N° 447
26 February 2018

BONHÔTE
BANQUIERS DEPUIS 1815

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CALMER TIME FOR MARKETS

Highlights :

Expanding US fiscal deficit

Weaker PMIs in Europe

Overview

The recent volatility surge in financial markets, coming as it did after a long period of serenity, showed that whenever monetary policy takes on a more hawkish tone (especially after a long period of cheap money), investors can become very scared. In addition, there will in the future be a broader supply of Treasury bonds to absorb in conjunction with the expanding US fiscal deficit.

Rate markets became calmer last week as the 10-year yield on Treasuries edged closer to 3%, a level not seen since January 2014. The Fed's half-yearly monetary policy report was no more inflammatory than the recently published FOMC minutes, which had taken a slightly more hawkish tack by signalling heightened confidence in the inflation outlook for 2018. But the key point is that economic growth will be accompanying the process. So while tightening may seem more appropriate, there is something reassuring about higher rates as well.

Elsewhere European purchasing manager indices (PMI) clocked in below expectations, which also helped calm the tensions on bond yields and led to a bounce in equity markets.

In current conditions, investors are therefore wondering if the Fed will tighten faster and today expect four rate increases this year whereas the Fed is for now sticking to its forecast of three. They are also trying to fathom the extent to which US pension funds and foreign governmental institutions are likely to increase the duration of their fixed-income investments. In this respect, 3% is a critical resistance to monitor because a breakaway above this point could – from the standpoint of technical analysis – cause interest rates to shift into a long-term bullish environment.

This Tuesday, Jerome Powel, the Fed's new president, will be heard by the US House Committee on Financial Services. We do not think that this first outing will represent a clean break with the policy of his predecessor Janet Yellen as that could send markets into a tailspin.

We therefore expect a relatively quiet week in the markets, with not many economic indicators due out.

The SMI is starting its third week of consolidation. Barriers are unchanged with support at 8750 and resistance at 9100 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	0.94	1.15	8'948.19	3'441.46	12'483.79	5'317.37	7'244.41	2'747.30	7'337.39	21'892.78	1'216.43
Trend	➡	➡	➡	➡	➡	➡	➡	➡	⬆	⬇	⬆
%YTD	-3.95%	-1.66%	-4.62%	-1.78%	-3.36%	0.09%	-5.77%	2.76%	6.29%	-3.83%	5.00%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Swiss Re
(ISIN: CH0126881561, price: CHF 97.44)

Swiss Re reported a stronger set of results for 2017 than expected despite a remarkable number of natural catastrophes costing the group more than CHF 5 billion.

The slightly positive earnings also reflected a small book gain relating to the US tax reform package. The good news for investors is that Swiss Re wants to increase the dividend from CHF 4.85 to CHF 5.00 (5% yield). It also has plans to initiate buybacks equating to 3% of equity capital (total CHF 1 billion).

Talks are under way with the Japanese group Softbank, but the form that this alliance could take – such as a trade partnership or an equity stake – is not yet public. The only specific detail from Swiss Re is that it does not rule out a rights issue, as investors might have feared.

All in all, the group has a solid capital base and pays a handsome dividend. The share is trading on a very reasonable 10 times 2018 estimated earnings, which is bang in line with other stocks in the reinsurance sector.

Hold with a target price at around CHF 105.

Ingenico
(ISIN: FR0000125346, price: EUR 73.04)

The payment terminal specialist's share plunged by more than 20% over the last two sessions of the week after the group issued disappointing guidance for 2018. This was despite higher-than-expected results in 2017. Q4 2017 revenue rose 14% to EUR 692 million, beating the consensus estimate of EUR 658 million.

Gross operating profit was also better than expected, up 10% at EUR 526 million for the year, while margin was up 40 basis points at 21%. But what did the damage to the share price was the guidance for 2018, considered by investors to be disappointing. Contrary to its usual practice, the group has not issued a revenue target for this year. Worse still, Ingenico forecasts a profit of EUR 545-57 million versus the EUR 593 million expected by the market, including a negative currency effect of EUR 25-30 million.

In contrast, the company is more optimistic in the medium term, aiming for an average annual double-digit growth rate for gross profit in 2018-2020. This would suggest exceeding EUR 700 million by 2020. Subject to a major upheaval in the industry (such as the widespread abandonment of payment cards), the investment risk in this share is limited.

This is an investment to watch and also a potential candidate for a reverse convertible.

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