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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

WALKING THE TIGHTROPE OF PUBLIC OPINION

Highlights:

US key rate expected to rise

Accommodative policy set to continue

Overview

Theresa May's gambit turned sour last week as she followed in the footsteps of her predecessor in 10 Downing Street. After deciding to call early elections of her own volition (there was no obligation to do so) in an attempt to shore up her legitimacy as prime minister as well as her bargaining power in the run-up to Brexit talks, she made the Conservative party walk the tightrope of public opinion – a process from which it has emerged weakened. This has obviously knocked UK shares and sterling as investors try to size up the increased political risk in the wake of the election result. The election outcome might also encourage the Bank of England to maintain its loose monetary policy on Thursday.

In France, Emmanuel Macron continues to live out his dream, winning a whopping majority of the votes in the first round of legislative elections. With the US looking to pull back from the world stage and the UK also cutting ties, France is giving Europe a new lease of life, helping it get back on its feet both economically and politically.

There has been plenty of political news in the past week. This week, however, the headlines will be dominated by central banks, starting with the Fed – which is likely to announce a second increase in its key rate from 0.75% to 1%. But since the move is more or less expected, given the estimated probability of 80%, the tighter lending terms are unlikely to upset financial markets. Yet investors are still divided on the subject of subsequent rate rises. Low underlying inflation and downbeat job data are tarnishing the strength of the economy. Janet Yellen is scheduled to hold a press briefing after the meeting and is moreover expected to provide more details about reducing the size of the Fed's balance sheet.

While continuing to insist that the Swiss franc is significantly overvalued, the Swiss National Bank is still likely to keep its deposit rate unchanged at -0.75%. Important decisions on monetary policy are also expected from the central banks of Japan, Russia and Turkey in the coming months.

Doubts have taken hold. The SMI has been drifting aimlessly for the past month. The nearest support has been tested in recent days. The area around 8900 points must hold up to avoid retracement to 8500 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	1.09	8'845.85	3'586.07	12'815.72	5'299.71	7'527.33	2'431.77	6'207.92	20'013.26	1'018.19
Trend	➡	➡	⬇	➡	⬆	➡	➡	➡	➡	➡	➡
%YTD	-4.96%	1.28%	7.62%	8.98%	11.62%	9.00%	5.38%	8.62%	15.32%	4.70%	18.08%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

CREDIT SUISSE

Alibaba.com

Credit Suisse Group AG
(ISIN: CH0012138530, price: CHF 13.43)

The rights issue by the Swiss banking sector's number two, aimed at shoring up the balance sheet, has raised CHF 4.1bn. Precisely 99.2% of share rights were exercised by shareholders. The share had a rough ride in May as investors hesitated about the cash call.

Valuation wise, Credit Suisse ranks among the most affordable stocks in the SMI on the basis of price/earnings. Year to date, only three constituents are in the red: SwissRe, UBS and Credit Suisse. Low interest rates coupled with a flattened yield curve are eating into these companies' margins.

The outlook for the sector remains hazy, and there are currently not many price drivers to warrant taking a firm position. But with gloom dominating the scene, the slightest piece of good news could trigger a buying move.

Buy based on a target of CHF 15.

Alibaba
(ISIN: US01609W1027, price: USD 139.44)

The share price surged by over 10% the day after the group held its investor conference, during which it issued a forecast for 45-49% revenue growth in the 2017-2018 financial year. This has left the analysts' median projection of 35% in tatters.

Another reason for the rally was the positive reception by investors of the group's diversification strategy.

Alibaba still earns most of its income (some 80%) from its online hub. But it is branching out into new lines of business such as cloud services, big data, entertainment and payment services. So even though China's economic growth is tailing off, the group's growth prospects are still intact.

The share has performed well recently, putting on some 60% since the start of the year. Alibaba is now the largest listed group in China, weighing in at a market capitalisation of USD 350bn.

We recommend pocketing some of the gains as the risk of upsets has increased.

Authors:

Jean-Paul Jeckelmann,
CIO, CFA

Françoise Mensi,
Ph.D in Economics.

Pierre-François Donzé,
M. Sc. in Economics

Julien Stähli,
MBF Boston University

Valentin Girard,
CFA

Nathaniel E. Burkhalter,
M. Sc. in Economics

Contact:

Banque Bonhôte & Cie SA
2, quai Ostervald
2001 Neuchâtel / Switzerland
Tel. +41 32 722 10 00
info@bonhote.ch
www.bonhote.ch

facebook.com/
banquebonhote

linkedin.com/company/
banque-bonh-te-&-cie-sa

twitter.com/
alexnvincent