N° 421
14 August
2017

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

VERBAL JOUSTING AND THREATS OF WAR

Highlights:

Fighting talk

Moderate US inflation

Overview

The fire-and-fury talk between Donald Trump, who recently reiterated that US military options are ready to be deployed (despite entreaties from China), and Kim Jong Un, who is threatening to attack the island of Guam, have led to a feverish climate in financial markets. Making the pressure worse has been the usual thin volumes during the summer lull, as well as fears arising from a stronger euro and softer economic data.

Open talk of armed conflict, possibly extending to nuclear strikes, has been compounded by mayhem within the US executive, prompting investors to reduce expose to risk assets. Equity indices are down some 3% in Europe and 1.5% in the US while implied volatility has shot up, with the VIX rising from 10 to 17 last Thursday. The usual safe havens such as government bonds, precious metals, the Swiss franc and the yen have all gained ground. Gold along with other precious metals has been heavily bid; in contrast, the prices of base metals and oil have fallen. News has emerged that OPEC is struggling to abide by production quotas. The supply of oil from OPEC countries has risen consecutively for the past three months.

Risks subsided over the weekend in response to declarations that a diplomatic solution was being sought to achieve denuclearisation in North Korea.

US inflation data point to a gently sloping uptrend in consumer prices, with the CPI up 1.7% in July. The prices of housing and new motor vehicles dragged on the index this time round, casting doubt on the Fed's rhetoric according to which slow inflation is a temporary glitch. The market now assigns only a 50% probability to what would be a third rate rise in December. However, slack inflation is unlikely to halt efforts by the Fed to revert to a more orthodox balance sheet.

Today, Chinese data for July came in below the consensus, be it industrial production (+6.4% year on year) or retail sales (+10.4% year on year). The current slowdown in export growth is likely to lead the yuan lower. Japan's second-quarter GDP was higher than expected, materialising at +1%. This equates to an annualised 4% whereas the consensus expected 2.5%.

As has become the norm, US and European firms on the whole reported higher financial results than expected. The stronger euro relative to the dollar is stoking fears in some places, with those sectors most exposed, e.g. exporters, running the risk of downward revisions to earnings estimates. Even so, financial analysts still expect a substantial rise in profits – around 10% for the next two years, in the US and Europe. In this setting, we continue to favour equities and high-yield bonds over government paper.

The SMI ended the week poorly, reverting to the lower end of its trading-range. Major resistance is located at 9500 points. Short-term support is at 8800 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	1.14	8'884.04	3'406.34	12'014.06	5'060.92	7'309.96	2'441.32	6'256.56	19'729.74	1'042.80
Trend	➡	➡	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇
%YTD	-5.71%	6.09%	8.08%	3.52%	4.64%	4.08%	2.34%	9.04%	16.23%	3.22%	20.94%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Adecco

SnapChat

Adecco Group AG
(ISIN: CH0012138605, price: CHF 69.05)

Zurich-based Adecco, the world leader in temporary staffing, has reported second-quarter numbers, with both revenue (+5%) and net profit (+1%) rising relative to the prior-year quarter. However, all the figures were at the lower bound of broker forecasts, resulting in a 6.41% plunge in the share price during Thursday's session.

We see this correction as overdone considering the solid state of Adecco's business. One of the reasons why investors over-reacted was that brokers had recently upped their earnings projections on Adecco in response to earnings releases from peers.

By region France (one-quarter of revenue) showed a 9% rise in revenue for the second quarter. Logistics, construction and automotive industries were the fastest-growing client markets. The rest of Europe was relatively solid, apart from the UK, where revenue dipped slightly.

The share's slide marks a buying opportunity. With a P/E of 12x, Adecco is one of the most affordable stocks in the SMI, trading in line with financial stocks.

Buy with a target at CHF 80.

Snap
(ISIN: US83304A1060, price: USD 11.83)

The US start-up, which owns the messaging application Snapchat, has reported disappointing quarterly results. Revenue fell short of expectations, while the user growth was less swift than expected.

Over the period, the net loss mushroomed almost four-fold. Snapchat's growth in user numbers also slowed (with a minor increase to 173 million user). Average revenue per user did increase to USD 1.05, but this is a far cry from Facebook's standard (USD 4.23).

The share plunged by 15% in the wake of the numbers to print a new all-time low. The share was floated at USD 17 in early March. It then appreciated all the way to USD 29 before sinking below the issue price.

Investors are concerned about the firm's ability to rival majors such as Facebook and its subsidiary Instagram. Snap must do more to dispel those doubts.

For now, we advise steering clear of the share.

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