Albin Kistler
Vermögensverwaltung für Private
& Asset Management

Wir halten Wort.

OVERWHELMED CENTRAL BANKS?

Our **View** on Financial Markets

April 6th, 2016

André Kistler

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.

Overwhelmed Central Banks?

April 6th, 2016, André Kistler

Growth Concerns

The global growth slowdown is rightly the dominant topic of central bankers, entrepreneurs and investors.

In the eurozone, sentiment indicators became worse in March. In Japan, the economic development remains flat with unsettled Japanese continuing to put their money into savings. Although economic data in the United States paints a comparatively healthy picture, large corporations are suffering from weak demand from abroad.

The modest economic performance is by no means a surprise. The global economy is not suffering from a lack of money, but it is experiencing a deep crisis of confidence.

The permanent interventions of European and Japanese central banks are unsettling ever wider circles. Instead of tackling structural reforms, politicians are causing record money flows, record debt and fragile banking systems.

It comes as no surprise that consumption and investments remain low and the huge cash holdings are deliberately not transferred into the real economy.

The emerging debate about helicopter money causes even more uncertainty. A continued "releasing" of huge amounts of money to stimulate private consumption may cause a shift from negative inflation to hyperinflation in the long term.

Summary?

In the near future, there is no indication that anything will change in the irresponsible conduct of the political class. Our baseline scenario "stagnation and zero inflation" shall therefore continue to apply. We are in a long-term stagnation cycle.

In the very long term and at the end of the government debt spiral the eurozone faces a collapse of the real economy and a sharp rise in inflation.

In comparative terms the Americans are faring best. However, debt, money supply and dependence on exports are still too high for the US growth rates to reach their potential and pull the rest of the world out of the stagnation trap.

Consequences for Investors

Interest rates in Switzerland, the eurozone and in Japan will remain at a low level for even longer. In the US, inflation and interest rates are likely to increase slightly. However much depends on demands from China and the price trends for raw materials.

Weak economic performance and global overcapacity are now reflected in stagnating or partly declining corporate profits.

Nevertheless, in recent years the world's leading companies have repeatedly demonstrated that they are highly adaptable and get along very well in a world with moderate growth. The hunt for safe and sustainable returns has pushed the valuations of most equity markets to higher levels.

In the context of deflation, negative interest rates and reasonable price-to-book ratios of companies, carefully selected shares still offer attractive valuations and dividend yields.

In the long term, first-class Swiss and US companies are the best option for providing protection against economic turbulence and inflation. Investors who endure the current price fluctuations will be sufficiently rewarded in the long term.