N° 548
2 March
2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

VOLATILITY HITS FEVER PITCH

Highlights:

Equities head sharply south

Pressure on central banks to stimulate demand

Overview

Equity markets are all in a panic. The VIX tracking the S&P 500 (known as the Wall Street 'fear gauge') was spiking at 40 on Thursday and Friday. If this reaches 49, might as well say the patient is dead. Fear has become the dominant mood, especially after the Center For Disease Control (CDC) added its voice to warn of an impending pandemic.

Last week's market plunge was massive by historical standards, on a par with the downswings seen at the start of the financial crisis in 2008, in the aftermaths of hurricanes (or Fukushima) or following lengthy strikes, as investors try to put a floor under plunging prices. A downswing of these proportions, affecting every sector, suggests that some hedge funds were forced to liquidate positions. This explains the plunge in the price of gold on Friday – probably to cover margin calls. Sovereign bonds were boosted by a flight to quality and recession fears. Yields on 30- and 10-year paper fell to their lowest levels since the founding of the United States in 1790, while the yield curve reversed its inversion. Italian bond yields did not rise significantly, implying that the virus is seen as a global problem.

Pressure is increasing on central banks and governments to step in and galvanise demand. Several states are planning exceptional spending. Monetary authorities seem reluctant to take action for the time being. The Fed's remit does not include sustaining the stock market in an election year, but it says it will remain flexible. Following Jerome Powell's recent message, a rate cut could be decided at the policy meeting on 16-17 March. The Bank of Japan is also prepared to bring out the big guns to keep financial markets on an even kilter.

The Caixin Index, which tracks Chinese manufacturing, dropped to 40.3 in February – its lowest ever reading. Equities in Mainland China were in better shape than those elsewhere, helped by a fall in new coronavirus cases and measures announced by the government to prop up small businesses. We expect a rate cut, to help lending. There is no longer talk of saving the planet. A rising level of pollution in China would actually be good news at the moment.

At this point we cannot sadly call equities a good deal. For example, the S&P 500 is still trading at 17x forward earnings compared with the average of 15x since 2009. In December 2018, the P/E was just 13.5x. But the extremely low yields are underpinning valuations and portfolio rebalancing as we head into March.

The SMI is in free fall, having plunged to the lower end of its ascending channel. The breached support at 10500 points is this week's resistance.

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	0.96	1.06	9'831.03	3'329.49	11'890.35	5'309.90	6'580.61	2'954.22	8'567.37	21'142.96	1'005.52
Trend	↓	→	↓	↓	↓	↓	↓	↓	↓	↓	↓
%YTD	-0.18%	-1.94%	-7.40%	-11.10%	-10.25%	-11.18%	-12.75%	-8.56%	-4.52%	-10.63%	-9.79%

(Daten vom Freitag vor der Publikation)

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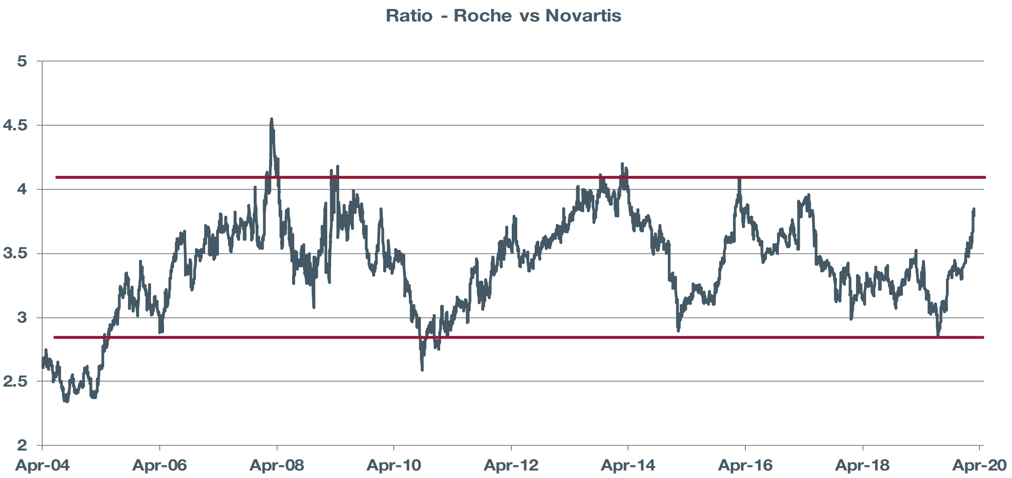
FOCUS ON STOCKS



Roche vs. Novartis

Last week's high-volatility downswing hit the entire market, including Swiss index heavyweights. Roche lost 10.4% and Novartis 13.9% last week.

In addition to the market-wide plunge, Novartis suffered from a research note on the side-effects of Beovu, one of its drugs. The paper warned that the drug, which is indicated for macular degeneration, could in some cases lead to vision loss. Some analysts have lowered sales estimates for this drug.

This event is one of the inevitable ups and downs in the world of pharmaceuticals, which is constantly investing in the research and development of new drugs.

The significant price swings have lowered the Roche-to-Novartis ratio to levels that are attractive for rotation. At current levels, Novartis is more appealing than Roche.

Bear in mind that if the Roche-to-Novartis ratio moves from its current level (3.85) to its lower bound (2.8 – see lower red line on chart), this would correspond to outperformance of more than 25% by Novartis compared to Roche.

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