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BONHÔTE

One negative news item too many

Overview

The mood was not great to start with. September is historically unfavourable for equities, which are today trading on red-hot multiples. Against this backdrop, an unexpected risk from far away has knocked financial markets off balance – from Asia, to Europe, to the US. Yesterday's session (20 September) marked the worst decline in equity indices for three months. The 10-year Treasury yield fell to 1.32% as investors scrambled into safe havens.

The apparent source of all this volatility is the possible bankruptcy of the colossal Evergrande, one of China's leading property developers. With more than USD 300bn in debt, the company – which has long been in trouble – announced last Thursday that it would default on USD 83.5bn in coupon payments tied to its bonds. The fear of a property bubble bursting, in a sector that accounts for almost 28% of the Chinese economy, is a definite concern. People are wondering whether China may now have its answer to Lehman Brothers.

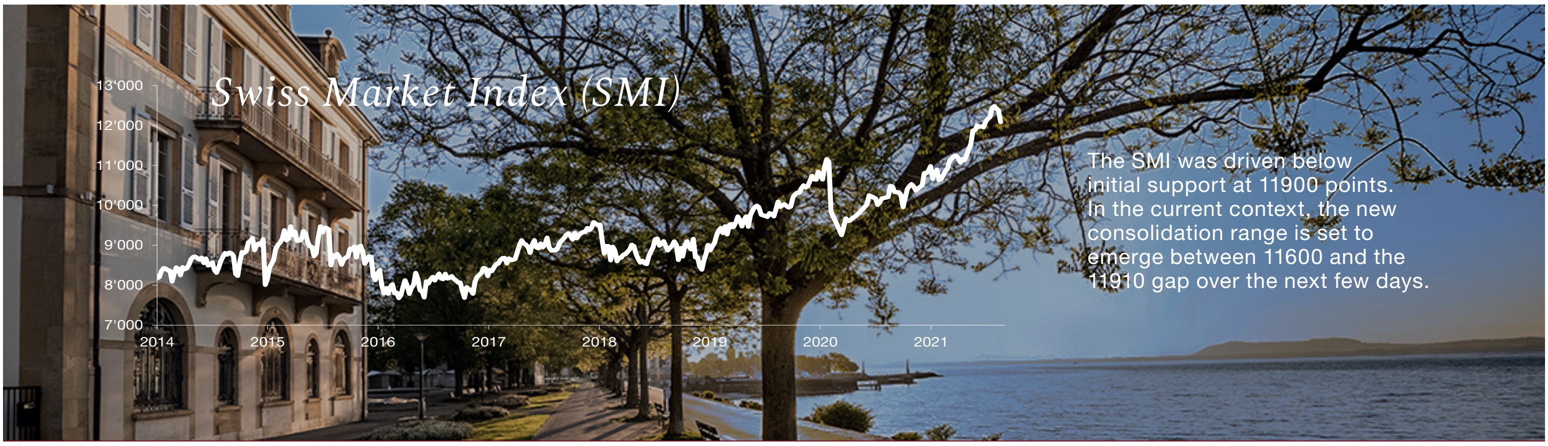
The crux of the matter is whether the authorities will step in to provide a safety net and limit a liquidity crunch with the potential to contaminate other Chinese and even Hong Kong property companies. On the other hand, the market is highly fragmented, with Evergrande's share estimated at 4%. This reduces the risk of significant pressure building on property prices. The sharp fall in banking majors' stock prices on Monday is probably an overreaction, since loans to Evergrande were mainly granted by state-controlled Chinese banks.

The colossal Evergrande, one of China's leading property developers, may be heading for bankruptcy

In actual fact, this latest event merely highlights the regulatory crackdown that China has been engaging in for many months. This has affected most business sectors, starting with those spanned by the giant Alibaba Group Holding. The restrictions have also extended into heavy industry, as reflected in the fall in commodity prices. A slowdown in GDP growth could be in store.

The Chinese government's restrictions have also extended into heavy industry

The recent loss of investor confidence is certainly not due only to mishaps in China. That news obviously came at the wrong time as investors prep themselves for announcements of monetary tightening by the Fed on Wednesday. Here they are wondering when the Fed will taper its asset purchases and are also on the lookout for signs of a potential rate hike in 2022. In contrast, the August inflation report (+4%) has rekindled hopes that price increases are transitory and the inflation will ebb into a range of 2.0-2.5% once the dust settles. A final issue stoking anxiety has been the confrontation in Congress between Republicans and Democrats over the debt ceiling and the spread of the delta variant. The US has recorded its highest number of daily deaths (2,000) since March.



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	0.93	1.09	11'935.53	4'130.84	15'490.17	6'570.19	6'963.64	4'432.99	15'043.97	30'500.05	1'279.35
Trend	↑	→	↓	↓	↓	↓	↓	↓	→	↑	↓
YTD	5.32%	1.09%	11.51%	16.28%	12.91%	18.35%	7.79%	18.02%	16.73%	11.13%	-0.92%

(values from the Friday preceding publication)

IPOs proliferate

The market for initial public offerings (IPO) has at this point of the year raised more money than it did in 2000, at the height of the dot-com boom. And it's not over yet, as the US IPO market is gearing up for another busy week, with 14 IPOs planned. That is unless fears of contagion from a possible default by Chinese property giant Evergrande prompt issuers to postpone their plans.

Since the beginning of the year, more than half of the companies that have gone public are trading above their IPO price, resulting in an average return of 13%. For example, in September alone, 10 out of 11 IPOs are valued above their initial price and show an average return of 55%. Last week was particularly busy for IPOs, all of which were positively received by the market. Among the best performers have been biotech Dice Therapeutics (+108%), coffee retailer Dutch Bros Inc. (+124%) and, of course, the select Swiss sports firm ON holding (+50%).

The successful On Holding IPO was priced at USD 24, well above the proposed starting range of USD 18-20. The company was able to raise USD 610m against an equity value of USD 6.5bn. This IPO is a stepping stone for the Swiss sports footwear manufacturer as it looks to expand internationally and invest in innovation and sustainability.

In short, the IPO market is booming, with the 14 IPOs this week expected to raise USD 5.5bn alone. This brings the current-year total ever closer to the record of the 294 flotations and the USD 100.5bn raised in 2000. Many of them will probably not be as successful as hoped for in the long term, so it is the job of investors to seek out and support the next GAFAM.

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