N° 499
11 March 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

COLD SNAP

Highlights:

OECD cuts has growth forecasts

Disappointing ECB support plan

Overview

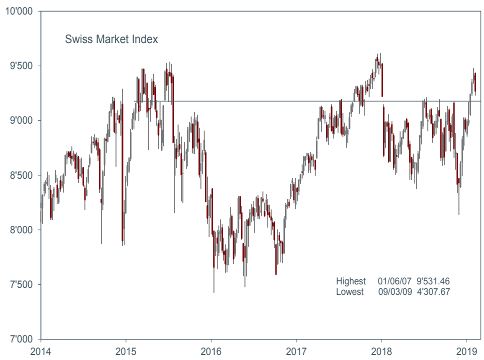
Fears of an economic slowdown have taken center stage, given the lack of news about US-China trade negotiations. The financial sector in particular felt the heat last week, while defensive stocks and sovereign bonds appreciated in value. The yield on the 10-year Bund fell to 0.06%.

The OECD has warned that hazy conditions arising from trade disputes and Brexit are hurting the global economy, leading it to cut its growth forecasts. The global projection has been reduced from 3.5% to 3.3% for 2019 and from 3.6% to 3.4% for 2020. Concerning China, GDP growth is expected to be 6.2% this year versus the 6.0-6.5% range announced by national authorities.

Investor sentiment was also tarnished by confusing messages from the ECB. Its new plan to bolster support for the economy, announced last Thursday, did not please. The ECB slashed forecasts for Eurozone GDP growth from 1.7% to only 1.1% for 2019, but it was the inflation projection (1.2%) that took investors aback. The next rate rise has been put back to 2019, and the cheap money will continue until March 2021. Initially, the surprise announcement of another round of bank financing – TLTRO mark III, beginning in September – was taken positively. Ultimately, however, what the ECB gives with one hand, it takes back with the other, in that low interest rates are constricting banks' margins. Making matters worse, the eligible assets of European banks have decreased since 2016, concurrent with a deterioration in balance sheets.

Economic indicators in China have heightened market fears. February's exports were far from impressive, plunging by 20.7%, and imports at the same time slowed. The benefits from the Chinese New Year and related early buying during December have waned. Meanwhile, Donald Trump's "America first" policy has so far not had the expected effect in stemming imports. Despite the increased duties on many products, the US trade balance of goods showed a record deficit of $891bn in 2018.

Topping a week full of uncertainty, the US jobs report showed that only 20,000 new jobs had been added in February versus the 165,000 expected. This is partly due to polar temperatures. However, employees seem to be gaining more from economic growth, with a 3.4% increase in wages over the past 12 months. This can be interpreted as good news for consumer spending – a major component of US growth.



The SMI failed to overcome resistance at 9550 points. The next few days will set the tone for the future. Short-term support is located at 9200 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	1.01	1.13	9'268.36	3'283.60	11'457.84	5'231.22	7'104.31	2'743.07	7'408.14	21'025.56	1'030.13
Trend	→	→	→	→	→	→	→	→	→	↓	↓
%YTD	2.66%	0.61%	9.95%	9.40%	8.51%	10.58%	5.59%	9.42%	11.65%	5.05%	6.66%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

LafargeHolcim

LafargeHolcim
(ISIN: CH0012214059, price: CHF 48.24)

The cement giant has reported 2018 results. Net profit is back in positive territory at over CHF 1.5bn. The recommended dividend will be CHF 2.00, representing a yield per share of 4.1%.

The encouraging outlook issued by the group's management is noteworthy. As in the second half of 2018, it expects sales to continue increasing in the 3-5% range during 2019, spurred on by strong global demand. EBITDA is expected to increase by at least 5% this year.

LafargeHolcim is restructuring by making significant reductions in administrative overheads. This cost saving is projected at more than CHF 400m. It is also worth noting that net debt plunged by 5% in 2018 (CHF -800m).

Following on from this, the group sold its Indonesian subsidiary at the beginning of the year for CHF 1.5bn, which should further accelerate the debt-reduction measures undertaken.

At current levels the stock is fairly valued relative to peers, trading at 13.5x forward earnings.

BARRICK

Barrick Gold
(ISIN: CA0679011084, price: USD 12.93)

The pick-up in gold prices since the summer of 2018 has triggered a series of mergers and acquisitions in the gold-mining industry. The latest bid has been placed by Canadian company Barrick Gold for American competitor Newmont Mining. The two are fighting for global top spot in terms of production.

Business wise, Barrick is specifically targeting mines located in Nevada. It says that folding them into its own processing and transport activities would generate $7bn in synergies. These synergies are the only argument that have been put forward to convince Newmont's shareholders since Barrick is not offering an acquisition premium. All this comes at a time when Newmont itself is acquiring Goldcorp, a Canadian company. Barrick had earlier picked up Randgold Resources, a South African company.

Over the past five years, Newmont's share price has increased by 40%, while Barrick's has plunged by 30%. So if Newmont's shareholders do tender their shares, it won't be because of Barrick's managerial skills.

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