N° 592
25 January 2021

FLASH BOURSIER

INVESTORS PIN THEIR EXPECTATIONS ON AMERICA'S MAXI STIMULUS PACKAGE

Highlights:

Concern over shutdowns in numerous countries

Fed will likely leave short rates unchanged

Overview

European stock market benchmarks moved sideways last week while the S&P 500 put on 2%, buoyed by hopes for the USD 1.9 trillion fiscal stimulus plan proposed by the Biden administration and the progress being made with vaccination campaigns. Tech shares chalked up large gains, pushing the Nasdaq index up almost 4%. The euro appreciated against the other major currencies, egged on by the moderate tone of the ECB president Christine Lagarde regarding the use of monetary stimulus.

Concern that fallout from the coronavirus pandemic will hamper economic growth in the first part of 2021 dragged down cyclical and financial stocks. Attention focused on business shutdowns across Europe including the UK and in the United States, as well as on the resulting restrictions on mobility. Investor optimism was further dampened by the spate of new Covid infections in China, just before the Lunar New Year.

The coming week will feature a rich news flow with the meeting of the Fed's Open Market Committee, 4th-quarter earnings reports by nearly a quarter of the S&P 500 companies and the publication of America's Q4 2020 GDP (expected to be up 4.1% year on year after the 33.4% jump in the third quarter. The consensus forecast calls for company profits to be down 5% on average compared with Q4 2019. A number of tech firms have recently revised their earnings projections upwards, including Apple which is expected to report excellent sales of its iPhone 12 and a boom in services. Most financial strategists see the S&P 500 index ending 2021 at about the same level it is now.

The fact is that stocks are pricey with US market's risk premium (i.e. its reverse P/E ratio less Treasury yields) historically low at around 3%.

The FOMC members will probably want to see an improvement in the US jobs market in the sectors worst hit by the corona crisis before envisaging a hike in the federal funds rate. Thus the Fed is not expected to abandon its accommodative monetary policy anytime soon, although Jerome Powell, who has been accused by some of goading on risk-takers by pumping trillions of dollars into the financial system, could adopt a more cautious tone.

Economic indicators in the euro zone have shown a slowdown in business activities in January, particularly in the services sector. The Flash Composite PMI has fallen from 49.1 in December to 47.5 this month. The manufacturing subindex continues to rise while services have been hurt by the growing number of shutdowns due to the pandemic. The drop-in activity has been most noticeable in France and the peripheral countries, whereas activity in Germany has held up better. The US provided a pleasant surprise with its PMI services gauge at 57.5 and manufacturing at 59.1.

The SMI breached resistance at 10,950, providing scope for further gains to 11,250 points. However, a correction cannot be ruled out considering the market's relatively large fluctuations.

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	0.89	1.08	10'930.81	3'602.41	13'873.97	5'559.57	6'695.07	3'841.47	13'543.06	28'631.45	1'392.85
Trend	→	→	↑	→	→	→	→	↑	↑	↑	↑
%YTD	0.03%	-0.39%	2.12%	1.40%	1.13%	0.15%	3.63%	2.27%	5.08%	4.33%	7.87%

(Daten vom Freitag vor der Publikation)

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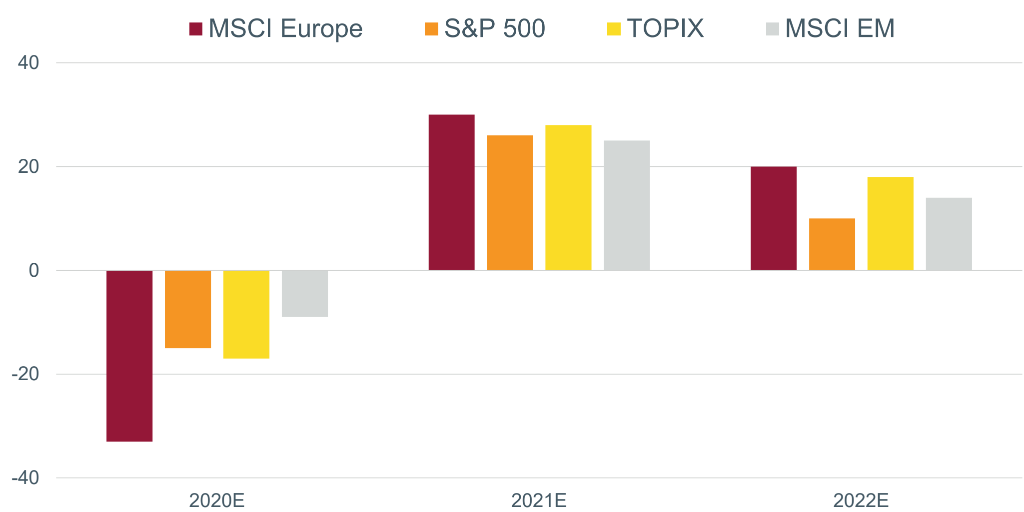
EQUITIES: EARNINGS GROWTH PICKS UP



Company profits are likely to recover by and large. European stocks are well positioned for 2021 with economic growth back on track, further underpinned by monetary and fiscal policies.

As vaccination programmes surge and with global economic activity set to gather pace as a consequence, corporate earnings are expected to rocket 30% in 2021 and a further 20% in 2022, after collapsing in 2020 due to the Covid pandemic.

The last time that earnings growth soared in two consecutive years was in 2004 and 2005, when the European equity benchmark romped ahead more than 30%!

Cyclical shares, which are heavily represented in Europe, should benefit from the gradual re-opening of businesses and a return to greater normality.

Value stocks, which have grossly underperformed over the past three years, are riding a catch-up movement and tend to outperform in periods of accelerating earnings growth.

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