N° 439
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BONHÔTE
BANQUIERS DEPUIS 1815

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THE ART OF READING TEA LEAVES

Highlights:

Fed lifts policy rate

Latin American economy in better form

Overview

The Fed last Wednesday took another step towards policy normalisation with a further quarter-point rise in its Fed Funds policy rate, which now stands at 1.25-1.50%. The move had been by and large priced in by markets, as there had been no prior indication that the Fed might take a different course of action. Three further rate hikes are planned by the Fed for 2018 – unchanged relative to its September statement. It also revised economic growth estimates for 2018 and 2019 to 2.5% and 1.9-2.3% respectively. The unemployment rate is forecast to fall further, from 4.1 to 3.9%, and inflation is projected to increase and stabilise around the 2% target in the medium term.

On the whole, monetary policy is still accommodative, although the Fed announced a marginally faster rate of balance-sheet tapering – which began in October. But even though USD 20bn less debt will be rolled over as from January, this is still a sluggish rate. In March 2018, Jerome Powell will take over from Janet Yellen as Fed chief, and there will also be four new voting members. That means that the current rate-setting committee is not the one that will make all the decisions. So will monetary policy be 'dovish' or 'hawkish'? Using a dot-plot chart as a visual representation of interest-rate projections in the short and medium terms by Fed governors, the median rate is forecast at 2.1% at end-2018 and 2.7% at end-2019. For now, the market is not much of a believer, as yields are below these projections. Several analysts are trying to foretell how the four new members will vote – an exercise akin to reading tea leaves. We advise against drawing hard-and-fast conclusions too early.

The general feeling in the US is that the two houses of Congress could reach agreement on tax reform before Christmas. This prospect is bolstering equity markets because US households are usually quick to convert any increase in disposable income into expenditure. For companies, the prospect of tax cuts is supporting the earnings outlook. We also expect M&A activity to become even more prevalent. In the emerging space, we recommend selective exposure to Latin America, where some economies are doing better. Additionally, centre-right politics continue to stage a comeback after billionaire businessman Sebastian Piñera was elected as Chile's president over the weekend. We see more capital flowing into the region in the years ahead.

The pre-Christmas rally is lifting the SMI on the back of the solid market configuration. It is only a matter of time before the 9500 barrier is smashed in and the SMI heads to 10000 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	1.16	9'394.71	3'560.53	13'103.56	5'349.30	7'490.57	2'675.81	6'936.58	22'553.22	1'118.50
Trend	→	→	→	→	→	→	↑	↑	↑	→	→
%YTD	-2.88%	8.66%	14.29%	8.21%	14.13%	10.02%	4.87%	19.52%	28.86%	17.99%	29.72%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

AMS AG
(ISIN: AT0000A18XM4, price: CHF 89.10)

AMS, a tech firm specialising in sensors, last week held an investor day, where it reaffirmed that it expects sales growth of 40% out to 2019.

The share has been the best performer of the SPI this year, surging by 210% even despite a 20% pullback since 24 November that was caused by a broad-based downswing in tech stock worldwide as well as Apple's investment in its US innovation-sponsoring programme.

Specifically, through its in-house investment fund, Apple will be investing close to USD 390 million in Finisar, a firm supplying it with sensors for powering the iPhone X's facial recognition technology amongst other things. This has given rise to the suggestion that, in future, Apple may source this type of component exclusively from US suppliers.

A price dip to around CHF 80 would be a good place to buy. Sensors is a booming market and no client (be it Apple or whoever) cannot afford to tie themselves to a single supplier.

Buy at CHF 80 or thereabouts.

Teva
(ISIN: US8816242098, price: USD 18.61)

The share has tanked by 48% year to date following disappointing results in August and a warning on third-quarter results.

The Israeli firm, which is the world's leading manufacturer of generic drugs, last week announced that it would cut its workforce by a quarter and suspend the dividend as part of plans to reduce its huge debt bile.

Debt has swelled to an unbearable USD 35 million after the company acquired Actavis, Allergan's generics subsidiary, for close to USD 40 billion. Teva announced plans to cut 14,000 jobs worldwide, mostly in 2018.

It wants to reduce operating expenses by USD 3 billion by 2019 relative to an estimated USD 16 billion this year.

Investors cheered the news by sending the share 13% higher.

The share price is volatile but its affordable valuation of five times EPS could make it attractive in the eyes of investors comfortable with risk-taking.

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