N° 416
10 July 2017

FLASH BOURSIER

WAIT-AND-SEE PERIOD

Highlights:

Better than expected NPFs

Slippage in the oil price

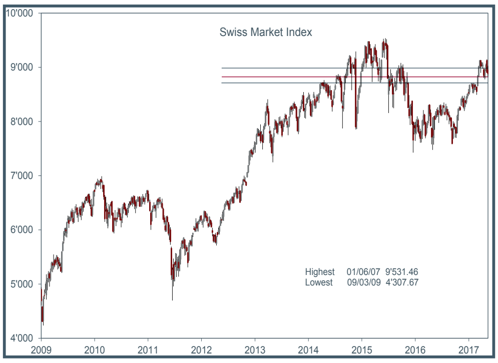
Overview

Global bond markets experienced renewed weakness last week, with long-term yields on government bonds resuming their ascent. The rate of return on 10-year Bunds swung upwards of the 0.5% mark last seen in January 2016 while the yield on 10-year Swiss paper gravitated towards zero. One reason is the less expansionary policy expected from central banks, which is fostering uncertainty. Another is that both investor and consumer confidence are riding high. Moreover, corporate earnings are pointing upwards, and that is likely to bolster equity markets.

US non-farm payrolls for June came in far above expectations, with a total of 222,000 jobs added versus a forecast of 178,000. This result, combined with the slightly longer workweek, point to a job market that is in rude health, giving more fuel to the Fed's fire for further normalising monetary policy. In that respect, minutes from the FOMC meeting in June revealed concerns about financial stability. A third rate rise is expected by investors in December. In spite of low underlying inflation (1.4%) due apparently to lower costs for some medication and for mobile communications, the Fed is also expected to start slimming down its balance sheet. There is potential for gains by the dollar, which has performed weakly among the G10 basket recently, especially against the euro – following disappointments over US fiscal policy and economic growth.

Last week oil prices fell in response to data showing that US crude output rose by 9.3 million barrels, an increase of 11% year on year. OPEC exports also reverted to their highest level since the beginning of the year. Oil-related stocks faced selling pressure, as did some industrial and shipping stocks. Sector rotation continued to favour financials, which are perking up thanks to the higher long-term rates.

Earnings season will kick off this week in the US. Major banks JP Morgan, Wells Fargo and Citigroup are due to release numbers on Friday. A 7% rise in second-quarter EPS is expected for S&P 500 constituents. If we assume that the actual numbers will beat estimates by the historical median of 3.5%, the rise in overall EPS could be closer to 11%, a rate which tallies with earlier economic recoveries. In Europe, 9-10% EPS growth is expected. If that turns out to be true, expect a fillip to equity markets. Even though no major risk is looming in the near term, with volumes dipping ahead of the August summer recess, we can expect more volatility on equities.



Until the SMI clambers over 9000 points we will maintain our neutral stance. Support is at 8850 points, which if breached would set a target at 8700 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	0.96	1.10	8'883.27	3'463.84	12'388.68	5'145.16	7'350.92	2'425.18	6'153.08	19'929.09	1'002.48
Trend	➡	➡	➡	⬇	⬇	⬇	➡	➡	➡	➡	➡
%YTD	-5.51%	2.53%	8.07%	5.27%	7.91%	5.82%	2.91%	8.32%	14.30%	4.26%	16.26%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Kudelski
(ISIN: CH0012268360, price: CHF 16.75)

The group signed two large deals last week:

1. An agreement with US behemoth AT&T for unlocking more money from its patents
2. A distribution deal for its pay-TV secure access service with Chinese group ZTE, which has over 500 telecoms firms amongst its customers.

Although digital TV access (70% of revenue) is not a fast-growing business, the group sees itself here investing in the future. But note that the transition phase is temporarily dampening the share price.

Kudelski is spending more heavily on cyber-security. This business is not yet paying off earnings wise, but promises the group a rosy future in a niche market in which it already has plenty of expertise and where the Swiss-made label carries a certain advantage.

The share has underperformed the SMI by some 15% year to date. On technicals, CHF 16.00-16.50 is a solid support area. A breakaway upwards of 17.15 will finally signal the onset of an uptrend.

Buy-stop target price is around CHF 20.

Samsung Electronics GDR PFD
(ISIN: US7960502018, price: EUR 735)

The South Korean group will report final second-quarter earnings in late July after earlier preannouncing a 72% surge in USD 12bn operating profit – the best figure in its history. Revenues are expected to rise by 18% to just under USD 52bn.

Approximately 60% of Samsung's profits stem from the sale of semiconductors traditionally used in smartphones, PCs and servers. But with more and more household and business devices coming online, these sales are literally going through the roof. Samsung had in recent years invested massively in R&D and overhauled fabs to make the move to mass production of 3D Nand and DRAM. Stealing a march on rivals has certainly paid off.

Samsung's earnings-growth trend is expected to outpace that of its eternal rival, Apple, for which the consensus projects Q2 2017 earnings of USD 10.5bn. In April Samsung released the Galaxy S8, which is seeing strong demand. Over 18 million units have already sold.

Buy rating with a target at EUR 830.

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