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20 July
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UNCERTAINTY REIGNING

Highlights:

US banks report solid results

China's economic recovery unlikely to be a 'V'

Overview

The pandemic is still making inroads. In the US, daily records for new coronavirus cases were broken last week, and India re-confined practically 10% of its population. Meanwhile hopes of a vaccine – following Moderna's breakthrough – supported financial markets, although investors were unnerved by worsening China-US relations and the approaching US elections.

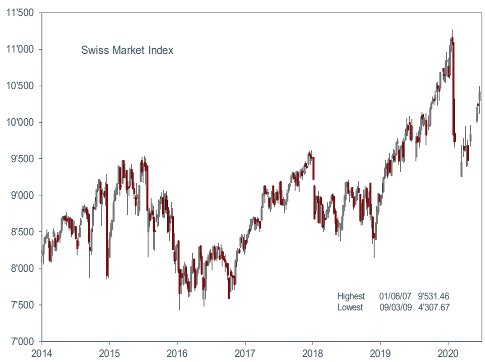
The ECB's policy meeting went off as expected. Benchmark rates were kept in negative territory and purchases of 'peripheral' bonds are continuing, especially Italian BTPs. Christine Lagarde called on European leaders to quickly rally round the 'ambitious' EUR 750bn recovery fund, designed to support those member states hit hardest by the pandemic. Today marks the fourth day of talks as the European Council, meeting in Brussels, seeks to clinch a final agreement. Rumour has it that grants amounting to EUR 390bn and cheap loans of EUR 360bn is one formula on which common ground could be found.

The current reporting season will tell us just how harmful the lockdown has been for the economy and could prompt governments to pile on more stimulus. US banking majors, who got the ball rolling last week, reported surges in trading income. Beating Goldman Sachs, which posted profit of USD 2.4bn (on a par with the same period last year), Morgan Stanley's bottom line rocketed by 45% to USD 3.2bn. But banks with big loan books – commercial or retail – were forced to set aside huge loan-loss provisions, which dented their earnings. For example Bank of America's earnings fell by half after it allocated USD 5.1bn to bad debt.

The plethora of economic stats reported last week were mixed. In the US, industrial production rose by 5.4% month-on-month in June and retail sales recovered by 7.5%. But 1.3 million individuals signed on as jobseekers in the week from 5 to 11 July, bringing the total to 17.33 million.

The Fed's next policy meeting is 28-29 July. In its recent Beige Book, it drew attention to the hazy outlook on the pandemic. Business activity remains far below pre-Covid levels, warranting continuation of an accommodative monetary policy.

China's GDP in the second quarter rose by 3.2% year-on-year, beating the 2.5% consensus growth forecast. But retail sales disappointed, declining by 1.8% in June year-on-year versus an expected 0.5% increase, pouring cold water on the prospect of a strictly V-shaped recovery.



The SMI is set to take a breather after reaching target at 10500 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	1.07	10'410.52	3'365.60	12'919.61	5'069.42	5'935.98	3'224.73	10'503.19	22'696.42	1'055.06
Trend	➡	➡	⬆	⬆	⬆	⬆	⬇	⬆	⬆	➡	⬆
%YTD	-3.00%	-1.18%	-1.94%	-10.13%	-2.49%	-15.20%	-21.30%	-0.19%	17.06%	-4.06%	-5.35%

(Daten vom Freitag vor der Publikation)

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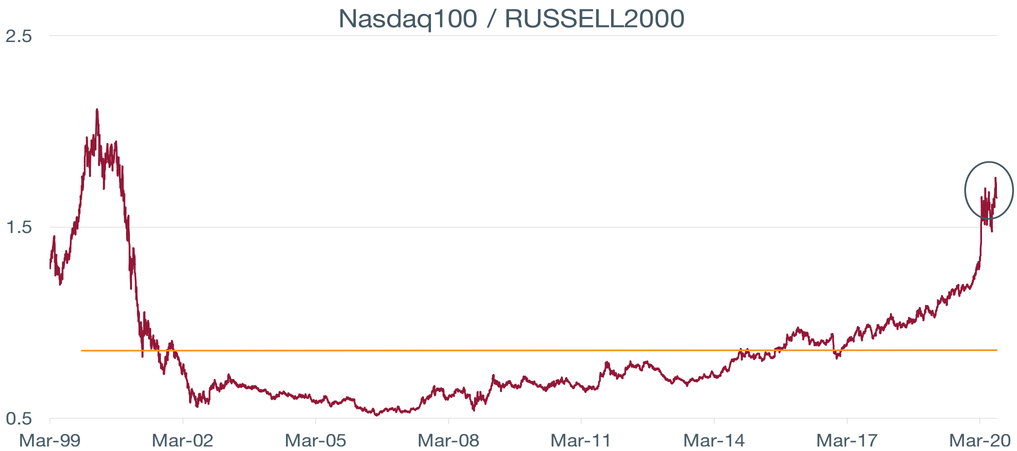
NASDAQ DEFYING GRAVITY



There is talk in the financial press of a bubble forming on the Nasdaq 100, which represents the leading tech stocks in the US market. And for good reason: the following chart shows the Nasdaq relative to the Russell 2000 index of the leading small and mid caps in the US.

The orange line represents the historical average of the Nasdaq100/Russell2000 ratio. The red line shows the ratio where it currently is – miles away from this average and heading for the levels seen shortly before the TMT bubble burst in the early 2000s.

Nothing hints at a reversal of the trend except perhaps the widening valuation gap. The median P/E of the Nasdaq has climbed to 29x earnings versus 19x for the Russell 2000. The Nasdaq has gained 22% year to date whereas the Russell 2000 has shed 11% of its value. Once again for each index, the heavyweights are driving positive performances. The median year-to-date performance for all stocks in the Russell 2000 is a dire -22%.

Outperformance by Nasdaq 100 relative to Russell 2000 stretches to highest level in 20 years. When will the bubble burst?

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