N° 582
2 November 2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

SCARED BUT NOT PANICKING

Highlights:

Better-than-expected economic data

Credit market indifferent

Overview

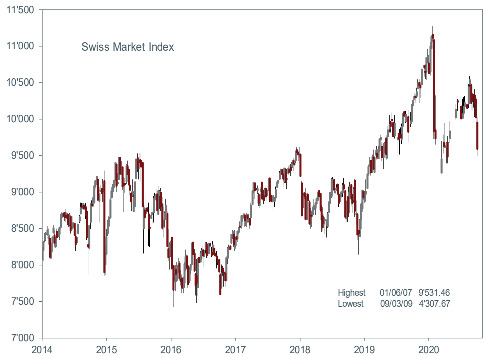
Last week was extremely volatile for equity markets, with indices falling between 4% and 7%. Part of the reason was the surge in Covid-related hospitalisations and the return to lockdowns or partial lockdowns in Europe. Other factors quickened the nervous mood, providing easy pretexts for dumping shares. Corporate earnings releases can obviously wrongfoot investors, especially in today's uncertain conditions. Analysts are struggling to project earnings figures, and stretched multiples leave little room for disappointment. The icing on the cake last week was Brexit, with tense talks entering the eleventh hour, and US government's failure to reach agreement on the next dose of fiscal stimulus.

The economic data last week tended to be better than expected. US GDP recovered by 33.1% in the third quarter versus the expected 31% while initial jobless claims clocked in at 751,000 versus a forecast of 775,000. In Europe, France's GDP also bounced strongly, gaining 18.2% in the third quarter amid strong consumer spending. It goes without saying that these impressive figures were helped by easy quarter-on-quarter comparison following the dire second-quarter numbers. All this does not tell us much about the true state of the global economy.

The ECB left its benchmark policy rate unchanged at -0.5% but Christine Lagarde expressed concern about the prospective slowdown in growth during the fourth quarter. An additional support plan could be activated in December to cushion the economic fallout from the renewed lockdowns in Europe.

Even if volatility on equity indices has increased sharply, with the benchmark spiking above 40 points, this state of anxiety is not corroborated by credit markets. Usually, when investors are panicking, credit spreads tend to widen sharply, which is not the case today. Last week, the benchmark index rose by 35bp over the week to 5.75%, whereas in March – at the height of the panic – it exploded to a massive 14%. In our view, credit remains the true stress metric in the markets. What was new last week was the return of sharp price swings, which are now spreading to former strongholds such as large caps and, in particular, 'big tech' in the US. Some blue chips have now sunk to levels that are good entry points for investors interested in directly held positions. Think SAP, which is 37% off its recent high, as well as Swisscom, Novartis and Apple.

So while the market is nervous, investors are not yet panicking.



The breakout downside of 9700 last week places the SMI in a bearish configuration. However, if the index could find support somewhere above 9500 points, a bounce to 9850 points is still possible.

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	0.92	1.07	9'587.15	2'958.21	11'556.48	4'594.24	5'935.98	3'269.96	10'911.59	22'977.13	1'103.46
Trend	➡	➡	⬇	⬇	⬇	⬇	⬆	⬇	⬇	⬇	⬇
%YTD	-5.13%	-1.61%	-9.70%	-21.01%	-12.77%	-23.15%	-21.30%	1.21%	21.61%	-2.87%	-1.00%

(Daten vom Freitag vor der Publikation)

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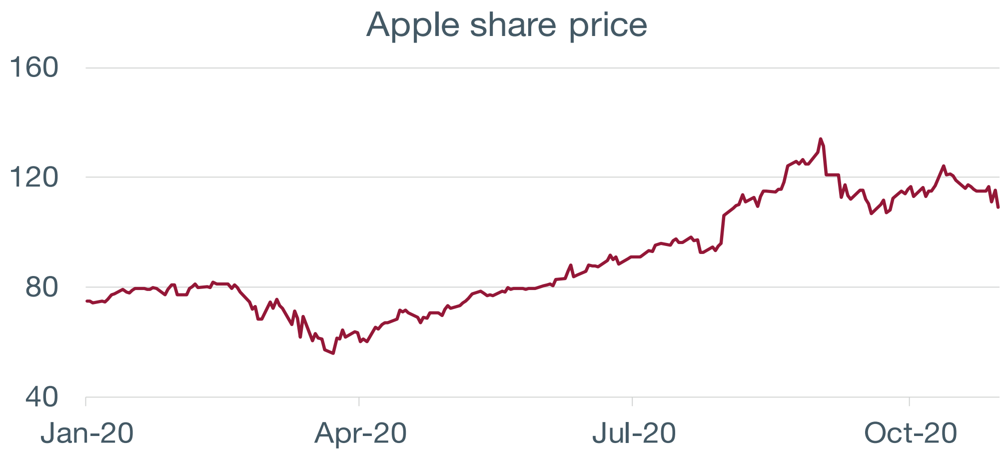
FLASH BOURSIER

APPLE (ISIN: US0378331005, PRICE: USD 108.86)



Apple reported record sales of USD 64.7 billion for its fiscal fourth quarter, but this was only slightly higher than in the prior-year period. Net income totalled USD 12.67 billion, working out as 73 cents per share – down 7% despite the large share buybacks implemented to underpin EPS.

Sales plunged by 29% in China, the key market. In Europe, growth was 13%. iPhones sales shocked investors, garnering revenue of USD 26.1 billion, which was 2 billion less than expected. It was an altogether different story for Macs (USD 9.03 billion compared with the USD 7.27 billion expected), iPads and services, which boosted by WFH and distance learning set new records.

The significant drop in demand for iPhones was largely due to customers waiting for release of the next generation 5G-compatible iPhones, which had been delayed to mid-October. Even this represents a manufacturing miracle amid the lingering supply-chain problems. The iPhone 12 range has got off to a firm start and stands to benefit from the seasonal demand surge. However, the downturn in China – which began in 2015 – is probably more than just cyclical. Chinese competitor Xiaomi now sells more smartphones in China than Apple does. And the ongoing trade and tech war with the US could dampen the recovery expected by Tim Cook, who is counting on China for both supply and demand.

The absence of current-quarter guidance, blamed on the haze surrounding Covid and possible store closures, was not much to the liking of investors. But the subsequent correction in the share price, now 20% off its September peak, should be pinned on the generous valuation (27x forward earnings) and the 48% year-to-date performance.

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