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BONHÔTE

Russia-Ukraine keeps volatility high

Overview

Investors last week acted cautiously, spooked by the tensions boiling over on the Ukrainian border as Russia moved its pieces into place. Principal equity markets ended in the red on Friday, bringing down the curtain on a week in which indices changed direction several times, in tandem with news headlines. Cyclicals, tech and financials staged the sharpest corrections, while traditionally defensive consumer stocks held up.

In the short term, financial markets are dancing to the tune of the newsflow from Russia and the Ukraine. The prospect of a summit between Joe Biden and Vladimir Putin this morning let off some of the pressure on equities. Demand for haven assets has also eased somewhat. Gold has edged down below USD 1,900 per ounce while bond yields have ticked upwards. The price of crude oil is also falling.

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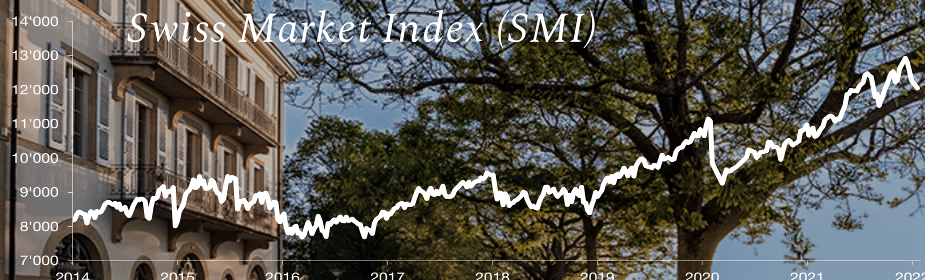
We can still expect a volatile week ahead, dominated by news from the Russian-Ukrainian border. Understandably, macroeconomic issues have taken a back seat for the time being. In this context, we continue to prefer blue chips and retain an underweight in bonds.

Aside for the geopolitical crisis, the investor focus for the coming weeks will remain firmly on inflation and the next FOMC meeting in March, when the first rate increase is set to take place. This prospect has also led bond yields higher in Europe. In Switzerland, the 10-year government is now yielding 0.21%. What is worrying investors the most and impacting their appetite for risk-taking is mainly the manner and speed of developments. The Fed is due to tighten policy on the basis of its macroeconomic analysis. James Bullard, president of the St Louis Fed, even expects 100bp of rate hikes by July, although he is also the most hawkish FOMC member. The shrinking of the balance sheet, which has more than doubled since the onset of the pandemic, is expected to begin mid-year. This process will start by the Fed not reinvesting funds flowing inwards from maturing assets over the next two years, starting in June, amounting to almost USD 1,800 billion.

Focus in the coming weeks is set to remain on inflation and the prospective rate hike at the next Fed meeting

US retail sales rose by 3.8% in January, shooting past expectations. Excluding transport, the increase was 3.3%. Even adjusted for inflation, growth is strong. Retail sales are already 10% above their pre-pandemic benchmark, proving that fears of an economic slowdown are at this stage unfounded.



The SMI last week tested 11950 and then bounced back. Momentum remains soft as do upside volumes. Even so, the uptrend can be considered intact.

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	1.04	12'010.09	4'074.28	15'042.51	6'929.63	7'513.62	4'348.87	13'548.07	27'122.07	1'231.77
Trend	➡	➡	⬇	⬇	⬇	➡	➡	⬇	⬇	➡	➡
YTD	1.03%	0.60%	-6.72%	-5.21%	-5.30%	-3.12%	1.75%	-8.76%	-13.40%	-5.80%	-0.02%

(values from the Friday preceding publication)

Hermès International

Luxury goods group Hermès had a great 2021, surpassing its pre-pandemic results on sales of €9 billion and net profit of €2.45 billion, which is almost a billion more than in 2019. Operating margin advanced to a record 39.3%. Relative to the prior year, sales increased by 11% in the fourth quarter at constant exchange rates, which was weaker than its competitors. The group has reiterated ambitious growth guidance, despite the monetary and geopolitical haze.

However, the slowdown in growth in the fourth quarter has worried investors, leading to profit-taking. Given the preceding solid earnings releases from the likes of LVMH, Kering and Richemont, momentum in this latest quarter was not considered good enough. The Hermès share is down 22% year to date, after surging by 75% during 2021.

But this growth slowdown at Hermès is more a reflection of its still largely “old school” business model, which comes with capacity constraints, than of any let-up in demand. What pinned back sales was in fact a shortage of the most sought-after handmade leather goods. The impact should therefore be temporary, as Hermès is strengthening its workforce and manufacturing units. It expects sales volumes at this division to rise by 6% annually in the long term.

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
linkedin.com/company/bonhote
twitter.com/alexnvincent
instagram.com/banquebonhote
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