EDMOND DE ROTHSCHILD

MARKET FLASH :
HARD-TO-INTERPRET DATA

There were no clear indications on market trends this week, a reflection of the difficulty investors are having in distinguishing between good and bad macro and company news.
- Germany's industrial PMI and IFO index remained weak, leading Berlin to cut its full-year growth forecasts to 0.5%. But figures out of China continued to improve and US data on property, jobs and durable goods orders were encouraging.
- Company results generally surprised on the upside except for investment banking and autos. Tech and luxury continued to flourish.
Meanwhile, central banks seemed more and more preoccupied by tame, peak-cycle inflation but they will probably not move away from their accommodating bias even if the economy and markets continue to rise along with oil prices. Only China's central bank might put its liquidity injections on hold.
However, given strong rallies on markets and the likelihood that the current rebound in the global economy will not translate into a sustainable cyclical recovery, we remain slightly underweight equities and very cautious on government bonds.

EUROPEAN EQUITIES

There were a good deal of quarterly results over the week, most of them upbeat.

Sanofi's sales rose 4%, or more than expected, thanks to an improvement in its vaccine division, and margins improved due to a more favourable product mix and better cost controls. **Carrefour** reassured investors with better-than-expected figures from its French hypermarkets. **Casino** is to extend its e-commerce partnership with **Amazon** and also reassured the market by selling 32 shop properties to Apollo Global Management for €470m.

SAP bounced after (i) reassuring quarterly figures despite a quarterly operating loss due mainly to a restructuring charge and (ii) announcing that the activist Elliott fund had bought a stake, a sign of confidence in the group's ambitious plan to improve its operating margin over the medium term. **Dassault Systèmes** revised its 2019 targets higher after upbeat first quarter results, due in part to its adoption of 3DExperience software and more favourable currency effects. After its agreements with Airbus and ABB this year, the group unveiled a partnership with **BHP** to roll out 3DExperience in the mining sector.

Erratic trading in **Wirecard** continued. The stock brushed off results that were merely in line, as well as another FT article fuelling doubts on its accounting practices, to rise on news that **Softbank** had acquired a stake, a move that will help the group expand in digital payments in Japan and South Korea.

In contrast, **Nokia**'s results were disappointing due to delays in building 5G networks as well as tougher competition.

Deutsche Bank and **Commerzbank** called off merger plans on the grounds that the resulting synergies would not offset restructuring charges and subsequent capital requirements. Watch this space as **ING** and **UniCredit** say they are also interested in Commerzbank. **Elior** has received a firm €1.54bn bid from **PAI Partners** for its concessions subsidiary, **Areas**.

US EQUITIES

With the first quarter results season in full swing, 22% of S&P500 companies have now reported. Most (76%) beat expectations while 18% missed. The S&P500 rose 0.9% over the period and the Nasdaq ended 1.8% higher. A slight 5bp fall in US 10-year Treasury yields and profit taking after the recent sector rotation resulted in growth stocks outperforming value by 3.5%.

This shift had an impact on sectors with Healthcare (+2.8%) leading the pack, making up for ground lost in the previous week when it underperformed significantly. Healthcare insurance plays like **Humana** and **Anthem** jumped 8%. Communication Services gained 2%, boosted by **Facebook** which rose 8% and **Twitter** (+12%) after good figures. IT advanced 1.6% after **Microsoft** released upbeat results and **Qualcomm** continued on its rebound after settling a dispute with **Apple**. In contrast, Basic Materials shed 2%, hit by a 14% plunge in **Freeport McMoran** after its results missed expectations, and industrials edged lower on disappointing figures, with **UPS** down 8%, **3M** tumbling 12% and **Caterpillar** 5% lower.

JAPANESE EQUITIES

The TOPIX edged-up 0.21% this week in thin trading. Volatility had been expected as short-term investors adjusted positions ahead of a very long holiday, but market moves were relatively muted. Long-term investors seem to have stayed on the sidelines, preferring to wait for FY2018 results as well as earnings guidance for the new fiscal year.

Land Transportation and Precision Instruments outperformed, led by companies with upbeat results. On the other hand, **Kansai Electric Power**, **Nissan Motors**, and **Nomura Holding** fell after reporting disappointing figures.

The Bank of Japan maintained its current ultra-low interest rate policy at the MPC on 25 April; and slightly revised its forward guidance by clearly saying that easing would be maintained at least up to Spring 2020.

All next week and also on Monday 6 May, Japanese markets will be closed for extra national holidays to celebrate the crowning of Prince Naruhito as new Emperor of Japan. All stock exchanges and banks will be closed during the long holidays.

EMERGING MARKETS

Emerging markets saw profit-taking this week, mainly driven by **China**. President Xi Jinping delivered a speech at the Belt and Road Forum, reaffirming his willingness to offer concessions for an imminent US-China trade deal. The PBoC called for monetary policy fine-tuning in a timely and pre-emptive way to prohibit excessive easing. Although in a slow recovery, China's power consumption in the first quarter slowed to +5.5% YoY vs. +9.8% a year earlier.

Major construction machinery producers reported strong preliminary earnings growth in the first quarter: **Sany Heavy** published saw profits up more than 100% and **Zoomlion**'s net profit soared by about 150% YoY. In contrast, **Hikvision** reported quarterly profits decline 15%, or below company guidance, due to headwinds both domestically and internationally. Management remained positive and guided on revenues rising 20% in the second quarter and flattish profits for the first half. **Moutai** reported solid quarterly results as expected with sales up 22% and earnings 31% higher.

Taiwan's **TCI** reported a 180% YoY surge in quarterly earnings, beating expectations thanks to operating leverage amidst China's tightening control on health supplements. Guidance for the full year was for a conservative 30% rise in sales.

