N° 564
22 June
2020

FLASH
BOURSIER

MARKETS TORN BETWEEN CORONAVIRUS RESURGENCE AND AMPLE LIQUIDITY

Highlights:

Sharp rise in crude oil

Economic recovery seen in the US

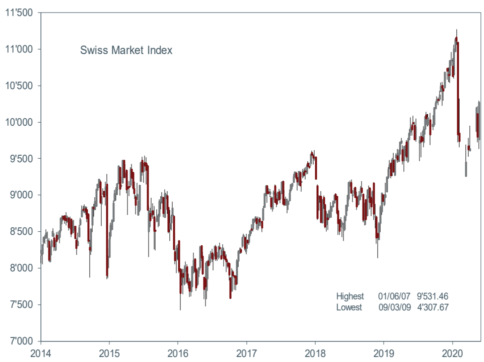
Overview

Financial markets remain volatile territory, dominated by the tenacity of the coronavirus pandemic worldwide. The headlines have flagged increases in the number of cases in a dozen US states including California as well as a resurgence of the virus in such far-flung locations as China and Germany. Nevertheless, equity markets posted gains last week in the US (S&P500 +1.9%) and Europe (Stoxx600 +3.2%) despite some downward tugs. Investors were cheered by statements from the Chinese government, which said it was prepared to step up purchases of US agricultural commodities. The Chinese stockmarket was lifted by news of an index reshuffle that will lead to the inclusion of more high-tech companies.

The price of the crude barrel ended the week up sharply as OPEC offered reassurances that it would indeed cut back on production, while at the same time forecasts are pointing to improved demand. The main support for prices is currently stemming from the return to the market by physical buyers more than from speculative flows.

The significant amount of cash in the system, economic statistics showing a turnaround in the US (retail sales jumped 17% in May) and the hope of a vaccine last week helped to offset fears stemming from the accelerating spread of the coronavirus. There's no doubt that markets will remain erratic in an environment where it is difficult to rely on economic or business fundamentals. The equity trend is moderately bullish even though the earnings outlook has been revised down. High price/earnings ratios have left stocks more vulnerable to bad news, although central banks are providing them with a safety net. Moreover, equities remain attractive relative to bonds.

The Fed's announcement, according to which it will directly buy the bonds of a broad category of companies in the secondary market, underscores its plans to ensure that lending conditions remain flexible. The ECB launched a fourth round of long-term refinancing operations, targeting a total of EUR 1.3 trillion, while the Bank of England will increase its asset purchasing to GBP 100 billion. Overall, central bank purchases are helping to tighten credit spreads. Unsurprisingly, Friday's virtual European summit did not end with a conclusive decision on the EUR 750 billion recovery plan designed to pull Europe out of its historic recession (13% drop in GDP expected for the second quarter).



There is still some room for the stocks making up the SMI index to rise, prospectively to 10500 points.

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	0.95	1.06	10'266.29	3'269.10	12'330.76	4'979.45	6'292.60	3'097.74	9'946.12	22'478.79	1'001.36
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	➡	⬆	➡	⬆
%YTD	-1.58%	-1.94%	-3.30%	-12.71%	-6.93%	-16.70%	-16.57%	-4.12%	10.85%	-4.98%	-10.16%

(Daten vom Freitag vor der Publikation)

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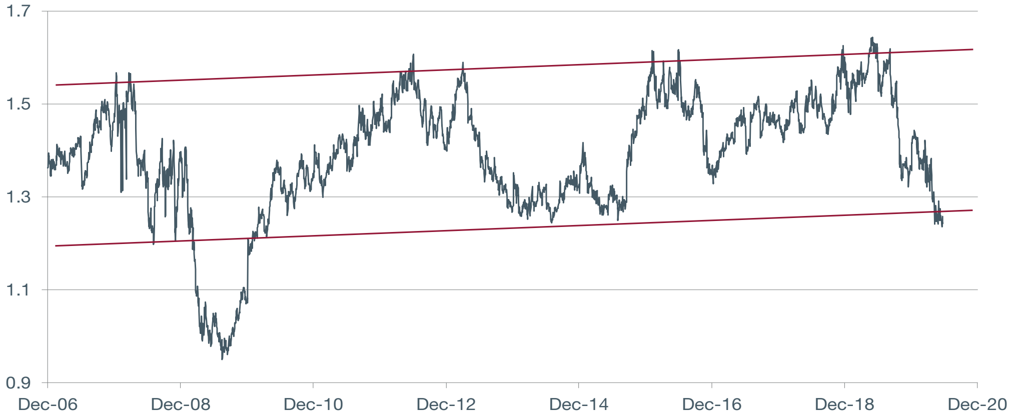
KEEP YOUR EYE ON THE BEER

MSCI Europe Beverages / MSCI Europe Index



Since the beginning of the year, the European beverage industry has lagged behind the MSCI Europe (-17% vs. -12% respectively) just as stores are now reopening. Historically, the sector has traded on a premium to the market, justified by steadier revenues than the average. The sector's P/E has usually been higher than its benchmark index (see chart opposite). However, as lockdowns shuttered businesses and kept people at home, this premium collapsed.

Brewers suffered particularly badly, with Anheuser-Busch's share price down 36% so far this year. But at the same time, they are less exposed to restaurants and bars, where social distancing measures will continue to dampen business.

Anheuser took a particularly big hit during the crisis because of its higher-than-average debt (44% debt-to-assets ratio, compared with 34% for the sector as a whole). But this point should be seen in perspective, based on two reasons:

1. The group has an investment-grade rating of BBB+
2. The yield on its 10-year bond, currently 1%, remained relatively stable during the crisis, demonstrating the market's confidence in the group's solvency

In 2021 the Tokyo Olympics and the Euro soccer tournament will undoubtedly act as positive catalysts for business even if, in the short term, second-quarter results will logically still be bad.

In conclusion, because of the rock-bottom sector valuation, the mass events due to take place in 2021 and the overselling relating to the slightly higher debt than average, Anheuser-Busch is a good candidate for inclusion in a reverse convertible. We'll be keeping a close eye on the stock.

Authors:

Julien Stähli,
Head of discretionary management,
MBF Boston University

Jean-Paul Jeckelmann,
CIO, CFA

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
instagram.com/banquebonhote
youtube.com/banquebonhote1815