N° 532
28 October 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

INVESTORS REACTING CALMLY TO NEWS

Highlights:

Brexit extension agreed

Corporate earnings top estimates

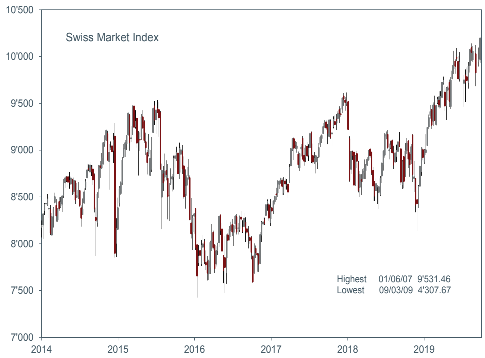
Overview

Risk assets were bid upwards last week following an easing in geopolitical stress. A 'hard Brexit' now seems less likely, and the UK will be given until 31 January 2020 to get its act together. Meanwhile Donald Trump is confident that a partial trade deal can be clinched with China around mid-November in Chile.

Economic growth remains lacklustre, pinned back by higher trade barriers – which are hampering world trade flows and business investment. Countering this, the central banks are keeping the cash flowing in, which is at least encouraging the general mood. Last Thursday, ECB governors voted unanimously to keep policy unchanged. Mario Draghi, his last time at the wheel, sounded a sour note about the Euro area's growth outlook, just as latest PMI numbers had confirmed stagnation. Over in Germany, the services reading dropped to 51.2 versus the expected 52, while the manufacturing indicator eked out a moderate increase up to 41.9. The Ifo index (tracking the business climate) was a mere 91.5. Calls for the German government to start spending are becoming deafening but it insists on maintaining a balanced budget. In the US, durable goods orders most recently fell (especially in transport), but the manufacturing PMI recovered to 51.5.

Reporting season is under way and results broadly have been higher than expected, which has provided further support to equity markets. Investors have reacted positively to guidance, despite a disappointing outlook from industrials such as Boeing and Caterpillar, reflecting a renewed appetite for risk. Likewise, the share price of Amazon, which forecasts a low advance in volumes during the festive season and reduced cloud business, hardly budged. Last week the semiconductor sector was trending upwards while luxury goods firms such as Hermès and Kering, which had been causing concern following the events in Hong Kong, did fine in the end.

On the outcome of the Fed meeting ending this Wednesday, futures contracts price in a 90%-plus probability of a quarter-point reduction in the Fed Funds rate, justified by deteriorating economic conditions. Job creation is estimated at just 95,000 in October and GDB growth at 1.6% year on year in the third quarter, according to consensus figures. Equity markets have been on the rise since early October but this round of appreciation does not bear the hallmark of the exuberance often preceding sharp corrections. Overall, average exposure to equities has declined in recent months. Geopolitical fears continue to linger but investors are reacting to news calmly.



After showing signs of weakness, the SMI came up with another high last week. Scope for rising to 10400 points and beyond remains intact.

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	1.10	10'197.09	3'624.68	12'894.51	5'722.15	7'324.47	3'022.55	8'243.12	22'799.81	1'035.84
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
%YTD	1.33%	-2.27%	20.97%	20.77%	22.12%	20.96%	8.86%	20.57%	24.23%	13.91%	7.25%

(Daten vom Freitag vor der Publikation)

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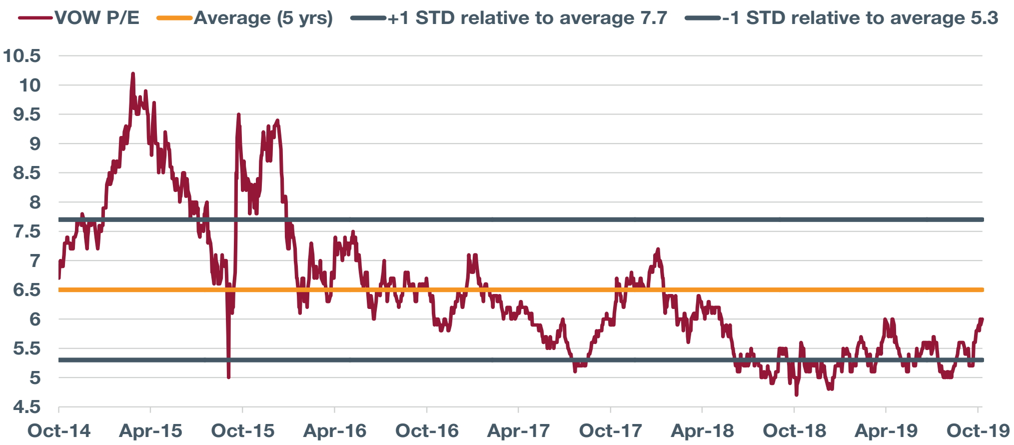
SPOTLIGHT ON STOCKS

Volkswagen's P/E



The automotive sector is trading on 6 times earnings, representing a 20% discount to its long-term average. This would suggest that margins are on a downtrend. For the past two years, the share prices of carmakers have been slipping. The sector index is sitting at a 15-year low.

Share prices bounced in September, fuelled by demand in Europe and the US, whereas overall demand has been more or less stable for two months. Even so, the automotive sector has underperformed the broad market year to date by a wide margin. Analysts doubt a demand recovery in China or in Asia (-3% in 2018 and -8% slated for this year). Blame this on the trade war and the host of other challenges the industry is facing such as new CO2 emission standards and taxes, raw material prices and investor confidence.

Investors have understood that the automotive sector is a mature market in the throes of technological change – a process from which carmakers cannot sit out, if they want to survive – and acted accordingly.

In Europe, the Peugeot and Volkswagen groups seem best placed to develop electric cars because their generous cash flows enable them to invest massively in research & development. At the other end of the scale BMW and Renault, both seeing margin contraction, have revised down financial targets for 2019. Both groups have also faced unsettling changes in their boardrooms.

Hence the current valuation prices in the uncertainties hanging over the automotive sector, for which catalysts are definitely lacking in the near term. How these companies succeed in making the technological jump will be decisive.

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

Karine Patron,
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