Hynix in **Korea** reported a 70% decline in quarterly operating profits, in line with market expectations, with better-than-expected bit shipment growth was offset by a steeper-than-expected ASP decline. Management was upbeat on a second half recovery and maintained guidance of DRAM and NAND bit shipments rising between 15-25% in the second quarter.

In **India**, after the recent rally on optimism over Narendra Modi's re-election, the market consolidated, with oil prices trending up at the start of the week. March numbers for the auto market were still weak, with sales of two-wheelers down 17% YoY, passenger vehicles down 3% and trucks 7% lower. **Maruti Suzuki India**, India's biggest carmaker with over 50% market share, later confirmed this tough environment, with EBITDA down by 24.9% YoY for the fourth quarter of fiscal year 2019 due to higher sales promotion expenses, and rather cautious guidance for next fiscal year of 4-8% volume growth.

In **Brazil**, **Bradesco** reported strong first quarter results, beating expectations due to loan growth accelerating compared to the fourth quarter -atypical due to weak seasonality- and better asset quality.

Cielo's EPS sank 40%, or more than expected. The company is implementing a strategy to reduce prices and improve services to clients in order to fight competition. **CBD** reported strong results.

In **Mexico**, **OMA** reported upbeat results, not only due to stronger-than-expected commercial revenues.

In **Argentina**, bonds rose, the currency fell and equities sold off as recent polls showed Cristina Kirchner beating Mauricio Macri in October's election. Consumer confidence fell as inflation continued to rise.

COMMODITIES

At the beginning of the week, the US State Department said that waivers for buyers of Iranian crude would not be extended when they run out on May 2. Markets were surprised as they had expected an extension albeit with lower import levels. The decision might also be seen as a reaction to Russian and Chinese freight deliveries to Venezuela, providing support to the Maduro regime and indicating a cooling in US-China relations.

March exports from Iran were: China 613,000 b/d, South Korea 387,000, India 258,000, Japan 108,000, Turkey 97,000, and others 226,000. Washington is unlikely to get Iran's exports down to its targeted zero level, especially concerning China, but they could well halve compared to today's levels.

All eyes will now turn to **OPEC**. Along with Russia, the cartel will very probably not extend its current production cuts beyond June. The Joint Ministerial Monitoring Committee is scheduled for May 19 but a decision will probably only be reached when OPEC ministers meet on June 25 & 26. Saudi Arabia has said it will wait to see Iranian exports falling before making a move. Oil prices jumped $2 on the no-extension news to $74 but there is not much risk of them soaring due to significant available capacity, especially in Saudi Arabia. Nevertheless, we should expect volatility until OPEC makes a decision. Prices should then fall.

CORPORATE DEBT

CREDIT

The trend turned slightly negative due to disappointing economic data with Germany's IFO coming in at 99.2, or below the 99.9 expected. The Xover widened by 9bp and the Main by 2bp.

Credit Suisse surprised markets by beating expectations, especially in market activities. Net profits rose 8% for the year and Fixed Income, Currencies and Commodities (FICC) and Equity trading only fell a little compared to leading US banks. **UBS** also did better than expected in trading but net results still fell 24% compared to the same quarter in 2018. The bank said it would resume its share buyback programme and was targeting $1bn this year.

Fnac Darty (Ba2/BB+) reported an upbeat 1.7% rise in first quarter sales despite a negative calendar effect, mediocre consumption in France and social unrest, etc. The group is expected to continue opening stores with close to 60 scheduled for this year. Fnac Darty (Ba2/BB+) sold a 5-year maturity at 1.875% and a 7-year bond at 2.625% to raise €650m to repay its 3.25% bond due 2023. **Constellium** (B2/B-) reported better-than-expected quarterly figures with an 11% rise in sales, underpinned by +6% in volume. Management reaffirmed 2019 objectives. **Thomas Cook** saw heavy buying on reports that there were potential buyers around. There were, however, no indications on whether they were interested in the whole group or only part of it.

Good and bad news for **Casino**: the group unveiled a reinforced partnership with **Amazon** and new asset disposals raising around €470m for 32 shop premises but S&P cut its rating by one notch to BB-, citing persistently high leverage. Casino's bonds still managed to edge higher. **Suedzucker**'s bonds outperformed after the group said the next four quarterly coupons on its hybrid bond would be paid. The cash-flow event clause will not be triggered when the full year accounts are released in May. **Dia** came under pressure after its biggest creditor, **Santander**, rejected LetterOne's refinancing proposal even though the other 13 creditors had approved it. **Deutsche Bank** and **Commerzbank** called off their merger plan, citing execution risks and excessively high restructuring costs.

Netflix (Ba3/BB-) sold a 10.5 year bond with euro and US dollar tranches, raising the equivalent of $2bn at 3.875% and 5.375%. In financials, **ASR** issued a Tier 2 30NC10, raising €500m at 3.375%. The book was 10 times oversubscribed and the bond outperformed on the secondary market, gaining 0.75 points.

CONVERTIBLES

In quiet trading as the earnings seasons got off to a start, clothing and retail company **Guess? Inc.** raised $275m over 5 years at 2% and a 37.5% conversion premium. The proceeds will go on a share buyback and general business purposes. The market liked the deal and the convertible rose sharply. Even if management is committed to slashing the dividend, the company is expected to improve its cash flow.

Elsewhere, **Service Now** (Software, Cloud) reported sales and earnings at the top of analyst expectations and the stock rose further. It has gained 46% YTD and several analysts have revised up their price targets. Sales at **Silicon Labs** (semiconductors) were in line but earnings beat expectations. Management revised up EPS guidance for the second quarter from 47 to 70/80 cents and now expects sales to rise to $202-212m, up from $188m.

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