N° 444
5 February 2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

HIT TO EQUITIES FROM SURGING BOND YIELDS UNLIKELY TO LAST

Highlights:

Surge in bond yields

Only minor disturbance to equities

Overview

Bond yields have shot up around the globe. The yield on 10-year Treasuries has surged to 2.82%, up 79 basis points relative to its nadir last September. European and Asian bond markets have followed suit.

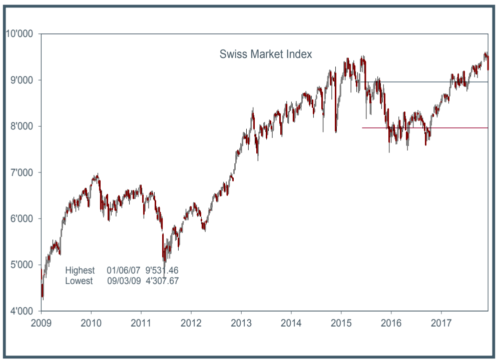
The crux of the matter for investors is the extent to which the global equity market will be dampened by the incessant rise in bond yields. At first glance, it can be said that bond yields are rising for all the right reasons. Economic fundamentals in North America, Europe and Asia have not been in such good shape for years, and growth in these zones is synchronous.

Consumer price data indicate that the low or negative inflation that has dogged these economies for many years has now given way to a normal inflation environment. In the US, core inflation (which excludes the volatile components of food and energy) has bounced up from its lows seen last summer and will probably continue quickening in the months ahead. Prices are also heading upwards in the Eurozone and Japan. The steady upturn in corporate bottom lines represents a further vote of confidence in the state of the global economy – that is another reason why bond yields and stock prices have been on the increase.

Equity markets are unlikely to be knocked off course by higher bond yields, unless the latter start rising for all the wrong reasons. It is one thing for inflation to pick up moderately – as it is at the moment – as it rises back to central banks' targets; it is another for inflation to overshoot these targets. If that happened and inflation surged unexpectedly, equities would probably not be able to cope since this would raise the prospect of central banks aggressively tightening monetary conditions, which could then stymie economic growth.

In our opinion, bond yields are rising for the right reasons, and we do not foresee lasting damage to stockmarket trends – as long as the spectre of "bad" inflation does not appear.

.



Recently established support at 9500 failed to hold, leading the SMI to a new low. The decline could continue to 9100.

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	0.93	1.16	9'220.69	3'523.28	12'785.16	5'364.98	7'443.43	2'762.13	7'240.94	23'274.53	1'230.83
Trend	→	↓	→	→	→	→	→	→	→	→	↓
%YTD	-4.39%	-0.78%	-1.72%	0.55%	-1.03%	0.99%	-3.18%	3.31%	4.89%	2.24%	6.25%

(values from the Friday preceding publication)

N° 444
5 February
2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

SPOTLIGHT ON STOCKS

Roche
(ISIN: CH0012032048, price: CHF 224.15)

The Basel-based pharmaceutical giant has reported 2017 financials, posting a 9% drop in net profit to CHF 8.8 billion. In contrast, sales rose by 5% to CHF 53.3 billion. Its two divisions, Pharmaceuticals and Diagnostics, showed similar growth rates.

The group's sales came in at the top end of the range put forward by analysts. The three blockbusters continued to deliver stable sales overall (CHF 21 billion in total). However, the CEO warned that pressure from biosimilars will remain constant in 2018. We expect sales growth to be low but positive.

The Board of Directors has recommended a CHF 0.10 increase in the dividend to CHF 8.30, which will doubtless be approved at the Annual General Meeting. We recommend buying Roche on its own merits but also because it is more attractively valued than rival Novartis.

Buy with a target at CHF 280 in mind.

Alibaba
(ISIN: US01609W1027, price: USD 187.30)

China-based e-commerce giant Alibaba has reported stellar growth in latest quarterly sales, with a 56% increase to 83 billion yuan relative to the prior-year period. The company also raised its guidance projections for 2018. In contrast, earnings (which rose by 20%) came in slightly lower than expected owing to significant investments (new retail). Correspondingly, net margin declined to 44% from 51% in the prior-year period.

The number of active customers increased by 16%, thanks to a breakthrough in mobile phone shopping. Commission income increased sharply as merchants active on the Taobao online sales platform beefed up their expenditure to take advantage of the customisation services on offer.

Alibaba also announced the acquisition of a 33% stake in Ant Financial to strengthen cross-border expansion. This company is the parent company of its Alipay payment system. It is currently owned by Alibaba's management and employees. This transaction will be carried out in exchange for intellectual property rights, without any cash payment being made.

Buy with a target of 230 in mind.

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

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