N° 539
16 December 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

ONLY WAY IS STILL UP FOR EQUITIES

Highlights:

Heading for Brexit on 31 January

ECB and Fed hold rates

Overview

The uptrend in equity markets remains intact, helped by the deal agreed between China and the US, which for many represents a breakthrough, and the election win by Boris Johnson's Conservatives in the UK. But it also must be said that the latest upswing was not all that impressive, as the trade agreement – which for now has not been signed – had largely been priced in by investors.

Under the terms of the interim (or 'phase-one') trade deal, the US has pledged to roll back the duties it currently levies on Chinese imports. In return, Beijing plans huge increases in the volume of US goods bought. To be frank, there's not much new here regarding the terms of implementation and the timetable. Details are missing concerning what exactly China is going to buy. (Donald Trump has talked of USD 50bn worth of US farm produce.) As for deep-seated changes in China, namely intellectual property, appropriation of technology and financial services, the details are missing here too. So investors are already looking ahead to 'phase two', for which there is much more at stake. Expect this to keep them waiting with bated breath in 2020, leading to more volatility in financial markets.

The Tory election win on 12 December paves the way for Brexit on 31 January. Sterling has continued gaining against both the dollar and the euro.

The Fed left its policy rate unchanged at the culmination of its policy meeting last Wednesday. For it to start raising rates again, we'd need to see a steady rise in inflation. Likewise the ECB made no changes last week, stating that rates would remain in negative territory for as long as needed, specifically until inflation quickens towards 2% – and that is certainly a long way away. The ECB will also continue purchasing bonds for a value of EUR 20bn per month.

In China, indicators of economic activity reported for November beat estimates. Retail sales rose by 8% and industrial production by 6.2%. These figures are fuelling a fresh mood of hope.

The SMI did not end the week any higher than the previous week. Currently, 10500 points is a resistance line.

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	0.98	1.09	10'429.27	3'731.07	13'282.72	5'919.02	7'353.44	3'168.80	8'734.88	24'023.10	1'086.91
Trend	→	→	→	↑	→	→	→	↑	↑	↑	↑
%YTD	0.26%	-2.95%	23.73%	24.31%	25.80%	25.12%	9.29%	26.41%	31.64%	20.03%	12.54%

(Daten vom Freitag vor der Publikation)

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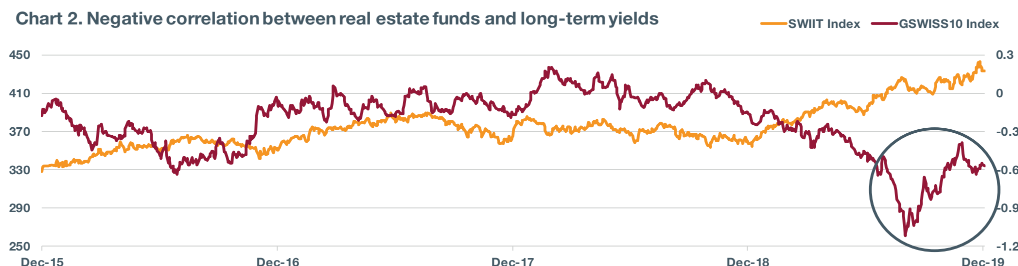
INDIRECT INVESTMENTS IN REAL ESTATE

Chart 1. Positive correlation between REITs and equity market

Chart 2. Negative correlation between real estate funds and long-term yields



Year to date, indirect investments in real estate have performed almost as well as in 2009, which was a record year, helping us forget 2018. Real estate investment trusts (REITs) have outperformed real estate investment funds by 10%. Given that the funds vary widely in terms of size, liquidity is an important consideration for the performance of units. Investors have a preference for the most liquid funds, which in turns boost these returns.

REITs, the prices of which are tightly correlated with the equity market, have returned 30% on average (see chart 1). Concurrently, valuations of REITs are basically a product of long-term borrowing rates. The lower rates are, the more REITs tend to appreciate. After bottoming this summer, yields are continuing to appreciate, though still in negative territory. For now these movements have not substantially impacted REITs, which have continued rising, helped by investor appetite for yield (see chart 2).

Greater fluctuations are expected for 2020. And despite a preference for real estate funds, the recent upturn in yields – which has yet to dent the funds' performances – could result in small-scale price consolidation. Additionally, the level of premiums (on average above 30%) hints at a market that is overbought. But that should be squared with a dividend yield around 2%, which still beats the return on high-grade Swiss bonds by a wide margin. Dividends remain the main source of performance, and are set to continue supporting real estate indices.

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