N° 512
11 June
2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

SOME BUBBLY TO CELEBRATE

Highlights:

US cancels customs duties against Mexico

ECB leaves rates on hold in negative territory

Overview

Equity markets were already in a firm state towards the end of last week, with low bond yields insulating against the sharper external environment. Now investors can crack open the champagne to celebrate the cancellation – announced on Friday evening – of the customs duties that were due to be levied on Mexican imports.

In a television interview, the Donald Trump said that China will eventually conclude an agreement with the US because it will simply have no choice. He believes that his threats of hefty customs duties mark the path towards a breakthrough. In his eyes, many foreign companies will leave China to avoid having to pay the duties. Admittedly, recent wage increases in neighbouring Vietnam reflect this migration to some extent, but this does not look like a trend to us. Meanwhile, Beijing says it is preparing for a 'long march'. A meeting between Donald Trump and President Xi Jinping, though not officially scheduled, will probably be held on the sidelines of the G-20 Summit on 28 and 29 June, in Osaka.

In response to the potential escalation of the trade wrangling, central banks have recently hinted that they could ease monetary policy. Such news has once again provided a safety net for equity markets.

The European Central Bank (ECB) has pledged to leave its negative key rate unchanged until the first half of 2020. Meanwhile, the Reserve Bank of Australia has lowered its main policy rate for the first time in three years. The climate of political uncertainty is also putting pressure on the Federal Reserve. Fed chair Jerome Powell promised in a speech last week to take appropriate measures in support economic growth. Investors concluded from this remark that the Fed is prepared to lower its policy rate and do so quickly, when the governors next meet in July. The US Treasury yield curve now takes into account a 75bp decrease in interest rates out to the end of 2019. The Fed considers that its role is to cushion economic shocks. Job creation slowed sharply in May to 75,000, and estimates for March and April together represented a downward revision of 75,000. The increase in hourly wages (+3.1% year over year) was also slower than expected, suggesting a slacker growth trend. However, an inverted yield curve and a potential rate cut do not necessarily mean that a recession is lurking around the corner. The US economy still seems to have plenty of momentum.

The SMI is back in the starting blocks to break past its resistance and continue rising up to 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	0.99	1.12	9'749.13	3'378.38	12'045.38	5'364.05	7'331.94	2'873.34	7'742.10	20'884.71	1'007.39
Trend	↓	→	↑	→	→	→	→	↑	↑	→	→
%YTD	0.57%	-0.53%	15.66%	12.56%	14.08%	13.39%	8.97%	14.62%	16.68%	4.35%	4.31%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Alphabet

Alphabet INC
(ISIN: US02079K1079, price: USD 1,080)

Alphabet's share price has fallen sharply since early May (-15%) in response to disappointing revenue and profit guidance and recurring fears of anti-trust measures.

Over 50% of non-US revenue is tied to advertising expenditure. The problem is that companies are cautious about advertising in the midst of the current trade tiff. Additionally, there is currently a wave of criticism coming from politicians (both Republican and Democrat) and companies about the power of big tech. Anti-trust measures could in particular target business models that are based on the collection of consumer data.

In 2013, the Federal Trade Commission launched an inquiry into Google's business practices but this did not go anywhere. In 2018, however, the EU found Google guilty of infringing on anti-trust law in the area of online advertising, resulting in a total fine of €15 billion – which is far from being paid off. If the US Department of Justice were to launch an anti-trust case against Alphabet on the grounds that it is a dominant, unregulated platform, it would then have to determine whether non-competitive practices are harming consumers and competitors. This would be a time-consuming task that would open up a whole debate about the economic value of users' personal data. In return, of course, users have free access to the Google search engine.

The Alphabet share is relatively good value at the moment. The price/earnings ratio is situated below its five-year average and already prices in the macroeconomic and regulatory risk. Investors should expect the growth rate to slow and some margin contraction in the near term. In the long term, however, cloud storage, e-commerce and mobile advertising are still on the rise as businesses.

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