N° 435
20 November 2017

FLASH
BOURSIER

A GENUINE POLITICAL IMBROGLIO

Highlights:

US tax reform moves to Senate

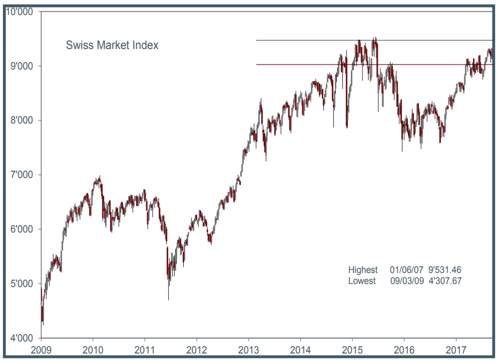
Political crisis in Germany

Overview

Leading global equity markets were hit by more profit-taking last week, mainly as investors reacted to the perceived delay in passing legislation enacting the tax reductions promised by Donald Trump. The Republican-dominated House of Representatives in the end approved its version of the reform last week by 227 votes to 205, which itself marks a step forward. The adopted package of deductions is due to increase the budget deficit by nearly USD 1.5 trillion over a period of 10 years. The opposition Democrats voted unanimously against the bill. Consequently, the hurdle is to pass the bill through the Senate, which is currently debating its own version – possible because the Republicans have a two-seat Senate majority. The problem is that some Senate Republican have made it clear that they will only vote for the bill if Obamacare is partly repealed: basically, that the universal healthcare obligation for Americans is rescinded. Mainly, this will consist of cancelling the tax penalty charged to taxpayers who do not have coverage. This deadlock represents a political imbroglio. Investors should not expect any major developments this side of Thanksgiving on 23 November.

Germany has been pitched into a full-blown political crisis after talks to form a governing coalition between Angela Merkel's CDU/CSU, the liberal FDP and the Green Party broke down over the weekend after hitting two stumbling blocks: immigration and energy policy. This is another kick in the teeth for the chancellor barely two months after her party plunged to its worst post-WWII national election score. She could now try to form a minority government if she can ally with another party, but this would not be in Germany's political tradition. Or she could call fresh elections but then she would probably have to stand aside as her past failure to form a government could be perceived as a weakness. As a result of this saga, a mood of uncertainty has become pervasive at a European level considering German's pivotal position. Expect Eurozone equity markets and the euro itself to take a small hit.

We do not see the political agitation and short-term fluctuations undermining the uptrend in equity markets because economic fundamentals are strong.



The SMI firmed up on support at 9000 points and is now heading to 9500 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	0.99	1.17	9'183.61	3'547.46	12'993.73	5'319.17	7'380.68	2'578.85	6'782.79	22'396.80	1'136.45
Trend	→	→	→	↓	↓	↓	↓	→	↑	→	↑
%YTD	-3.05%	8.77%	11.72%	7.81%	13.18%	9.40%	3.33%	15.19%	26.00%	17.17%	31.80%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Sonova
(ISIN: CH0012549785, price: CHF 164.20)

The share plummeted by 15% after the group reported its fiscal Q1 earnings to 30 September.

Revenue rose by 17%, partly thanks to the acquisition of Dutch firm Audionova in May 2016. Earnings were up by more than 15%. These are solid numbers but the market was expecting better.

All geographic areas contributed positively to results, even the US, where Sonova is restructuring and refocusing its store network to cover the most dynamic regions better.

The group is the industry standard setter, assigning huge amounts of money to R&D to maintain this leadership status. Its lofty price-earnings multiple of 26x is a reflection of its financial results and growth prowess.

On technicals, however, the recent plunge has propelled the share towards the 100-day moving average. If this were to give way, the share's next support would be CHF 150-155.

Investors should bide their time.

Cisco Systems
(ISIN: US17275R1023, price: USD 35.90)

The group has surprised investors in a positive sense by forecasting a recovery in revenue. It is aiming for top-line growth of 1-3% for its second fiscal quarter.

This growth guidance, though not exactly a show-stopper, would nonetheless mark the end of two years on the slide. It would also mean that the development strategy is starting to pay off. This aims to reduce dependency on the highly competitive switches-and-routers business and make the group more of a software provider that offers subscription-based services. A step in this direction was the acquisition of AppDynamics.

Like many long-standing tech firms such as HP, Cisco's revenues have been hurt by the increasing trend towards cloud data storage (in which Amazon dominates), which in turn has reduced demand for those companies' products.

Cisco recently announced that it was teaming up with e-commerce giant Alibaba to build next-generation data processing centres in China.

We advise holding the share. Our target is USD 38.

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