N° 533
4 November 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

NO HALLOWEEN FRIGHT FOR EQUITY INVESTORS

Highlights:

Fed cheers investors

Solid US job numbers

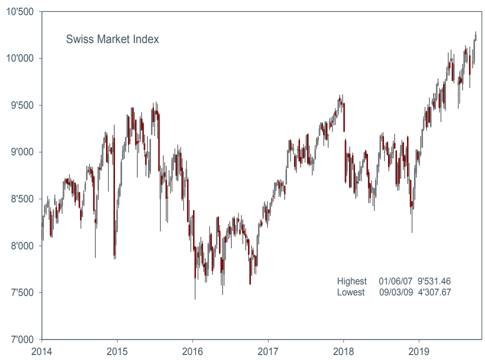
Overview

After faring badly in the early part of October, markets are reflecting a higher propensity towards risk-taking. The most widely followed stock indices rose substantially during the month, spurred on by cyclicals – especially automotive stocks. On average, corporate earnings figures have beaten expectations, although it must be said that forecasts had been toned down. Indeed, earnings are expected to contract in the fourth quarter. On the political front, it was business as usual. Some observers perceived a breakthrough in the China-US trade talks where others saw a setback.

Wednesday's concurrent downswing in long-term yields and equities – triggered by an unexpectedly low Chicago PMI reading (43.2 versus the expected 48) – was short lived. Investors were soon afterwards heartened by the outcome of the Fed policy meeting, where a further quarter-point cut in the Fed Funds target range (to 1.50-1.75%) was decided. Barring a significant downtrend in the economy, it is likely to keep policy on hold. Inflation is ticking along above the Fed's target (2%), and consumer spending and confidence are riding high, even though the expansionary cycle is already 11 years' old. Business investment is falling, as are exports – due to trade spats, dollar strength and anaemic economic growth in Europe. All the while, Joe Public continues to spend. Powell recalled the haze that is hanging over the economic outlook, but monetary policy is loose and rates are set appropriately. Judging by third-quarter GDP growth, which beat estimates at 1.9% year on year, the Fed's newly adopted neutral stance is fully warranted.

Non-farm payrolls were remarkably strong, clocking in at 128,000 job creations in the month of October (versus an expected 85,000). Upward revisions affecting the previous two months (an additional 95,000) give a picture of a US labour market in sterling form. In the most recent data, wages rose by only 3% year on year, showing that this is not causing inflation.

The Caixin China General Manufacturing purchasing managers' index for October was reported at 51.7, which was far higher than the official rate of 49.3. This indicator, which is more geared towards the private sector and exporters, is considered to provide a clearer picture of business trends. At any rate, the number fuelled a mood of optimism. Additionally, results reported by China-listed heavyweights were solid. Remarks by US Trade Secretary Wilbur Ross, about the likely conclusion of phase one of the trade deal this month, were also seen as encouraging. Component shipments to Huawei by US tech firms could be re-authorised, which would provide support to the industry.



The SMI had another week on the up. The high point at 10400 points could at last be reached.

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	0.99	1.10	10'252.24	3'623.74	12'961.05	5'761.89	7'302.42	3'066.91	8'386.40	22'850.77	1'049.19
Trend	→	→	↑	↑	↑	↑	→	↑	↑	↑	↑
%YTD	0.42%	-2.39%	21.63%	20.73%	22.75%	21.80%	8.54%	22.34%	26.39%	14.17%	8.64%

(Daten vom Freitag vor der Publikation)

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CHINESE MARKET ON THE CUSP OF RECOVERY

Chart 1. MSCI China/MSCI World

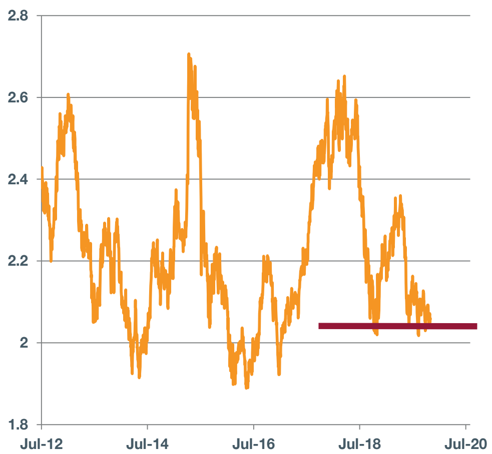
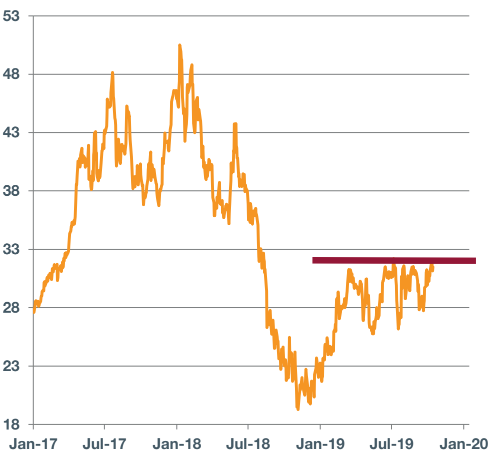


Chart 2. JD.com



The benchmark MSCI China Index has taken successive hits from the customs war with the US. Today it is situated close to its all-time low relative to the MSCI World Index (chart 1). From this angle alone, it looks worth buying.

Despite the pressure, many Chinese companies are actually more dependent on their domestic market rather than on foreign markets, which tends to inoculate them against the effects of the trade war. For the others, especially companies geared towards exports, 11% depreciation in the yuan relative to the dollar since early 2018 has helped their earnings flows when converted into the local currency.

Technically, for both the market index and shares such as JD.com (China's answer to Amazon), the coming weeks are likely to be decisive. After trading sideways for nigh on six months, JD.com looks intent on breaking past resistance at USD 32. Based on the 'cup and handle' pattern (chart 2), a breakout could fuel appreciation of 30% or more. This same configuration is also visible on charts tracking other shares as well as the China A-share index.

Investors would be well advised to follow these developments closely.

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