N° 586
30 November
2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

VACCINES RAISE HOPE OF RETURN TO NORMAL

Highlights:

MSCI index up 12%

China first in line to recover

Overview

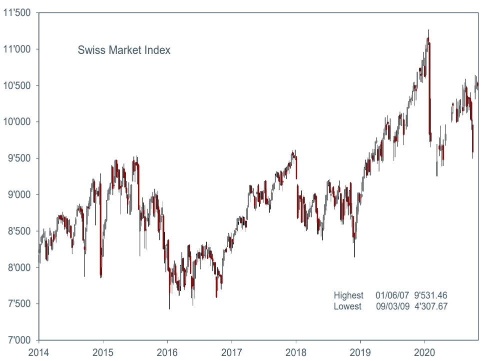
Main stock indices are set to finish the month close to setting new records, boosted by hopes that Covid-19 vaccines will spell the end of the emergency health restrictions. This mood of optimism has remained intact even though the US and Europe have reacted to the high number of new infections by reinstating controls on businesses and travel.

The MSCI World Index is up 12% since the beginning of the month, driven by Europe's remedial rally, with the equity indices of the worst-hit countries – Milan, Madrid and Paris – leading the way. Stocks in those sectors hurt most by social distancing measures have recovered sharply, such as cyclicals (airlines, cruise operators and oil companies). So have financials. The ECB has signalled that banks may pay out dividends again from next year onwards, while lenders will have to convince regulators that their balance sheets are sturdy enough to survive the pandemic. Retailers have also staged a strong comeback as their stores have reopened. The share prices of H&M and Inditex have shot up by more than 30% at the expense of online retailers such as Zalando. The best-performing companies in the sector are likely to see major revisions in earnings growth estimates.

The risk-on mood was also helped last week as the obstacles for Joe Biden to take up residence in the White House were one by one removed. Donald Trump no longer opposes the transfer of power, opening the way for a smoother transition. This also reduces uncertainty over global trade and foreign policy and galvanises enthusiasm for implementation of a fiscal stimulus package. Moreover, the appointment of former Fed chief Janet Yellen as Treasury Secretary is widely seen as 'Christmas come early', suggesting tighter coordination of monetary and fiscal policy in the future.

Macroeconomic signals have also been encouraging. The pick-up in China's manufacturing sector in November, with the PMI index clocking in at 52.1, is the best such result since 2017. The Chinese economy stands to be the first major power to recover from the damage wrought by the coronavirus.

Oil prices are under pressure ahead of the meeting between OPEC and its allies to decide whether or not to extend production cuts into 2021.



A bullish flag seems to be taking shape, suggesting that 10600 points could finally be punched in this week. If the breakout does not happen, the SMI could try to firm up support around 10350 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	0.90	1.08	10'501.18	3'527.79	13'335.68	5'598.18	5'935.98	3'638.35	12'205.85	26'644.71	1'230.72
Trend	➡	➡	➡	⬆	⬆	⬆	⬇	⬆	⬆	⬆	⬆
%YTD	-6.48%	-0.31%	-1.09%	-5.80%	0.65%	-6.35%	-21.30%	12.62%	36.03%	12.63%	10.41%

(Daten vom Freitag vor der Publikation)

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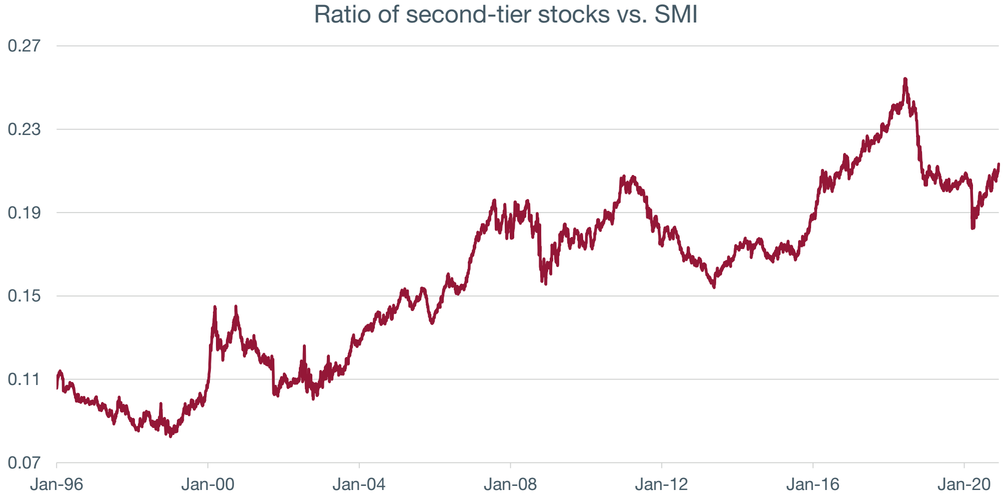
THE RETURN OF SECOND-TIER STOCKS



The Swiss equity market has its own particular structure. As we all know, three heavyweights overwhelmingly dominate Swiss indices. Nestlé (19.7%), Roche (14.2%) and Novartis (13.4%) alone account for 47% of the SPI benchmark, or even 50.8% of the SMI index of the 20 largest capitalisations in the Swiss market.

This concentrated structure of so-called defensive securities, to which one could today add Swisscom and perhaps even Alcon, forms a grouping perceived by investors as a 'safe haven' block that can function as a proxy to bonds when interest rates are negative. This can be seen in times of stress, when investors are seeking to pull back on risk.

As with investment-grade bonds, these securities plays a safe haven role, relegating the notion of fundamental value to a secondary role.

In absolute terms, fundamentals are not excessively priced – based on current multiples – for the two Swiss pharma flagships. However, in the market phase that is before us, with a vaccine due soon and the days of the lockdown measures probably numbered, second-tier stocks seem to be best placed because they are trading from further behind.

The ratio between secondary stocks and the large cap index has inverted since late April, and second-tier stocks have outperformed blue chips by more than 12% since that date. This trend is set to continue and could even gather pace in the coming months.

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