



# FLASH BOURSIER

## NO HALLOWEEN FRIGHT FOR EQUITY INVESTORS

### Overview

#### Highlights:

**Fed cheers investors**

**Solid US job numbers**

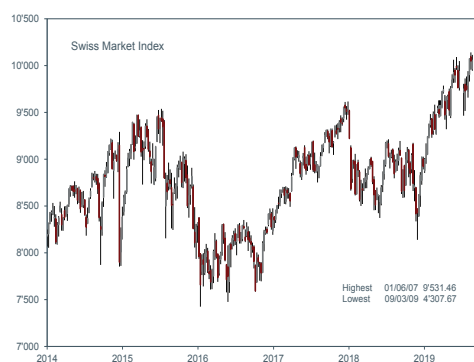
After faring badly in the early part of October, markets are reflecting a higher propensity towards risk-taking. The most widely followed stock indices rose substantially during the month, spurred on by cyclicals – especially automotive stocks. On average, corporate earnings figures have beaten expectations, 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-authorized, 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
<b>Latest</b>	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
<b>Trend</b>	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆
<b>%YTD</b>	0.42%	-2.39%	21.63%	20.73%	22.75%	21.80%	8.54%	22.34%	26.39%	14.17%	8.64%



# FLASH BOURSIER

## CHINESE MARKET ON THE CUSP OF RECOVERY

Chart 1. MSCI China/MSCI World

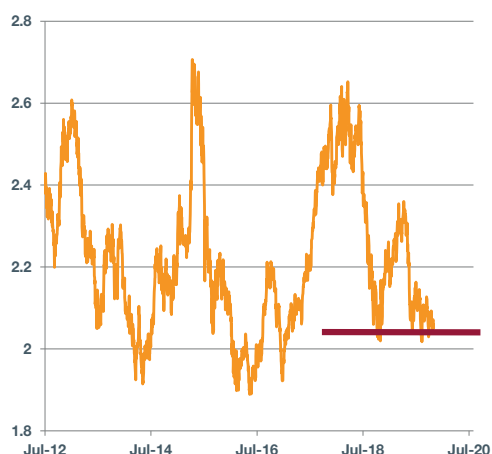
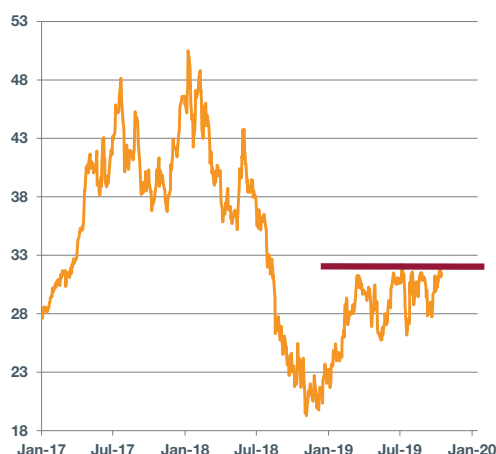


Chart 2. JD.com



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.

**Authors:**

Jean-Paul Jeckelmann,  
CIO, CFA

Julien Stähli,  
MBF Boston University

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-ete-&-cie-sa

twitter.com/  
alexvincinet

This document is provided for your information only. It has been compiled from information collected from sources believed to be reliable and up to date, with no warranty as to its accuracy or completeness. By their very nature, markets and financial products are subject to the risk of substantial losses which may be incompatible with your risk tolerance. Any past performance that may be reflected in this document is not a reliable indicator of future results. Nothing contained in this document should be construed as professional or investment advice. This document is not an offer to you to sell or a solicitation of an offer to buy any securities or any other financial product of any nature, and the Bank assumes no liability whatsoever in respect of this document. The Bank reserves the right, where necessary, to depart from the opinions expressed in this document, particularly in connection with the management of its clients' mandates and the management of certain collective investments. The Bank is a Swiss bank subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not authorised or supervised by any foreign regulator. Consequently, the publication of this document outside Switzerland, and the sale of certain products to investors resident or domiciled outside Switzerland may be subject to restrictions or prohibitions under foreign law. It is your responsibility to seek information regarding your status in this respect and to comply with all applicable laws and regulations. We strongly advise you to seek independent legal and financial advice from qualified professional advisers before taking any decision based on the contents of this publication.