N° 545
10 February 2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

A WEEK SPENT RECOVERING

Highlights:

Markets ebb and flow with the coronavirus

Lower factory orders in Germany

Overview

Markets mainly moved last week in response to news about the spreading coronavirus and the fallout this may have on Chinese and global economic growth. Leading equity indices pulled up by between 4% and 5% relative to the previous week, encouraged by signs of containment, news of a vaccine in the works and finely calibrated monetary and fiscal measures by Chinese authorities. The People's Bank of China last week announced it was injecting 1.7 trillion yuan into the banking system for lending to companies and cut the short-term funding rate for banks. Beijing also reduced customs duties on USD 75bn worth of US imports. Also contributing to the positive mood was the fact that many companies beat sales and earnings estimates.

But the enthusiasm died down as the weekend approached as investors feared having become complacent. It is still too early to gauge the impact of the coronavirus on global economic growth. Yet in China, it will certainly dampen the uptrend in manufacturing indicators and consumer sentiment, both of which had been improving moderately. And then, the Chinese economy is far more tightly integrated into the global economy than at the time of the SARS epidemic in 2002 and 2003. Services are more preponderant in the Chinese economy, and it will take time before production output is back to full swing. Gaps have opened along supply and selling chains, leading to store closures. Stoppages have hit the tech and automotive industries especially hard.

Factory orders in Germany fell by a sharp 2% in December whereas a 0.6% increase had been expected – a sign of how exposed the European economy is to any deviation in Chinese demand. In the US, job creation figures for January were encouraging. The 225,000 positions added were 65,000 higher than expected. This coming Friday, retail sales for January will show whether consumers are as chirpy as ever. Last month inflation in China hit an eight-year high at 5.4%, with the price of food surging by 20.6% year on year, accelerating in response to measures to stamp out the epidemic.

Jerome Powell's congressional address this week on the state of the economy will be watched closely to see if the novel risk to the economic outlook represented by the coronavirus will lead him to depart from his neutral message on monetary policy. The drop in the 10-year Treasury yield to 1.6% would suggest that the market expects a series of rate cuts.

SMI is back at 11000 points. At the moment there are no news hindering investments in equities. Rising above 11200 points would mark an extension upwards of an ascending channel.

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	1.07	11'001.53	3'798.49	13'513.81	6'029.75	7'466.70	3'327.71	9'520.51	23'827.98	1'091.64
Trend	→	→	↑	↑	→	→	→	→	↑	→	↓
%YTD	1.15%	-1.43%	3.62%	1.42%	2.00%	0.86%	-1.00%	3.00%	6.11%	0.72%	-2.07%

(Daten vom Freitag vor der Publikation)

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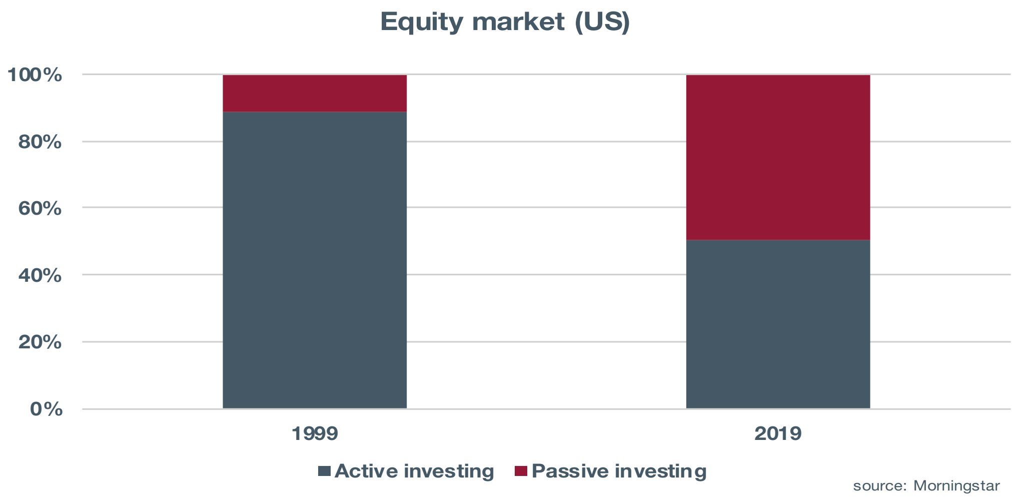
PASSIVE INVESTING RIDING HIGH



In 2019, the volume of passively managed assets (the strategy of which replicates a benchmark) exceeded the volume of actively managed assets, according to Morningstar.

Financial markets are by no means immune to the increased prominence of automated investing. If an institution invests 10 million in an index tracker, in one click it will hold the entire reference market. How's that for practical?

The problem is that if a majority of market participants buy or sell the entire index, the trades will propel the broad market upwards or downwards, with no distinction as to individual securities. The make-up of index trackers does not depend on the business models of the selected companies, nor their multiples, or returns, but solely on their size as measured by market capitalisation.

That makes the going hard for active managers, the so-called stock pickers, who screen companies from every angle to determine which ones to buy and potentially to sell short.

The game has become hazardous, and many shining stars of the active world have thrown in the towel in recent months. Hence as we manage investments, we need to take this factor into consideration to ensure that we are not swimming against the tide.

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