N° 516
8 July
2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

TO CUT OR NOT TO CUT, THAT IS THE QUESTION

Highlights:

Solid US job figures

Uptrend in equity markets

Overview

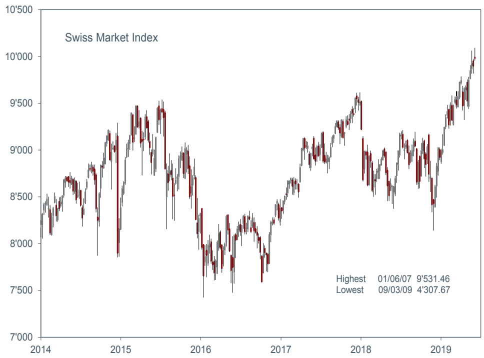
The US official jobs report for June shot past consensus estimates. In total, the US economy added 224,000 jobs last month whereas 160,000 had been expected. One might wonder whether the figure could be high enough to give the Fed some wiggle room. As fears of a recession diminish, the Fed may decide not to give in to pressure from investors and a president who has been overstepping the mark and, as such, maintain its policy rate unchanged in the range of 2.25-2.00% when it next meets on 30 and 31 July.

So far this year, an average of 172,000 new hires have been recorded. Though lower than in 2018 (227,000/month), this is a perfectly respectable number and bodes well consumer spending and GDP as a whole. Hiring is happening across all sectors. The unemployment rate has risen to 3.7% because more people are in the market for work – which is a good sign. Elsewhere, Donald Trump seems to be on a senseless mission as he pursues his trade war, since the US trade deficit has actually widened most recently. Yet global inflation is low and this could justify a preventive rate cut, just in case. It doesn't matter if it's this month or later. Following the jobs report, the market has toned down its expectations of rate cuts by the central bank, although they still remain high.

The appointment of Christine Lagarde as next head of the ECB seems to confirm the trend towards even more monetary easing. As for the US, investors will likely look for some clues in Jerome Powell's testimony on monetary policy before Congress next week.

The easing in the China-US trade dispute at the G20 may justify higher bond yields. But the truce is brittle. For one, China has provided scant detail about its planned purchases of goods. It is this perception that is maintaining the attractiveness of the asset class. In equity markets, the perceived reduction in tensions between China and the US, helped by the generally positive outcome for stress tests on US banks, contributed to an uptrend last week. Financials did particularly well.

In contrast, manufacturing indicators have been persistently weak (below the 50 mark almost everywhere), pointing to a slide in investment spending, and this is weighing on global demand for manufactured goods and the share-price performance of industrials.



We are neutral on the SMI. Until it overcomes 10000 points, retracement to 9540 points remains possible.

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	1.11	9'980.22	3'527.98	12'568.53	5'593.72	7'553.14	2'990.41	8'161.79	21'746.38	1'059.93
Trend	➡	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
%YTD	1.02%	-1.28%	18.40%	17.54%	19.03%	18.24%	12.26%	19.29%	23.01%	8.65%	9.75%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Emerging markets/China

Emerging markets have underperformed developed markets year to date, suffering from renewed trade tensions between China and the US as well as economic indicators falling short of expectations.

We believe that emerging economies will catch up in the second half of the year as the trade dispute nears a possible resolution, interest rates remain low and the dollar hovers more or less where it is.

The overall performance of shares making up the MSCI Emerging Markets Index already largely price in a cyclical downturn in China. This factor should limit any short-term decline in asset prices and pave the way for a rally as the recovery progressively takes hold. A recovery in China is generally accompanied by price appreciation in emerging market equities.

Within the EM space, we see China as offering the best opportunities. The Chinese government will continue to implement measures to support the economy as it seeks to maintain growth at 6.00-6.5%. This will include strengthening fiscal measures, chief among which tax breaks. The recovery in infrastructure investment is expected to remain on course. The Chinese government has committed to supporting the issuance of special bonds to local governments to facilitate the funding of major projects.

China is expected to step up the rate of these bond issues, which are expected to attain a monthly average of CNY 300bn (USD 43bn) over the next 3-4 months. From a structural point of view, Chinese A shares (which until recently were reserved for Chinese residents) are set to continue benefiting from increasing inclusion within international benchmark indices. In the long term, Chinese stocks – including those listed in Hong Kong and the US – are set to represent 45% of the MSCI Emerging Index.

Today, a large proportion of investors still underweight China in relation to its clout in world markets.

Authors:

Jean-Paul Jeckelmann,
CIO, CFA

Julien Stähli,
MBF Boston University

Françoise Mensi,
Ph.D in Economics.

Pierre-François Donzé,
M. Sc. in Economics

Valentin Girard,
CFA, MScF Université de Neuchâtel

Contact:

Banque Bonhôte & Cie SA
2, quai Ostervald
2001 Neuchâtel / Switzerland
T. +41 32 722 10 00
contact@bonhote.ch
www.bonhote.ch

facebook.com/
banquebonhote

linkedin.com/company/
banque-bonh-te-&-cie-sa

twitter.com/
alexnvincent