

FLASH BOURSIER

CONFIDENCE ABOUNDS

Highlights:

First-rate economic indicators

Central banks reduce stimulus

Overview

Confidence is the dominant mood in financial markets as we head towards the end of the year. It is hard to imagine things panning out differently, with economic statistics pointing to a broad-based acceleration in economic growth, job creation improving across the board and inflation still at bay. Additionally, the tax cuts due to be implemented in the US may bolster the already positive sentiment among consumers, who are the driving force behind the country's growth trend.

With optimism reigning, there is no longer constant talk of monetary policies or central banks. That said, monetary policy is heading for a sea change in the coming weeks. On Wednesday, the Fed is expected to announce another quarter-point rise in its key Fed Funds rate. It is also due to confirm that it is shrinking its balance sheet as well as steadily increasing the rate of tapering. This rate of decrease is set to increase from USD 10 billion to USD 20 billion in January, then to USD 30 billion from April. Meanwhile the ECB is scheduled to issue economic forecasts for the Eurozone out to 2020. We think it will raise existing projections, thus supporting Mario Draghi in his plans to ease off the QE pedal. Stimulus will be halved in January, from EUR 60 billion

to EUR 30 billion, before being discontinued completely in October.

So that means entering uncharted territory in 2018. Monetary stimulus will be gradually phased out. On one hand, this is good news because it means that central banks see economies as solid enough to do without their support; on the other, monetary stimulus has been one of the pillars underpinning the recent solid performance in financial markets. So we might rightly wonder what will happen when the crutch is removed.



This time it did it! The SMI is well on the way to reaching the 9500 mark at last.

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	9'319.16	3'591.45	13'153.70	5'399.09	7'393.96	2'651.50	6'840.08	22'811.08	1'110.78
Trend	➔	➔	➔	➔	➔	➔	➔	⬆️	➔	⬆️	⬇️
%YTD	-2.68%	9.13%	13.37%	9.15%	14.57%	11.04%	3.52%	18.43%	27.07%	19.34%	28.82%

(values from the Friday preceding publication)



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SPOTLIGHT ON STOCKS



VAT GROUP (ISIN: CH0311864901, price: CHF 135.90)

VAT Group is a Swiss company based in Haag. It produces vacuum valves used in making semiconductors, displays and solar cells. It has 1,700 employees and a market capitalisation of CHF 4 billion. VAT Group is the outright industry leader with a 46% share of its market.

Business is booming. In the most recent reporting period, sales rose by 30% and operating margin was a lofty 31%. The production line is high tech and the patents controlled by the company represent high barriers to entry. The order backlog for 2018 is strong, and the long-term growth rate is situated around 10%.

The share is trading at around 25x estimated 2018 earnings, which is affordable given the growth in prospect. But investors should watch out for the cyclical nature of the business. Any slowdown in economic growth could act as a hindrance.

VAT Group is a buying opportunity but we advise bidding one's time and buying on a dip between CHF 120 and CHF 125.



FRESENIUS MEDICAL CARE AG (ISIN: DE0005785802, price: EUR 87.30)

The group is the world leader in products and services for treating kidney failure, including dialysis. It has a network of 3,714 specialist clinics and over 315,000 patients regularly undergoing treatment.

The global dialysis market is growing by 6% yearly in terms of patient numbers. This trend is driven by population ageing, higher incidences of diabetes and high-blood pressure, and improved treatments.

More than 70% of Fresenius Medical's revenue currently comes from the US, where the group stands to gain from reduced taxation.

China is one of the largest world markets for treating kidney illnesses and diseases. Authorities there are encouraging cooperation between public and private-sector hospitals. Fresenius Medical Care, which has been active in China since 1993, recently opened its first independent dialysis facility, in the city of Quanzhou. The group plans to expand operations significantly in China.

Hold with a target of EUR 95.

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