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2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

DON'T FIGHT THE FED

Highlights:

Uptrend on equity indices intact

EU unveils fiscal blueprint for recovery

Overview

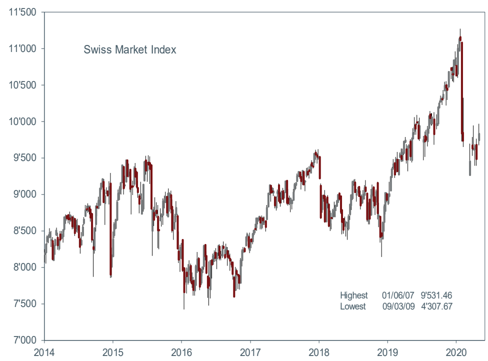
Equity markets continued to trend upwards last week. In recent weeks we have also seen a recovery in those sectors and stocks that underperformed during the lockdown period, such as cyclical manufacturers, travel & leisure and banking. We've also witnessed rotation out of 'growth' into 'value', and this has been pinning back tech stocks recently. The rhetoric is worsening between Washington and Beijing, which has apparently asked publicly owned companies to stop buying soybeans and pork from the US. Investors are ignoring the bluster for now, despite the foreseeable fall in corporate profits. All in all, the watchword last week was 'Don't fight the Fed'.

This week markets are firm ahead of two key events: the ECB meeting on Thursday and the US employment figures for May on Friday. Investors expect the ECB's asset-purchasing plan (Pandemic emergency purchase programme, or PEPP) to increase from EUR 500bn to EUR 750bn and be extended beyond December 2020, with income from maturing securities reinvested. In the US, an unemployment rate of 19.5% is expected, reflecting 800,000 further job losses in May.

In Europe, manufacturing PMIs last week kindled hopes of a growth recovery after improving sharply month-on-month in May as lockdowns were ended, despite remaining a poor show in absolute terms. For the Eurozone, the PMI rose to 39.5 while the Italian PMI actually surged to 45.4. In the US, the manufacturing ISM stood at 43.1. China's manufacturing PMI rose to 50.7, scraping into expansion territory.

The European Commission has published its fiscal blueprint for the recovery under which EUR 750bn of funds, equivalent to 5.4% of EU GDP, would be doled out. The loans would be targeted at those countries most in need. Countries with a high debt-to-GDP level, such as Italy, would be able to access cheaper financing than on the market. This proposal, if unanimously approved by the 27 Member States, would mark a significant step forward towards European integration. But the so-called 'frugal four' (Austria, Denmark, the Netherlands and Sweden) are expected to request changes.

The war of words with China as well as the violence and divisions seem to be aiding Donald Trump's re-election campaign. Regarding China, the president sees it in his interest to act firmly, considering that polls show 68% of Americans unfavourable to that country. He has also addressed the nation, promising to bring 'law and order' – which means sending in the army – to deal with the demonstrations sparked by the murder of George Floyd.



The SMI has stabilised at 9900 points and the target at 10000 points is now in sight. If that is overcome during the week, which is likely, the index could continue upwards and nudge the 200-day moving average at 10050 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	0.96	1.07	9'831.49	3'050.20	11'586.85	4'695.44	5'935.98	3'044.31	9'489.87	21'877.89	930.35
Trend	→	→	↑	↑	↑	↑	→	↑	↑	↑	↑
%YTD	-0.62%	-1.65%	-7.40%	-18.56%	-12.55%	-21.46%	-21.30%	-5.77%	5.76%	-7.52%	-16.54%

(Daten vom Freitag vor der Publikation)

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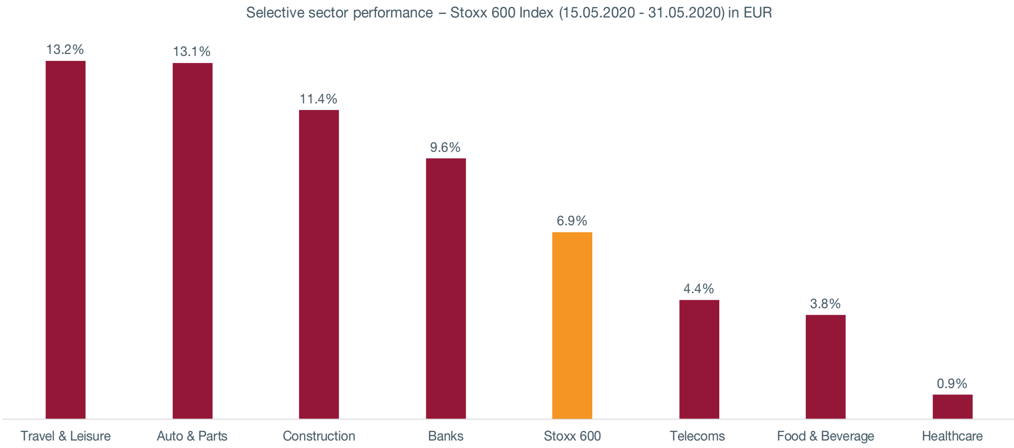
REMEDIAL RALLY BY EUROPEAN CYCLICALS



Cyclical stocks outperformed their defensive counterparts in the final two weeks of May. This reflects a mood of optimism in the market, which is encouraging investors to buy stocks that are more sensitive to the business cycle and therefore riskier. There are several reasons.

First of all, the ECB has publicly unveiled a range of stimulus plans for economies. Investors can now see that borrowing is not being considered as a viable 'way out' from the crisis.

Additionally, Europe is easing its lockdowns. Although some countries are keeping the screws tightened in various ways, the news has given cause for widespread celebration, including among investors. The prospect of life resuming its 'normal' course also means that economies are starting to pick up again. After two months in shackles, consumers are resurfacing. Soon inventories will be depleted, order books will fill up and more money will change hands – which has given a boost to banking stocks.

Although it is a little early to tell whether the remedial rally by cyclical stocks will last, this change in trend illustrates the hopes placed by the market in consumers (and Main Street in general).

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