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FLASH BOURSIER

US AND CHINA RESUME THEIR TUG OF WAR

Highlights:

Fed foresees firmer confidence

Equities getting ahead of themselves

Overview

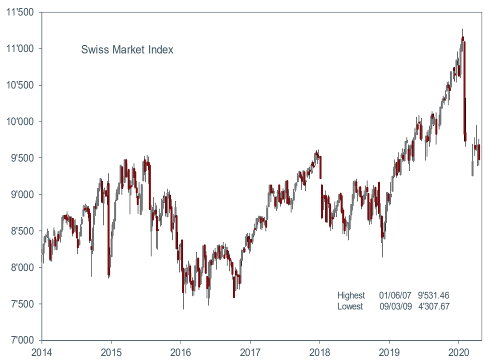
Equities headed lower last week, especially in Europe, where the EuroStoxx 50 shed more than 4% of its value on the back of distressing economic statistics and renewed wrangling between the US and China. Automotive and banking stocks especially took a drubbing. In investors' minds, the prospects of eased business restrictions were outweighed by the lingering effects of Covid-19 on consumer behaviour.

The outlook is hazy as Washington and Beijing reignite their war of words, jeopardising by the same token their interim trade agreement. The White House is banning deliveries of components to Huawei from September. The Chinese could retaliate by restricting business flows for Qualcomm, Cisco or Apple. All this has been weighing on the technology sector. The US administration has also reportedly taken steps to force the federal pension fund to freeze its allocation to Chinese stocks. With the presidential election less than 6 months away, tensions between the two superpowers will remain a potential source of volatility.

In the US, retail sales have fallen by 16% since March. The consumer price index (excluding food and energy) fell 0.4% in April – an unexpected drop. The spectre of deflation precipitated talk in the market of negative US rates. But Fed chair Jerome Powell poured cold water on this idea, stating that none of the FOMC members considered it a valid monetary-policy option. In any case, there is no real evidence that negative rates have any significant impact on economies, while year-on-year inflation is still ticking along at 1.4%. Powell believes that it will take a vaccine to restore consumer confidence to what it was. Even so, in the absence of a second wave, he sees the economy recovering steadily in the second half of the year.

Concerning stimulus measures, Germany is planning a supplementary outlay of around EUR 100 billion, while the US House of Representatives has passed a USD 30,000 billion package (although the Republicans in the Senate are standing in its way).

Stocks made a firm start to the week as many countries continue to unshackle their economies after the outbreak. By contrast, investors are taking a cautious stance pending the next batch macroeconomic figures (European and US PMIs, in particular). Their mood is reflected in the rising price of gold – a safe haven – to its highest level since 2012. No doubt about it: the breathtaking recovery in equity indices from their March lows is running well ahead of the economic reality.



The SMI consolidated last week but did not form a new sequential low relative to the previous week. The recovery remains fragile and needs to overcome short-term resistances at 9680 and 9750 points, failing which a pullback to 9390 points is possible.

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	0.97	1.05	9'483.10	2'770.70	10'465.17	4'277.63	5'935.98	2'863.70	9'014.56	20'037.47	901.16
Trend	→	→	↓	↓	↓	↓	↑	→	↑	↑	→
%YTD	0.40%	-3.13%	-10.68%	-26.02%	-21.01%	-28.44%	-21.30%	-11.36%	0.47%	-15.30%	-19.15%

(Daten vom Freitag vor der Publikation)

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BONHÔTE
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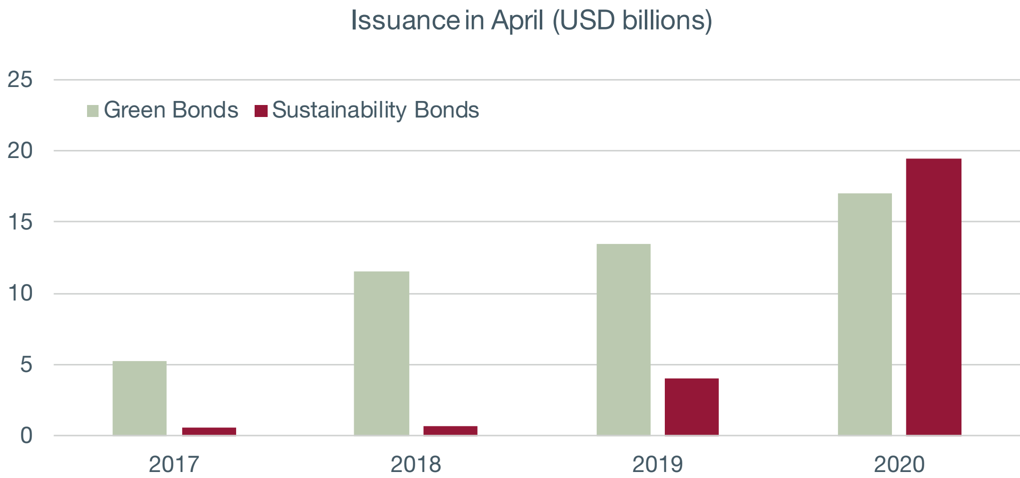
THE RISE OF 'SOCIAL IMPACT' BONDS



Source: Financial Times

The wave of mobilisation for victims of the Covid-19 pandemic, both direct and indirect, has been unprecedented. There are many ways to provide support: buying locally, ordering a takeaway meal from a local restaurant, making donations to charities, and more besides. In capital markets, we have the possibility of investing in sustainability bonds. Whereas green bonds finance environmental projects, these bonds fund projects that have a positive social impact.

The coronavirus epidemic triggered a wave of impact bond issues that in April surpassed green bond issuance (see chart). The issuers of these bonds include the European Investment Bank and the International Bank for Reconstruction and Development. The market for Covid-19 bonds, providing funds to address the consequences of the pandemic, could swell to USD 100 billion by the end of the year.

The Bonhôte Impact programme, which delivers a positive environmental and social impact, has invested in several of these bonds, including the IFC bond helping developing countries to:

- Strengthen their health systems
- Improve access to services, to protect populations from the epidemic
- Heighten disease monitoring
- Step up public health interventions
- Work with the private sector to reduce economic impacts

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