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BONHÔTE

Chronicle of a tapering foretold

Overview

Equity indices gained further ground last week. Many reached new all-time highs. Tech, luxury goods and automotive stocks were particularly in demand, while the oil sector was hit by ebbing crude prices. The impetus for the gains stemmed from solid corporate earnings and guidance, coupled with decisions from central bank, which also stood firmly in the spotlight. Rate-setters reaffirmed that monetary conditions would stay accommodative. Much of the prospective good news is doubtless priced into equity index levels. But these are receiving a further boost from the seasonality effect, with the prospect of buoyant holiday-season spending.

Markets have continued to trend upwards as we head into the new week thanks in particular to support from Chinese exports and approval by the House of Representatives of the USD 1 trillion five-year infrastructure plan. Pfizer's experimental Covid pill, which reportedly slashes the risk of hospitalisation and fatalities, is also fuelling the upbeat mood. In contrast, many pharma stocks – especially those exposed to vaccines – fell back sharply on Friday.

Markets continue trending up as we head into the week

A Federal Reserve that is more open about its intentions, one that voices changes in monetary policy well ahead of time, is undoubtedly a stabilising factor for financial markets, which are given far more time to react. Following its meeting on 2 and 3 November, the Fed finally announced – as expected – that the tapering of asset purchases would begin in mid-November. Relative to the current monthly volume of USD 120 billion, buying will be reduced by USD 15 billion per month from that point. This means that quantitative easing will peter out in mid-2022, if the economy performs well, as is expected. Powell also pointed out that tapering cannot be used as a tool for timing interest rates increases. He stated that the conditions for rate hikes are different and more stringent, and include a return to full employment. This endorses the Fed's view that the economic recovery is sustainable and the current giddy levels of inflation will not last. The likelihood of several upward nudges in short-term rates has therefore receded in the minds of investors. Tellingly, the yield on ten-year Treasury bonds has fallen to around 1.45%. Meanwhile, the Bank of England unexpectedly held its benchmark base rate at an all-time low of 0.1%. In the wake of that positive news, the yield on five-year Gilts recorded its biggest fall since the Brexit referendum in 2016.

The Fed finally announced a start date for tapering, as expected

In the US, job creation for October was much stronger than expected, clocking in at 531,000. The figures for the previous two months were in addition revised upwards significantly, thereby reversing the weaker trend witnessed since the summer.

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	0.91	1.06	12'321.85	4'363.04	16'054.36	7'040.79	7'303.96	4'697.53	15'971.59	29'611.57	1'264.07
Trend	➡	⬇	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬇
YTD	3.05%	-2.42%	15.12%	22.81%	17.02%	26.83%	13.06%	25.07%	23.92%	7.90%	-2.11%

(values from the Friday preceding publication)

Richemont

Activist hedge fund Third Point has reportedly built up a significant stake in Richemont and is calling on the Swiss luxury group to improve performance and overhaul its corporate structure. Together with Artisans Partners, which controls 1.2% of the share capital, it is piling on the pressure with the aim of improving the share performance. Specifically, it is highlighting the governance issue, whereby the dual shareholder status (which hands special voting rights to one class of shareholder) is not considered viable.

The debate over a possible sale of online sales site Yoox-Net-a-Porter – which despite considerable investment over the years is still loss-making and forfeiting market share to Farfetch – has intensified. The Richemont share price has risen by almost 30% since the low point in late-September. Compared with luxury goods rivals, the valuation is attractive when measured by enterprise value, which stands at 12x EBITDA compared with 16x for LVMH and 31x for Hermès.

Despite China's Common Welfare Policy (which will raise taxes on the wealthy) and LVMH's takeover of Tiffany, sales prospects for Cartier – which generates the bulk of the group's profits – remain solid. In particular, the jeweller has proven a knack for winning over new, younger consumers by harnessing the 'buy less but better' trend.

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