N° 567
13 July
2020

BONHÔTE
BANQUIERS DEPUIS 1815

# FLASH
BOURSIER

## POSITIVE MARKET OVERTONES
## BUT INDICES DRIFT SIDEWAYS

**Highlights:**

**Reporting season in the US**

**Central bank liquidity still supporting credit market**

## Overview

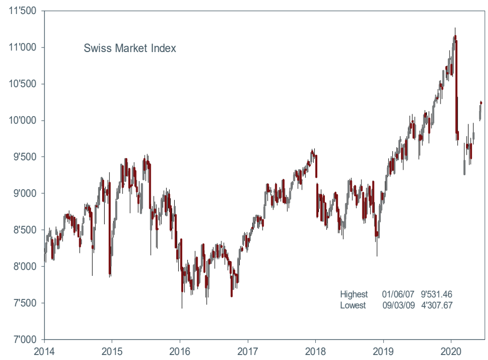
New Covid-19 cases are worryingly spiralling, as illustrated by the record-high 60,000 new ones reported in the US. But investors are still seeing the sunny side. Last week they homed in on imminent promises about vaccines, bidding equity indices higher. Fundamentals are getting better as reflected by an upswing in PMIs for both manufacturing and services. Retail sales are also rising, though at a pedestrian rate.

Reporting season kicks off in the US this week, and this is expected to shed some light on demand trends as well as containing updates on companies' earnings prospects. US banking majors Bank of America, JP Morgan and Citigroup will get the ball rolling. Most likely they remained profitable in the second quarter though are expected to report sharply lower results, having to provision more for loan losses than in the first quarter. With markets remaining volatile between April and June, trading revenues will probably be solid. This outlook on loan losses is probably already priced in, bearing in mind that financials have not recovered to the same extent as the wider S&P 500.

The ECB will provide an update on the radical economy-boosting measures it undertook when it meets this coming Thursday. Then on Friday begins an extraordinary EU summit, bringing together the leaders of the 27 Member States to discuss the EU's long-term budget. They will also hammer out the contours of the post-corona recovery fund, weighing in at a massive EUR 750 billion, which emerged from initial negotiations in June but which has since sparked disagreements. If plans are approved, this would mark the first time the EU has ever borrowed on the market in its own name and a step towards fiscal integration.

Liquidity injected by central banks continues to underpin credit, especially in Europe, where the ECB has so far bought EUR 46 billion worth of corporate bonds – one quarter of total eligible issuance. Technically, conditions are supportive for spreads to continue narrowing as the rate of issuance is set to slow.

In addition China will report second-quarter GDP this week. The consensus forecasts 2.2% year-on-year growth after a 6.8% contraction in the first quarter.




If it can close upwards of 10250 points, the SMI will have a focal point at 10550. If the opposite happens, the nearest support will be 10100 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** | 0.94 | 1.06 | 10'229.97 | 3'296.22 | 12'633.71 | 4'970.48 | 5'935.98 | 3'185.04 | 10'617.44 | 22'290.81 | 1'069.27 |
| **Trend** | → | → | → | ↑ | ↑ | → | ↓ | ↑ | ↑ | → | ↑ |
| **%YTD** | -2.73% | -2.02% | -3.64% | -11.99% | -4.64% | -16.85% | -21.30% | -1.42% | 18.33% | -5.77% | -4.07% |

(Daten vom Freitag vor der Publikation)

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# CHINESE EQUITIES SURGING AHEAD


Last week was a boom time for holders of Chinese equities, with the index comprising the 300 largest caps on the Shanghai and Shenzhen stock exchanges chalking up its best week in five years.

This CSI 300 Index, ailing 13% in the red at its worst point in March, had by late June reverted to the level where it started the year. And the gains have come thick and fast in July, such that the index is now soaring ahead by 18% year to date.

The buying craze in Chinese securities has been spurred by publication of an article in state-owned media encouraging individuals to invest in equities.

The rally could have further to run as households have accumulated significant savings in recent months to ward off the crisis. If confidence recovers, these savings could then be invested in stocks, providing the market with a further boost.

But caution is also advised as we all remember 2015, when this same index was bid up to a spike then proceeded to shed half its value.

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