

FLASH BOURSIER

RUMOURS OF IMMINENT TRADE DEAL BUOY EQUITY MARKETS

Highlights:

Recovery in US job market

Eurozone manufacturing stuck in a rut

Overview

Last week's economic stats were not exactly inspiring, but mounting hopes for the signature of a compromise deal between China and the US in the next four weeks kept the mood in markets firmly 'risk-on'. This sustained the uptrend on equities.

No tangible elements have come to light between Washington and Beijing yet, but what counts is that investors are believing hard. Some say that most of the sticking points have been dealt with, which was good enough to sustain a positive atmosphere last week. The prospect of the US cancelling duties on imported Chinese goods – as requested by Beijing – remains as uncertain as ever. But none of the hurdles look unsurmountable. The pledge by China's vice-premier Liu He to instigate reforms in China was praised by US trade representative Robert Lighthizer, even though several issues are still to be resolved. Meanwhile, President Trump has said that something monumental could be announced in the coming weeks.

The US labour market had shown signs of losing steam in February but bounced back in March, with a total of 196,000 job additions. The workforce participation rate is still relatively low at around 63%. The average wage was up by 3.2% year on year, short of the 3.4% consensus forecast. Thus, there is no sign that

employers are needing to offer higher wages to lure workers, which is supportive to the corporate earnings outlook and justifies the Fed's stance to hold off on rate rises for the time being.

The poor state of manufacturing in the Eurozone has also been grabbing the headlines. The Eurozone PMI for the manufacturing sector in March clocked in at its lowest level since 2013, at 47.5. Germany – a major exporter – again showed that it was in trouble; only Spain did better than expected. In contrast, the index for services (which still accounts for two-thirds of the Eurozone's GDP) perked up to stand at 53.3, which will be positive for growth. The month-on-month upswing in Germany's industrial production (+0.7%) was a pleasant surprise, even though the recovery was mainly delivered by construction and domestic spending as opposed to exports. In the US, the manufacturing sector continues to steam ahead. But the latest retail sales dipped by 0.2%.



The SMI was last week back trading at its recent high. Uptrend is expected to continue but at slower rate.

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	1.12	9'541.15	3'447.47	12'009.75	5'476.20	7'446.87	2'892.74	7'938.69	21'807.50	1'085.14
Trend	➡	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
%YTD	1.85%	-0.30%	13.19%	14.86%	13.74%	15.76%	10.68%	15.39%	19.64%	8.96%	12.36%

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SPOTLIGHT ON STOCKS



EMS Chemie (ISIN: CH0016440353, price: CHF 582)

EMS Chemie, a producer of speciality chemicals, reported forecast-busting revenues for its first quarter, 5% above estimates. The top line was 1.5% higher than the 12 months earlier but currencies ate into profits marginally.

In contrast, guidance is slightly less gung-ho for the rest of the year, basically because of the state of the world. EMS generates 95% of its sales outside Switzerland and is highly dependent on the automotive industry – its core market. It does, however, expect earnings on a par with 2018.

The group has to date not been particularly active in the US but is making useful inroads, showing that investments in this market over recent quarters are warranted.

The share is fairly valued relative to its peer group.



Michelin (ISIN: FR0000121261, price: EUR 111.50)

The group has reiterated all its 2020 financial targets. It is also buying back stock, having placed EUR 500m on the table for this purpose. For 2020, the group is aiming for operating profit of EUR 3.7bn and free cash-flow upwards of EUR 1.7bn. Michelin plans to continue growing in high-margin segments such as mining and connected mobility.

To tackle the challenges ahead, Michelin is banking on innovation in the materials it uses (reinforced polymers, recycling, 3D printing and hydrogen project with Faurecia) and trade services (connected mobility and fleet management).

The group continues to diversify in guide-books and restaurant ratings. In 2017, Michelin acquired UK firm Bookatable, the European leader in online restaurant bookings, and bought a 40% stake in the Robert Parker Wine Advocate and Fooding guides. In late 2018, Michelin also acquired Tablet, an online travel agency based in New York that selects luxury stays for its clients.

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