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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

EQUITY MARKETS IN A RELATIVELY CALM STATE

Highlights:

Further US tariffs delayed

Chinese economy showing signs of slowing

Overview

Financial markets have to some extent brushed off concerns about the US-China trade tiff. A way out is seeming increasingly unlikely, if recent remarks are anything to go by. Even so, our baseline scenario is that a deal will eventually be done. Too many trade barriers would be harmful to both economies and would do no favours for Donald Trump in the run-up to the 2020 presidential election. The position among investors, as illustrated by bond markets, is that if havoc does break out, they would expect the Fed to dash to the rescue with a rate cut.

The US administration has announced a six-month delay to the introduction of additional customs duties on imports of European and Japanese cars and after-market parts (currently taxed at 2.5%). That is good news for stock markets and definitely a relief for the industry at a time when passenger car sales in China are falling (most recently down 24% year-on-year). The main beneficiary of the news is Germany, which sells around EUR 27 billion worth of motor vehicles into the US each year.

In contrast, Donald Trump's stance on China has hardened. Smartphone manufacturer Huawei has been placed on a blacklist that will restrict access to US suppliers for sourcing its components. For the time being, China has announced that it will tax a whole host of US products, but it is not talking about stopping the purchase of agricultural commodities. Capital flows are decreasing between the two countries. A study shows that Chinese investment in the US fell by 80% in 2018.

The latest tariff increase should be easily absorbable, impacting Chinese and US GDP growth by -0.3% and -0.2% respectively. Inflation is low, which limits the impact of the resulting higher prices on American consumers, thus keeping their positive sentiment intact. For example, the University of Michigan's confidence index, at a 15-year high of 102.4, exhibits a small degree of euphoria.

The Chinese economy is showing signs of slowing. For example, growth in industrial production during April slowed to 5.4% year-on-year, as did retail sales – rising by 7.4% whereas the consensus was expecting an 8.6% increase. These statistics have rekindled the debate about the need for more stimulus measures. In the meantime, the yuan is depreciating, which should help in this respect.

The SMI has bounced up from support at 9450 points and is rising slowly but surely to test 10000 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	9'659.08	3'425.64	12'238.94	5'438.23	7'348.62	2'859.53	7'816.29	21'250.09	996.39
Trend	→	→	→	→	→	→	→	↓	↓	↓	↓
%YTD	2.94%	0.22%	14.59%	14.13%	15.91%	14.96%	9.22%	14.07%	17.80%	6.17%	3.17%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Richemont
(ISIN: CH0210483332, price: CHF 73.10)

The group has reported financial results for its 2018/2019 tax year to 31 March. The figures are worth commenting on. Revenue surged by 27% but this was due to the consolidation of online merchants that were either fully or partly acquired in the year under review.

Yoox Net-a-porter, the main takeover target of which Richemont already owned a large chunk, was the main factor skewing the numbers. Full consolidation boosted revenue. At the same time, the revaluation of the business asset owned before the full acquisition added close to EUR 1.4bn to profit. The value of this asset was inflated by 128%. Concurrently, online retailing is hurting margins. Despite its promise, it is still operating in the red.

Take out the exceptional items relating to the business acquisitions and sales rose by 8%. That was still better than expected. However, margins and net profit fell short of analysts' estimates.

The luxury goods sector historically trades on higher multiples than the market average but Richemont has recently corrected in proportions that may have dragged down the share price to bargain levels.

Smartphone sector
Google / Huawei

The Trump administration has blacklisted Huawei Technologies, making it difficult for the group to purchase products made in the US. Google, whose Android system equips the vast majority of smartphones in the world, said yesterday it has suspended some business with Huawei. Huawei has risen to become the number-two smartphone maker in the world, trailing Samsung and sitting neck and neck with Apple.

Google will no longer provide software, hardware and technical services to Huawei except those included in the Android Open Source Project (AOSP), a royalty-free version of Google's operating system. This is a big decision which means that Google's flagship applications (Gmail, YouTube and Chrome), which are not covered by the open-source license, will no longer be available on future Huawei smartphone models. Google's decision should not have a major impact within China because most of its mobile applications are banned and substituted by Chinese alternatives such as Tencent and Baidu.

Huawei's second-largest market, Europe, is likely to be more affected by this decision. Huawei announced this weekend that it wants to reduce dependency on US-sourced components. The group expects growth to slow as a result of the US decision, but only slightly.

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