

FLASH BOURSIER

TRUMP'S HEALTH SCARE SENDS JITTERS THROUGH THE MARKET

Overview

Highlights:

Correction on US equities

Italian PMI beats estimate

Last week culminated in a correction on US equities as Donald Trump's positive coronavirus test stoked the political uncertainty one month before America goes to the polls on 3 November. The sitting president's state of health is complicating the head-to-head battle for the White House. Previous to this news, the first televised debate between the two candidates was marked by personal insults traded on both sides, with the underlying issues – such as measures to help the American economy – barely touched on. Opinion polls currently give Joe Biden an 18-point lead, at 59 to 41.

The global economy continues to recover, albeit moderately. In the US, the September jobs report was disappointing, with less than 50% fewer positions created compared with the previous month (661,000 versus 1,489,000). Republicans and Democrats remain at loggerheads in Congress over whether a new fiscal stimulus package should be introduced, which is another reason why investors should be cautious. The Democrats would like to inject USD 2.2 trillion to help families, schools, restaurants, airlines and aviation workers. This is far too much for the Republicans. If the two sides reach agreement before 3 November, this could act as a catalyst for stocks – as would the announcement of a vaccine breakthrough. On that point, one pharmaceutical company working on a vaccine, Moderna, has announced that it is far from ready.

Investors seem relieved by the positive news about the President's state of health. He was allowed to leave the hospital for a brief moment so he could take a car ride and wave to supporters. Yet their focus is still the rising number of new Covid-19 cases, with further lockdown measures mushrooming all across the globe, from New York to Paris.

On the macroeconomic front, the week began with Eurozone services PMIs, concerning which the overall figure was in line with expectations at 48. Italy surprised positively, with the headline 48.8 versus the expected 46.6.

As we know, central banks have committed to keeping rates low for a long time. Consequently, record-breaking corporate issuance has been seen in the US as firms lock in the cheaper refinancing terms. Government bonds also remain in high demand, particularly in Europe, ahead of prospective further measures from the ECB. The yield on Italian ten-year BTPs has sunk to an all-time low of 0.79%. In Spain, the ten-year bond yield is down at 0.23%.



The SMI hovered slightly below support at 10350 points all week, although the uptrend remains intact. A recovery is still expected.

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	0.92	1.08	10'252.40	3'190.93	12'689.04	4'824.88	5'935.98	3'348.44	11'075.02	23'029.90	1'081.71
Trend	➔	➔	➔	⬇	⬇	⬇	➔	➔	➔	⬇	➔
%YTD	-4.76%	-0.65%	-3.43%	-14.80%	-4.23%	-19.29%	-21.30%	3.64%	23.43%	-2.65%	-2.96%

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PALANTIR (ISIN: US69608A1088, PRICE: USD 9.20)



Palantir was founded in 2004 in Palo Alto. Initially backed by the CIA investment fund, the company has specialised in intelligence and defence services. It has developed two software products: Gotham, for government intelligence units, and Foundry, for business. These systems work by amalgamating fragmented data onto a single platform to help institutions and businesses then make decisions.

The share placement took place on 30 September. Unlike a conventional IPO, this was a direct listing in which there was no increase in the number of shares outstanding. The founders and shareholders simply sold part of their stakes on the market. The closing price of USD 9.20 last Friday values Palantir at around USD 20 billion, if all share classes and employee stock options are included.

In terms of the financials, the news is not encouraging. Palantir burns through a lot of cash and has posted a significant loss every year since its inception. In 2019, the net loss

amounted to USD 580 million on revenue of USD 743 million. Annual top-line growth is relatively modest, with a 25% increase seen in 2019. Another factor that may dissuade investors is that the distribution of voting rights clearly favours the founders. Even with lower shareholdings, they retain control of the special shares.

In conclusion, the future looks promising for Palantir, as public and private organisations increasingly need its tools to analyse their data. Revenue growth is expected at 41-43% this year. However, many software companies have recently entered the market (Snowflakes, Asana and Jfrog). Even if demand is picking up, the competition is tough, with rival products including Salesforce's Tableau, Amazon AWS and Microsoft's Power BI. Palantir is also poorly diversified, as it has only 125 customers, 20 of which contribute 65% of the revenue. And there are significant fixed costs associated with finding new customers in the industry. Marketing expenses are also likely to restrict growth in operating margin over the medium term.

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/
alexvincent

 instagram.com/
banquebonhote

 youtube.com/
banquebonhote1815

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