SECULAR STAGNATION

Our **View** on Financial Markets

June 1st, 2015

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As co-founder and co-owner of Albin Kistler AG, André Kistler regularly publishes views and expectations on financial market developments.

The periodically appearing views on financial markets are also available on Albin Kistler's website as downloadable PDF.

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Comparison

In complex systems, though history seldom repeats itself, there is a rhyme and a reason to be found. In the "next economic crisis" the damage to the financial system will be of a different kind to that experienced in 2008. Complex systems never evolve in a straight line!

Before the financial crisis, private household saving rates collapsed in many industrialised countries. The access to credit financing was far too easy. After the financial crisis, central banks resolved to do everything in their power to ward off the spectre of deflation. The result was a run-away cycle of rising sovereign debt and ever more expansive monetary policy.

Accepting that the economy is a complex, adaptive system means taking a back seat, allowing market mechanisms freedom to operate and focussing primarily on credit and money supply cycles. These would be the central tasks of politicians and central banks.

For a long while now, we have come to expect weak but durable growth from the global economy – an expectation fuelled by demographic factors, sovereign debt, the money supply expansion, the absence of reforms in the market structure and the existence of the European single currency. In academic circles, this weakness is often referred to as "secular stagnation" or "The New Normal".

Outlook

In our view, the "next crisis" is not around the corner but already happening – in the shape of moderate global growth. Not every crisis must be the crisis of the century. Monetary policy is clearly not the best way for generating sustainable growth. The solution can only come from politics and rigid reforms. China, India and the US have a positive attitude to innovation and reforms, unlike the EU and Russia.

All the signs are that the era of weak economic growth will persist for a number of years and that the European economy will remain under pressure. Interest rates will be kept low, in particular in Switzerland, the country with the strongest currency over the long run.

Global stock market forecasters often cite the "Japanese scenario". Japan's stock market experienced a dramatic slump during its long period of secular stagnation. We do not share this view. In the 1990s, Japan was a very insular state with massively inflated stock and real estate prices. In the absence of alternatives, it shouldn't be cited as an example of today's global situation.

Also, the world's leading companies are in totally different situations now. Many global companies are on a solid financial footing and will be able to continually increase their earnings even in an era of moderate growth. In contrast, many industrialised countries are currently unable to reduce their bloated money supply because of record-high debt levels. Demand for blue chips and real estate/gold will therefore remain high.

Conclusion

1. The global economy's moderate upswing is breaking records for length.

2. The transition phase of low interest rates will last several more years.

3. Interest rates will be kept low, particularly in Switzerland.

4. The Swiss franc, though currently slightly overvalued, will remain the strongest currency over the long term.

5. Global corporate earnings will continue rising for several years to come.

6. Shares are valued relatively attractive and have considerable long-term upside.

7. We are a long way off the stage of greed and restrictive monetary policy.

8. There are "only" two bubbles in the economy: sovereign debt and money supply. These bubbles are at the beck and call of politics, not market forces.