N° 530
14 October 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

TRUCE ON TARIFFS

Highlights:

Partial trade agreement between the US and China

Agreement in principle on Brexit between the EU and the UK

Overview

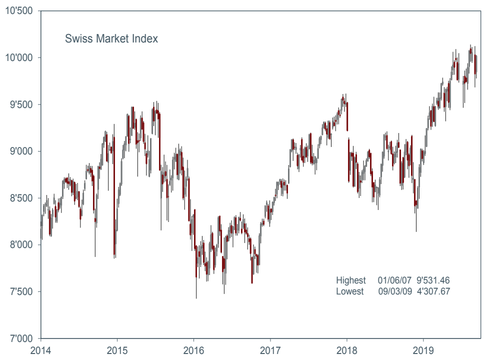
The news was encouraging at the end of last week as the possibility of reaching satisfactory compromises emerged in the trade war and the Brexit stand-off. Banking shares got a boost from a rebound in long-term interest rates. The cyclical sectors were buoyant, led by European automobile stocks on hopes of a brighter future with no trade barriers.

The icy relations between America and China have thawed following the partial agreement that was signed covering agriculture, currencies and certain aspects of intellectual property protection. This reduces the immediate risk of a new hike in US tariffs (which were to rise tomorrow from 25% to 30% on USD 250bn of Chinese imports), although the previous duties remain in force. Meanwhile, despite its occasional lulls, the trade war continues to affect the global economy. International trade is now forecast to increase by just 1.2% this year. China's trade has been particularly hard hit, with exports dropping further than expected in September. The IMF has warned that its estimates of global economy growth will be revised downwards.

The chances of a deal between Britain and the European Union have increased following a meeting between the UK prime minister, Boris Johnson, and his Irish counterpart, Leo Varadka, who jointly announced having found an arrangement. The EU negotiator, Michel Barnier, has given the green light for a new round of talks, but time is running short as the EU Commission is due to meet this Thursday (17 October) and there are only two weeks left before the "divorce" set for 31 October.

In these circumstances, central banks remain a supporting factor. US Fed Chairman Jerome Powell has hinted that his institution could further ease its monetary policy. The next FOMC meeting is scheduled for 30 October but any further cut in the federal funds rate seems much likelier to come at the end of December. The Fed's balance sheet has begun to expand again with the US central bank buying back USD 60bn of short-term T-bills a month until the second quarter of 2020. It has nevertheless pointed out that this does not constitute a resumption of quantitative easing, but rather a mainly technical measure designed to reduce the strains on liquidity observed in the money market.

The Q3 company reporting season begins this week, kicked off by the big US banks. Expectations are generally modest, with earnings estimates on the whole revised downwards for the main benchmarks.



The SMI bounced back nicely and is once again above the 10,000-point mark. It should continue advancing towards 10,400.

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	1.10	10'017.39	3'569.92	12'511.65	5'665.48	7'247.08	2'970.27	8'057.04	21'798.87	1'011.54
Trend	→	→	→	↑	↑	↑	→	→	→	→	→
%YTD	1.56%	-2.22%	18.84%	18.94%	18.49%	19.76%	7.71%	18.49%	21.43%	8.91%	4.74%

(Daten vom Freitag vor der Publikation)

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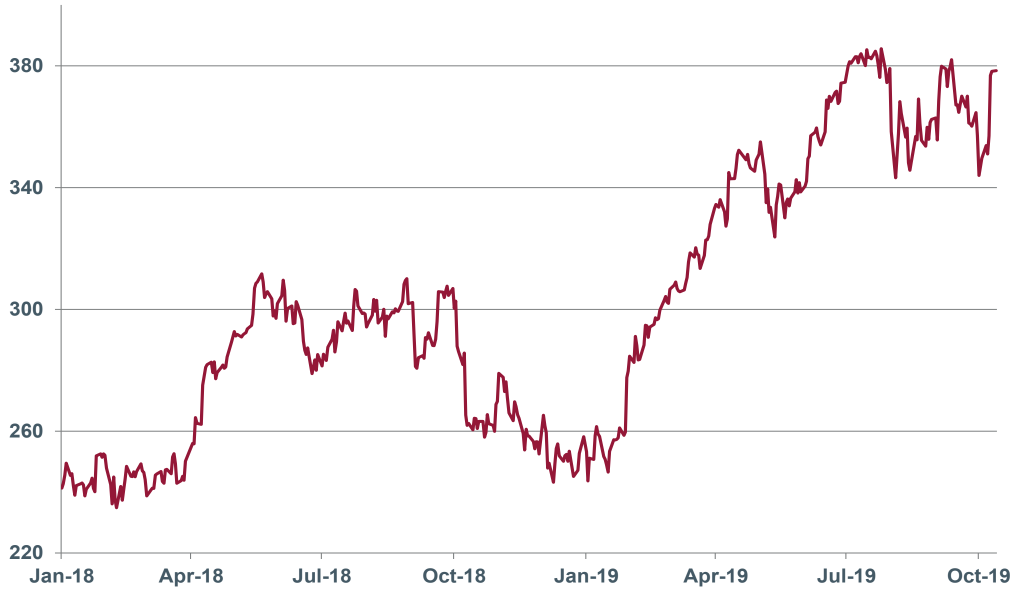
SPOTLIGHT ON STOCKS

LVMH (ISIN: FR0000121014, price: EUR 378.20)



The luxury group LVMH beat forecasts with above-consensus Q3 earnings.

Revenues were up 17%, including 11% organic growth at constant exchange rates. The troubles in Hong Kong did not cause a drop in sales of its luxury goods.

Fashion and Leather Goods continued to lead the other divisions with 19% organic growth. The appeal of the group's star brands, Louis Vuitton and Christian Dior, seems unabated. Despite the headwinds, they recorded good progress in Asia. Watches and Jewellery got a push from Bulgari's sales while Spirits were up 8%, with neither segment showing signs of slowing down.

In contrast, lower traveller traffic and shop closures weighed on Sephora and its duty-free subsidiary DFS.

LVMH is holding up well thanks to the leadership positions of brands in each of its divisions. At 22.7 times 2020 earnings estimates, the stock is not really expensive.

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