid.

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