N° 560
25 May
2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

QUO VADIS?

Highlights:

Fears over Hong Kong's autonomy

Higher-than-expected rises in PMI indices

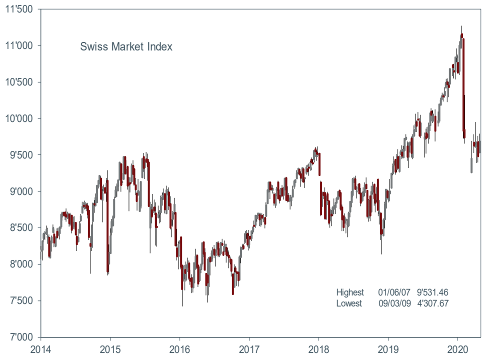
Overview

The main equity indices gained ground last week, with cyclicals outperforming. Oil prices similarly rose sharply as the supply glut no longer appears as high as expected. The steady upswing in share prices, beginning in late March, can be partly explained by the slowing rate of new Covid-19 infections in developed countries, the hopes pinned on a vaccine and the upturn in economic indicators. But the main reason has been the abundant liquidity provided by central banks.

Trade and political tensions have returned to the fore amid renewed protectionist bluster – between the US and China and between the UK and the EU. This has sent the yuan to its lowest level since 2008, trading at 7.14 against the USD, and dragged down GBP on the foreign exchange market. The proposed Hong Kong Security Bill, announced last Thursday by China, aims purportedly at strengthening enforcement mechanisms for protecting national security. This news has hit equity markets by raising concerns about Hong Kong's status as a global financial centre. Washington has promised to respond sternly by imposing sanctions on any entity seeking to restrict Hong Kong's autonomy. The US Senate has also passed legislation banning the listing of Chinese companies on the US stock exchange if they have not abided by US auditing and accounting rules for three consecutive years beforehand.

Purchasing managers indices remained sharply in the red but recovered to a greater degree than expected in May – to 30.5 for the Eurozone (vs. 13.6 in April) and to 36.4 in the US. Weekly jobless claims in the US amounted to 2.44 million, resulting in a seasonally adjusted insured unemployment rate of 17.2%. Part of the Federal Reserve's remit is supporting employment; and while it cannot intervene directly, it acts through financial markets by pushing down interest rates and buying up securities. In the space of 12 weeks, the Fed's balance sheet has expanded at practically the same rate as between 2008 and 2012. These drastic monetary measures are artificially inflating capital and encouraging borrowing. Investment-grade bond issuance since March has almost doubled to more than USD 1 trillion compared with the same period in 2019. The question is whether the market recovery is sustainable ahead of a possible 'second wave' of the pandemic and considering the more cautious spending trends among consumers.

China dropped its GDP growth target for 2020 because of the uncertain outlook on the Covid-19 pandemic and world trade. As the country seeks to stimulate the economy, the budget deficit as a percentage of GDP is set to increase to 3.6% this year from 2.8% in 2019. It also reiterated a commitment to follow through with phase 1 of the trade agreement signed with the US.



The resistance at 9750 points was watertight. The index is now hovering around there. In the event of a clear breakup, the SMI is likely to head to 9900 points before taking on the psychological barrier at 10000 points. In the opposite case, the focal point would be 9550 points.

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	1.06	9'688.99	2'905.47	11'073.87	4'444.56	5'935.98	2'955.45	9'324.59	20'388.16	905.25
Trend	→	→	→	→	↑	→	→	↑	↑	↑	→
%YTD	0.48%	-2.43%	-8.74%	-22.42%	-16.42%	-25.65%	-21.30%	-8.52%	3.92%	-13.82%	-18.79%

(Daten vom Freitag vor der Publikation)

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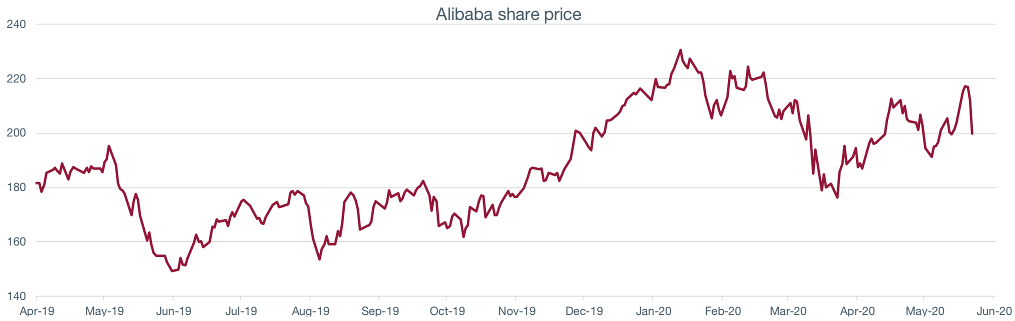
SPOTLIGHT ON STOCKS

Alibaba (ISIN: US01609W1027, price: USD 199.70)



Alibaba reported stronger-than-expected quarterly revenues and earnings, but its business is still being dragged down by continued weak consumer spending as well as fresh tensions between Beijing and Washington.

In the group's financial fourth quarter, net income plunged by 88% to USD 447 million as logistics networks came to a standstill in February, directly impacting the most profitable segment. The e-commerce giant also helped vendors active on its Tmall platform by offering payment holidays and financing, which in turn further squeezed margins. Revenues grew by 22%, the smallest increase ever but this was still above expectations – driven by e-commerce (+19%) and cloud computing (+58%). Revenue growth over the full year was 35%. Earnings per share amounted to 9.20 yuan (versus an estimated 6.05 yuan).

Although the pandemic has blighted domestic business, there was a steady recovery in March, enabling Alibaba to attain its revenue target of 500 billion yuan. Gross merchandise volume has exceeded USD 1 billion over the past 12 months – 3 times more than US rival Amazon. This is precisely because Alibaba is benefiting from the radical change in consumer-spending patterns brought about by the pandemic, which has made online buying indispensable. But it has also gained from its leading position. The CFO is aiming for a revenue of more than 650 billion yuan in the next financial year (starting in April) and intends to use the 50 billion yuan in cash to expand the group's activities and technology as it faces up against increasing competition from up-and-coming online merchants such as JD.com and Pinduoduo Inc.

The stock fell by 5.8% on the earnings report combined with the threat of delisting from the New York Stock Exchange. Despite the gloomy outlook on consumer spending, the group has sounded a confident note, cheered by higher transaction volumes in April and May and plans for business development. All in all, it expects growth of 27.5% for 2020-21.

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