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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

FED AT THE HELM

Highlights:

Brief inversion on US yield curve

US delays new tariffs on Chinese imports

Overview

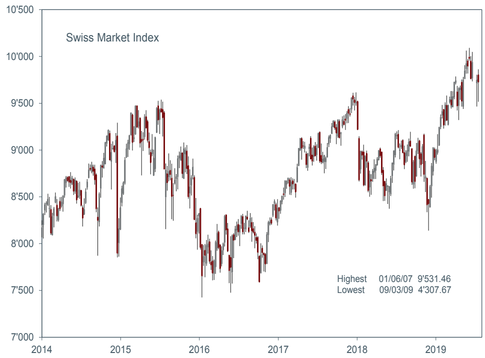
Last week the US yield curve – specifically the segment between ten and two-year Treasury bonds – briefly inverted, triggering a wave of panic in equity markets. An inverted yield curve is commonly seen as a harbinger of recession, but the slope in fact does not provide much information about future economic growth. The commotion in equity markets was made worse by a slew of uninspiring economic data, not helped by the hazy outlook on the next phase of the trade spat, political unrest in Hong Kong and thin summertime trading volumes.

Donald Trump postponed the 10% duty on extra Chinese goods to 15 December, including mobile phones, laptops and gaming consoles. The notional amount of such imports is estimated at USD 160bn. Apparently, the decision was made so that festive-season sales would not take a hit. Hence this was more a sign of Donald Trump's vulnerability on the internal political front than a goodwill gesture towards China. After all, why should the Chinese make tough decisions to diffuse the trade war when they can wait for Donald Trump and his advisors to react to electoral pressure each time the US stock market nosedives?

China's manufacturing base continues to slow. Growth in industrial production, at 4.8%, was below forecasts. The same applied to retail sales, which rose by 7.6%. Following the disappointing figures on bank lending, this news strengthens expectations for further stimulus measures.

Meanwhile in the US, consumers are showing resilience, with retail sales rising by 0.7% in July – a vital consideration given that two-thirds of economic growth stems from consumer spending. Helping here is the low rate of unemployment.

The market now expects 60 basis points of Fed rate cuts this year followed by 50 basis points in 2020. The downtrend in long-term yields is probably more than can be justified by the slowing economic output. More likely, this is a move aimed at pocketing capital gains. For Europe, it is important to note that, in Germany, the yield curve is not a reliable indicator of recession and, in Italy, the curve is far from inverted. Still, both countries are considered to be in 'technical recessions'. Germany's economy contracted by 0.1% in terms of GDP in the second quarter, dragged down by lower exports of machine tools and motor vehicles. Both are traditionally supportive to the economy but have been wobbling for the past year. In contrast, domestic demand remains brisk.



SMI: After facing a second sell-off, the SMI bounced again by 2%, moving upwards of the 9550 support. Upward trajectory is expected in the coming days.

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	0.98	1.09	9'728.39	3'329.08	11'562.74	5'300.79	7'117.15	2'888.68	7'895.99	20'418.81	970.27
Trend	→	→	→	↓	↓	↓	↓	↓	↓	↓	↓
%YTD	-0.34%	-3.74%	15.41%	10.92%	9.51%	12.05%	5.78%	15.23%	19.00%	2.02%	0.46%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

JD.com
(ISIN: US47215P1066, price: USD 31.29)

JD.com, a Chinese e-commerce firm, last week reported a remarkably strong set of earnings. Operating profit and margins beat analysts' expectations. Guidance for 2019 was also nudged up, giving investors a sense of confidence in the group.

The share is attractively priced at current levels, including relative to peers. The group is primely positioned to ride the e-commerce wave in China. This is a fast-growing sector because the number of potential customers is huge, and the percentage of online sales is increasing all the time. JD.com is investing heavily in logistics – an area in which the group has an edge over competitors – to expand business further.

JD.com is comparable to Amazon in terms of business model. Both sell only from among the products they have in stock (unlike Alibaba, for example). On the basis of multiples, JD.com is far more attractive as the share is trading on 0.6x sales compared with Amazon's 3.5x.

Our view: JD.com offers solid upside based on current multiples. Additionally, its business is not severely affected by the trade war between China and the US.

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