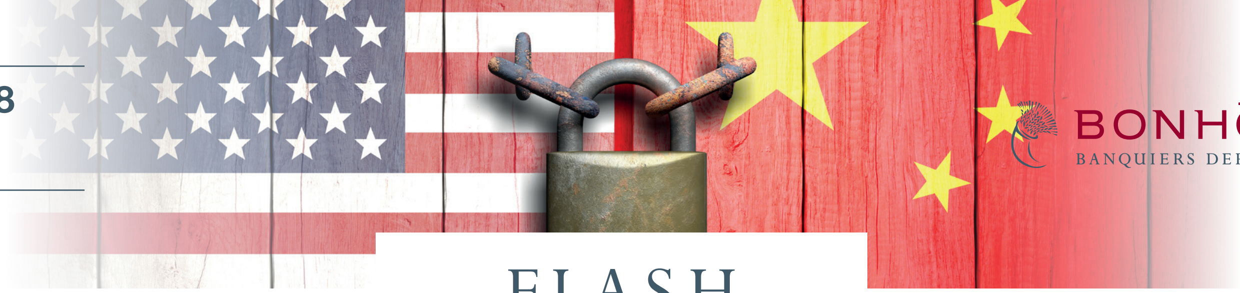

N° 508
13 May
2019

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DEADLOCK IN US-CHINA NEGOTIATIONS

Highlights:

Equity markets hit by tirade of tweets

German GDP expected to edge up in Q1

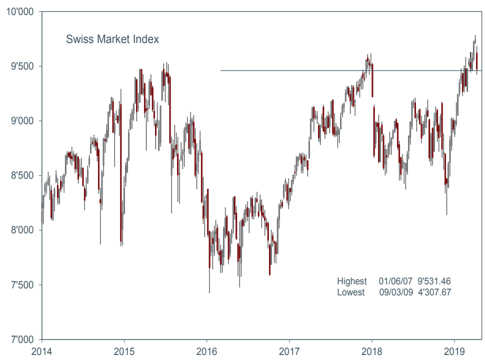
Overview

Negotiations between US and Chinese delegation ended in stalemate last week, with Washington accusing Beijing of backing down on several crucial points. The threat made by the Americans, i.e. imposing customs duties on the remaining Chinese imports not currently concerned by tariffs, would hurt both sides if implemented. Customs duties could extend to computers, smartphones and textiles, for which US consumers are highly dependent on China. According to calculations, the cumulative effect on Chinese GDP could be around -0.3%. For the US, the estimated damage to GDP could be -0.2%, plus some extra inflation. Industrial and tech stocks faced a testing time last week but, more importantly, investor confidence seeped out of equities as whole. Even so, we remain hopeful for a trade deal. Moreover, the extremely low rate environment is supportive to the share valuations.

At first glance, the news is unlikely to improve soon. Donald Trump's series of tweets, in which he has repeated that matters could be much worse for Chinese trade if he is re-elected in 2020, shine a light on how he is thinking, namely that he believes the Chinese want to buy time in the hope that a Democrat president will enter the White House. On the positive side, both parties seemingly want to continue talking. A meeting has reportedly been scheduled between Chinese president Xi Jinping and Donald Trump at the G20 summit in late June.

Macroeconomic indicators are currently playing second fiddle to the ups and downs of the trade negotiations. Still, the key figures – which this week will mainly concern China – should still attract attention. The numbers will range from industrial production and retail sales to business investment in new capacity. It is estimated that the Chinese economy's growth trend stopped slowing at the beginning of the second quarter.

According to the consensus, German GDP for the first quarter of 2019 is set to rise by 0.4% as weak manufacturing output is offset by the strength of services and construction sectors.



Responding to the renewed trade spat, the SMI retraced to support at 9450 points. We expect it to appreciate calmly then test the 10000 mark.

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	1.14	9'472.83	3'361.05	12'059.83	5'327.44	7'203.29	2'881.40	7'916.94	22'258.73	1'033.44
Trend	→	→	↓	↓	→	↓	↓	↓	↓	↑	↓
%YTD	3.02%	1.01%	12.38%	11.98%	14.21%	12.61%	7.06%	14.94%	19.32%	11.21%	7.01%

(Daten vom Freitag vor der Publikation)

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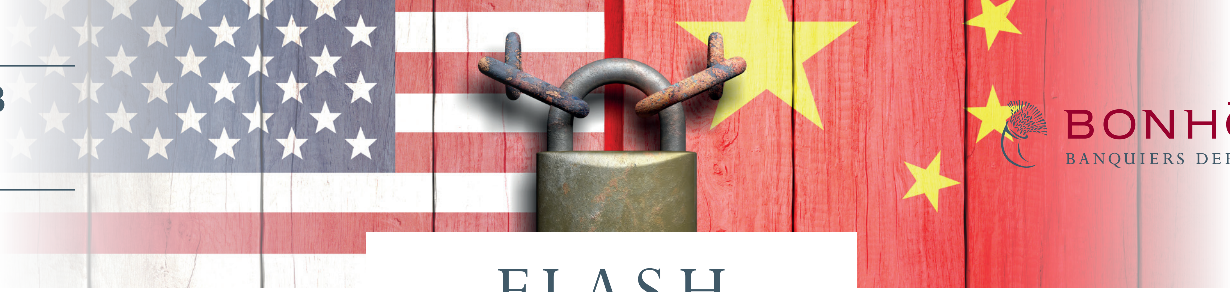

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SPOTLIGHT ON STOCKS

Uber
(ISIN: US90353T1007, price: USD 41.57)

Uber made a shy start on Wall Street, losing 7% on its first day of trading. Its market capitalisation is now situated below $70 billion. The problem is that Uber was already cautious in setting its IPO price at $45.

The company has recently diversified. Its future no longer depends solely on chauffeur-driven cars – the business that has made it world famous. Uber has also made bicycle and scooter services one of its main areas for business development. These investments are part of a broader strategy to offer a complete package of services from within a single application.

The company's top-line performance is impressive. Last year, sales exceeded $11 billion, rising by more than 40%. On the downside, the group is struggling to be profitable. Uber recorded a loss of $3 billion in 2018, down slightly from the $4 billion reported for the previous year. The loss for the first quarter was still a whopping $1 billion.

This inability to achieve profitability remains a source of uncertainty. The group's short-term message on its margins is not particularly reassuring either

PostNL
(ISIN: NL0009739416, price: EUR 1.85)

The Dutch postal services incumbent has cornered 70% of the Dutch market. Last February it offered to buy domestic competitor Sandd. The transaction has not yet been authorised by the authorities. But if it is successful, the group's market share will increase to almost 100%. PostNL's business is divided into two segments contributing equally to revenues. These are:

1. Mail distribution, for which the group has a universal service mandate from the government (this segment is declining throughout Europe)
2. Parcel distribution, which is expanding on the back of e-commerce
3.

PostNL also has subsidiaries abroad, the largest of which is in Belgium, where its parcel delivery network covers the entire country.

First-quarter results were a mixed bag but guidance for 2019 was reiterated. The stock is cheaply valued, trading at an exceptionally low 5.5x 2019 earnings (50% below the five-year average) and the enterprise value to EBITDA ratio is less than 4x (20% below its five-year average).

Additionally, the dividend yield exceeds 12%. The share is part of our buy list.

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