

Momentum is slipping

Overview

Despite heading south at the beginning of the week, equity markets gradually regained ground, holding on to gains as central banks decisions came and went. Investors are increasingly incorporating a broad slowdown in accommodative measures. Norway's central bank has been the first to take action, raising its benchmark policy rate to 0.25%. Canada and New Zealand are soon expected to follow suit.

Meanwhile, the Fed last week dashed expectations for hard news on tapering. Chair Powell continues to prepare the markets, having hinted that moderation in asset purchases could be announced at the next meeting in November. The so-called Fed 'dot plot', which charts the views of individual FOMC members on interest rate rises, shows that 9 out of 18 governors now think that the rate lift-off will take place in 2022, followed by three increases in 2023 and 2024. That suggests a benchmark rate of 1.75% in three years' time. This different prospect is also driven by latest forecasts for inflation, which they see peaking at 4.2% this year, i.e. more than twice the target. The Fed also cut its annual GDP growth forecast to 5.9% (from 7% in June).

Yields have risen since the policy statement. Expect more volatility in the bond market during the final quarter.

Investors are increasingly incorporating a broad slowdown in accommodative measures

China continues to constrain markets with each government crackdown. The latest is taking on cryptocurrencies. Beijing is tightening its grip on cryptocurrency trading platforms in a bid to eliminate the illegal business that arises from cryptocurrency exchanges. Bitcoin mining is now banned nationwide, as are the cryptocurrency-related services offered by banks and payment providers.

Evergrande has already rattled investors, and more of its payment deadlines are looming this week. Since the scandal broke, the Chinese government has injected nearly 461 billion yuan (61 billion euros) to reassure the market. ECB President Christine Lagarde has stated that European exposure is limited.

In China, Bitcoin mining and cryptocurrency-related services offered by banks and payment providers are now outlawed

Global growth is losing momentum, as are equity market indices, which have not risen for the past month. Bear in mind that over a 10-year period, the S&P 500 has put on 388%, or an annualised 17%. Expectations today are consequently high, making it increasingly difficult to surprise on the upside. Stock indices need to find their second wind in the final quarter, potentially blowing across from nine-month corporate earnings.

Swiss Market Index (SMI)



As long as the SMI remains below 11900, the target at 11600 remains in force. The short-term trend is bearish.



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	1.08	11'817.20	4'158.51	15'531.75	6'638.46	7'051.48	4'455.48	15'047.70	30'248.81	1'265.10
Trend	➡	➡	⬇	➡	➡	➡	➡	➡	➡	⬆	⬇
YTD	4.43%	0.20%	10.40%	17.05%	13.22%	19.58%	9.15%	18.62%	16.75%	10.22%	-2.03%

(values from the Friday preceding publication)

Unilever

In an equity market that is seemingly running out of steam and widely exhibiting rich multiples, it is worth considering not the absolute share prices but rather their level relative to their benchmark. By comparing the price of a stock to its index, we gain a view of its over- or under-performance against the broad market.

Unilever is one of the world's leading companies in the personal care, household and food segments (including beverages and ice cream). Its P/E is lower than that of its competitors. It trades at a 25% discount to Nestlé. The dividend is attractive, with the latest yield at 3.7%.

On technicals, as the chart opposite shows, Unilever's price relative to the pan-European index currently lies at the bottom end of a long-term channel. This ascending channel is also the indication that in the long run, Unilever has tended to outperform the market. Reverting to midrange in the channel would equate to outperformance of more than 30% versus the pan-European market. Moreover, the consumer goods sector to which Unilever belongs is generally defensive. In current conditions, then, the stock seems attractive for long positions where it is trading.



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