

Carlsquare/Vontobel weekly trading note: Volvo shares to close gap on Cat?

This week's case is a comparison between Volvo and Caterpillar, with the Caterpillar share outperforming recently. There are signs of cyclical momentum as commodities and interest rates rise again. In terms of valuation, Volvo's shares trade at low multiples. Volvo's significant exposure to markets outside Europe makes this even more evident.

Industrial stocks on the OMX have traded largely sideways since April and May. At the same time, US industrials such as Caterpillar have performed much better. One explanation could be that Swedish engineering companies are more exposed to Europe, while Caterpillar sells relatively more in North America, where growth is stronger than in Europe. But Volvo also has global exposure, with 56% of its sales outside Europe. Despite this, Volvo shares trade at a significant discount to Caterpillar.

The Q3 reporting season kicks off this week with interim results from banks such as JP Morgan and Wells Fargo. Meanwhile, some cyclical momentum is returning to the market with rising interest rates and commodity prices. From a technical perspective, we are seeing soft sell signals in the major indices.

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