

Inflation: to be, or not to be?

Overview

Inflation figures from the US called the tune in financial markets last week, after fears were stoked by booming commodity prices and supply bottlenecks for some types of goods. The price data clocked in well above expectations, springing a nasty surprise on equity investors.

This consumer price index jumped by 4.2% year-on-year in April. The less volatile core inflation was up by 3%. In contrast, stagnant US retail sales in April and a low capacity utilisation figure (74.9%) – showing that the economy is far from overheating – probably supported share prices towards the end of the week.

The inflation surge was largely powered by the base effect, in comparison with the depressed April 2020 level. Prices of air tickets and hotel stays have soared. However, rents and medical services, which are slower moving and more reflective of inflation expectations, have risen more moderately, which is reassuring. Inflation quickened by 2% both in Germany and in the Eurozone, in line with expectations.

The inflation surge was largely powered by the base effect, in comparison with the depressed April 2020 level

The question is whether this price upswing will last or not. The whole dilemma is keeping investors on their toes. Yet there is no clear answer. Some of the effects are

likely to be temporary, linked to shortages; others will be longer lasting, as the huge US fiscal stimulus will boost aggregate demand.

Central banks, including both the ECB and the Fed, believe that the trend will not persist for more than a few months. Their main argument is that their economies are far from full employment. And some central banks are adamant about keeping monetary policy nice and loose. In the US, criticism of the Fed for once again ‘lagging behind the yield curve’ has been rife. Will this soon pave the way for ‘tapering’ (which means gradually reducing asset purchases followed by higher policy rates)?

Central banks believe that the trend will not persist for more than a few months

The tech sector saw the fiercest correction last week. Growth stocks, which are hovering on high multiples, faced particularly harsh pressure due to rising long-term yields. However, tech majors with steady profits tended to be more resilient. In the long term, the sector will also be supported by the fiscal splurges.

Large buyback plans were announced by blue chips, which will support stock prices. Excess cash has resulted in a total in Europe that is 25% above pre-pandemic levels. In the US, the total is estimated close to USD 500bn – the loftiest level in 20 years and 35% higher than in 2020.

Swiss Market Index (SMI)



The SMI is struggling to retrace to recent highs after forming double-top in mid-May. However, the index has formed support around 11070. Technicals also suggest a firm foundation during this consolidation period for a renewed uptrend.



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	1.09	11'120.77	4'017.44	15'416.64	6'385.14	7'043.61	4'173.85	13'429.98	28'084.47	1'307.53
Trend	↓	→	→	→	↑	↑	→	→	↓	↓	↓
YTD	1.85%	1.22%	3.90%	13.08%	12.38%	15.02%	9.03%	11.12%	4.20%	2.33%	1.26%

(values from the Friday preceding publication)

Alibaba: genuine blue chip

Alibaba, the world-famous Chinese merchant website, has unveiled results for its fiscal fourth quarter to March 2021. In the end, the group posted its first loss in a decade, reflecting to a one-off fine from Chinese authorities for allegedly abusing its dominant position by requiring merchants to use its platform exclusively.

This fine, totalling USD 2.8bn, represents 4% of the group's revenues for the 2019 financial year. Without this fine, which came in lower than the market had estimated, profit would have risen by 41% over the period. The growth outlook for the current year is fixed at 30%, or even more.

The recent downswing in Alibaba's share price stemmed partly from the government's opposition to the late-2020 IPO of ANT, in which Alibaba holds a 33% stake. ANT operates the Alipay payment system as well as offering consumer loans and wealth management services. China wants to regain control of this business and is considering subjecting ANT to the same capital requirements as a Chinese bank, which would curtail its potential for expansion. At the moment, ANT is valued at around USD 150bn. Its latest profit increased by 50% year on year.

Alibaba's stock looks extremely attractive at current levels (around 19x earnings), with growth of around 20% per year. Technically, the stock is trading close to its long-term support. Alibaba is a blue chip that has probably been hit too hard by investors.

Alibaba share price since March 2016



Authors and contact



Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University



Françoise Mensi
Ph.D in Economics



Pierre-François Donzé
M. Sc. in Economics



Karine Patron
MScF Université de Neuchâtel



Mickaël Gonçalves
MSc in Accounting, Control and Finance

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

[facebook.com/banquebonhote](https://www.facebook.com/banquebonhote)

[linkedin.com/company/bonhote](https://www.linkedin.com/company/bonhote)

twitter.com/alexvincent

[instagram.com/banquebonhote](https://www.instagram.com/banquebonhote)

[youtube.com/banquebonhote1815](https://www.youtube.com/banquebonhote1815)

This document is provided for your information only. It has been compiled from information collected from sources believed to be reliable and up to date, with no warranty as to its accuracy or completeness. By their very nature, markets and financial products are subject to the risk of substantial losses which may be incompatible with your risk tolerance. Any past performance that may be reflected in this document is not a reliable indicator of future results. Nothing contained in this document should be construed as professional or investment advice. This document is not an offer to you to sell or a solicitation of an offer to buy any securities or any other financial product of any nature, and the Bank assumes no liability whatsoever in respect of this document. The Bank reserves the right, where necessary, to depart from the opinions expressed in this document, particularly in connection with the management of its clients' mandates and the management of certain collective investments. The Bank is a Swiss bank subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not authorised or supervised by any foreign regulator. Consequently, the publication of this document outside Switzerland, and the sale of certain products to investors resident or domiciled outside Switzerland may be subject to restrictions or prohibitions under foreign law. It is your responsibility to seek information regarding your status in this respect and to comply with all applicable laws and regulations. We strongly advise you to seek independent legal and financial advice from qualified professional advisers before taking any decision based on the contents of this publication.