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BONHÔTE
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FLASH BOURSIER

LET'S TWEET AGAIN

Highlights:

Import duties set to hit Mexico

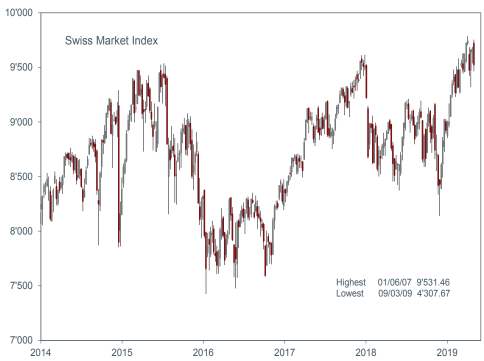
Slowdown in Chinese manufacturing

Overview

From the standpoint of equity investors, the month of May ended as it had begun, with Donald Trump stoking tension through a surprise tweet. That has again revived 'risk-off' sentiment among investors, who have dumped equities globally and driven down yields on sovereign bonds.

The president's target this time was Mexico, America's third-largest trading partner after China and Japan. He brandished the threat of levying duties (yes, those again) on all imports from the country. Import duties are due to start at 5% on 10 June and rise in instalments of 5% until reaching 25% in early October. Behind this outburst: stop illegal immigration into the US by pressuring Mexico into taking drastic measures to stem the tide. If we look at the figures, $350bn of goods transit across the border each year. Over one-third originate from car factories located in Mexico, where foreign carmakers take advantage of cheaper labour. That explains why that sector has plunged in the market. All this fighting talk has fuelled fears of seeing the trade war 'go global', which could then force central banks to adopt an even more accommodative stance. Europe is certainly not a fan of the message as it could be the next target of mounting protectionism.

China's manufacturing sector is slowing down, as shown by the further decline in the PMI indicator to 49.4 in May. Measures to support the economy will most likely be put in place. Beijing this weekend released a 21-page report summarising its stance and blaming the Trump administration, suggesting that a solution to the dispute will be hard to find. The report noted that a large portion of exports come from US companies operating in China. China is also looking into a counter-offensive targeting 'untrustworthy' foreign entities that do not respect market principles, for example by cutting off the supply of goods for no stated commercial reason. China produces more than 90% of the world's 'heavy' rare earths and is also considering limiting such exports. These metals – which are difficult to substitute because of their remarkable properties – are used in a wide range of high-tech products from flat-screen TVs and lasers to smartphones and hybrid vehicles.



The SMI has retraced to support at 9450 points in response to news about new US trade tariffs.

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	9'523.98	3'280.43	11'726.84	5'207.63	7'161.71	2'752.06	7'453.15	20'601.19	998.00
Trend	→	→	→	↓	↓	↓	↓	↓	↓	↓	↓
%YTD	1.88%	-0.69%	12.99%	9.30%	11.06%	10.08%	6.44%	9.78%	12.33%	2.93%	3.34%

(Daten vom Freitag vor der Publikation)

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BONDS REMAIN ATTRACTIVE DESPITE NEGATIVE RETURNS

Value of bonds yielding in the red reaches the 11 trillion mark

Bonds are a must for all investors. Even with interest rates at extreme lows in recent years, debt is so much in demand that investors are willing to accept negative yields.

Buying a bond with a negative yield is tantamount to paying the issuer to whom we are lending our money. Everyone would agree that does not make sense. But if we do not plan to hold the bond until maturity, then there is always the hope of selling it at a higher price. That strategy has worked this year. As at 1 January, the yield on a ten-year Swiss government bond was -0.25%, which looked like a bad deal. However, money invested in this bond would have returned over 3% in the first five months of this year (as the yield on this bond has dropped to -0.5%).

A rising number of issues are showing negative yields. In fact, that value has risen to $11 trillion. There are several reasons. The message from central banks, which have become more accommodative, is exerting downward pressure on interest rates. All this is made worse by the prospect of pedestrian growth in developed countries. Investors are shedding cash assets in favour of a better payoff at the longer end of the yield curve.

The problem is that, today, the upside on bond prices seems limited as rates cannot fall forever. Each investment requires making sure that the return is fair relative to the risk assumed. At some point, a Swiss government bond will look riskier than a Swiss blue chip.

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