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BONHŌTE

Same asset, two different stories

Overview

Last week we saw the two sides of global equity markets. In Europe, stocks ended the week down by more than 1%. In contrast, US markets gained, with the S&P 500 advancing by 1.5%, propelled higher by energy and consumer stocks. The Nasdaq also regained 2%. Investor focal points were the less dovish noises from central banks, continuing friction between Russia and Ukraine and the variable batch of quarterly results from listed companies. Bond yields shot up amid rising consumer prices. Eurozone inflation clocked in at 5.1%, while the price of crude oil also rallied.

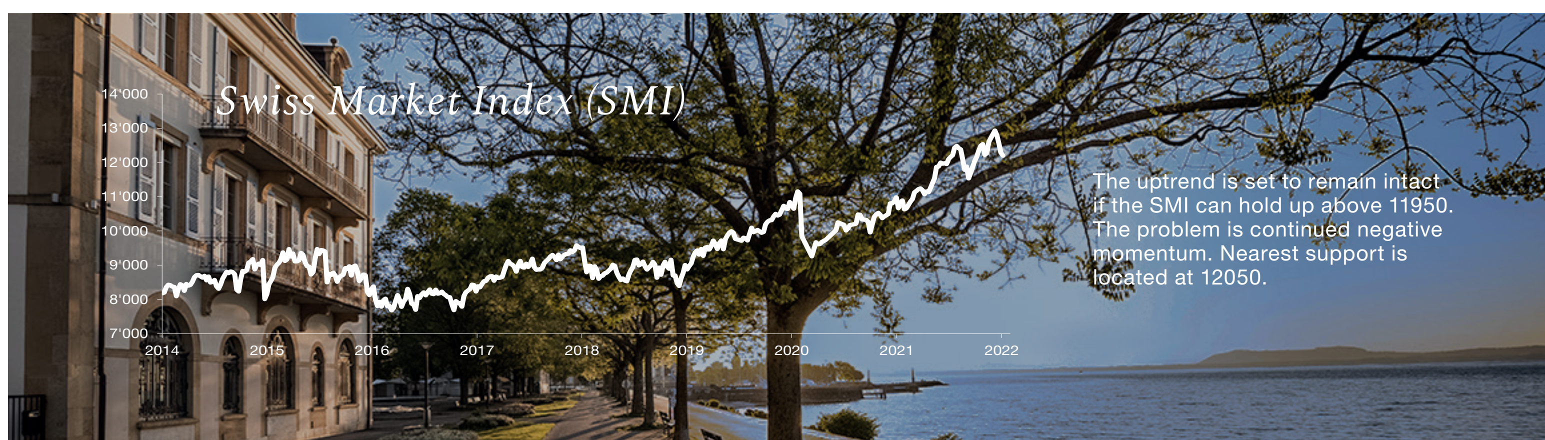
Central banks becoming less dovish

Last week investors exercised caution. As the prospect of reduced liquidity in Europe looms, they see themselves entering a new paradigm. Last Thursday, the Bank of England unanimously increased the base rate to 0.5% in its effort to curb inflation (forecast to reach 7.25% in April), which it fears will dent purchasing power and trigger a slowdown in GDP growth. The bonds acquired under quantitative easing arrangements will no longer be rolled over when maturing. The ECB continues to scale down its long-term refinancing operation (LTRO), i.e. a conduit for cheap loans, but is sticking to all-time low interest rates despite record-high inflation. In its view, half of the inflation is due to higher energy prices. So this means no drastic tightening of monetary policy for the time being, although Christine Lagarde has left the door open to a rate hike in 2022, depending on economic figures. The euro gained ground last week, strengthening to 1.14 against USD. This in turn weighed on export-related stocks.

In the US, January's robust employment report is stoking fears that the Fed will be more aggressive in raising rates to curb inflation, given that the labour market is no longer an issue. A total of 467,000 jobs were created in January, blazing past the consensus estimate for 150,000. In addition, figures for November and December were revised up sharply. The average hourly wage edged up by 0.7% (to USD 31.60), adding to fears of more aggressive monetary tightening by the Fed to avoid a price-wage spiral. But even if tightening were enacted, this would not necessarily be disastrous. Higher interest rates need not necessarily worsen the stockmarket correction if accompanied by sufficiently strong economic growth.

The labour market is no longer an issue for the Fed, with job creation leagues ahead of the consensus

In earnings reports, results were relatively good overall in terms of sales and earnings growth. But some stocks plunged in response to published figures. In some cases, guidance for Q1 2022 was not upbeat enough. Among the FAANGs, Netflix and Meta (Facebook) have lost some of their lustre.

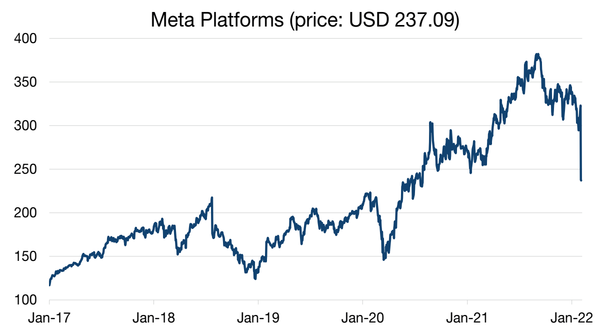


Key data

	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	1.06	12'140.25	4'086.58	15'099.56	6'951.38	7'516.40	4'500.53	14'098.01	27'439.99	1'221.10
Trend	→	↑	↓	↓	↓	↓	→	→	↓	→	→
YTD	1.48%	2.18%	-5.71%	-4.93%	-4.94%	-2.82%	1.79%	-5.57%	-9.89%	-4.69%	-0.89%

(values from the Friday preceding publication)

Meta: one quarter does not signal the end



Despite pandemic-related challenges such as production line disruptions, labour shortages and surging costs, the financial performance of the FAANGs cohort (Facebook, Apple, Amazon, Netflix and Google) in 2021 was impressive, both collectively and individually. Altogether, they generated revenue of USD 1.4 trillion, more than Australia's GDP, as well as USD 320 billion in profits. Investors fear that this trend cannot continue. Hence any sign of slowing growth – against a backdrop of rising interest rates – is enough to send share prices tumbling. But is this totally justified?

In particular, it seems like the whole world has turned against Meta (Facebook) after it released Q4 2021 results last Thursday. The share price collapsed by 26% after the group reported a 20% increase in sales relative to the previous year but a decline in profits. CFO David Wehner is known for crying wolf – expressing caution during every earnings call. As in the fable, the wolf has arrived this time, with a decline in active users, the effects of Apple's privacy policy (which has reportedly erased USD 10 billion from Facebook's revenue) and competition from Tiktok.

Growth guidance for the next quarter of 3-11% is below the consensus. At the current price, Meta's price/earnings ratio is around 19x estimated earnings for 2022, which is relatively cheap for a group producing steady double-digit increases in revenue.

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