EQUITIES: NET EARNINGS YIELD IN EXCESS OF 6%

Our **View** on Financial Markets

January 7th, 2015

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.

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Economy

Subdued growth rates at the global level continued. At the same time, the economic gap between the United States and the emerging markets on the one hand and Europe and Japan on the other widened considerably.

Nevertheless, the unabated positive effects of globalisation and technological change will provide a positive boost for the global economy for some years yet.

The structural grounds for low interest rates over the long term can be found in the interplay between intensified competitive structures, rising government debt, population greying, a lack of any real appetite for reform and expansive monetary policies.

Despite encouraging data from the economy and labour market, the Federal Reserve will take care not to rush into raising interest rates too much. The risk of an economic setback and possible stock market shocks is too high.

In the Eurozone, the European Central Bank is likely to make further monetary policy manoeuvres in a bid to create inflation and stimulate growth. The Swiss National Bank's determination to stick to its static minimum exchange rate for the euro will be increasingly put to the test.

Increasing purchasing power and the superior state of Switzerland's economy point clearly in favour of upward pressure on the Swiss franc, which will again have to be combated with massive intervention in the currency market. The negative interest rates introduced for larger-scale deposits with the Swiss National Bank will, however, not bring the desired relief over the long term.

The likelihood of a day of reckoning for the government debt economy and the lack of any real desire to implement reforms in the EU cannot be ignored forever. It is only when it becomes clear that debts cannot be paid back and peoples' confidence in state, government and currency has broken down completely that there will be a massive downtrend in the euro and inflation. It could be several years before this point is reached, however.

Investment Policy

In an environment without inflation and intact – albeit muted – global growth prospects, we view equities in first-class companies with an earnings yield of over 6 % as highly attractive.

In addition, the best firms in this context are skilfully sidestepping the economic imbalances and standing out through their levels of innovation, sustainable earnings and capital strength. Our conviction with regard to the tactical overweighting of equities remains intact, although we are addressing the issue of volatility by means of increased liquidity.

Even with the substantial drop in interest rates, ongoing deflationary pressures argue in favour of continuing to hold selected fixed-income securities. We still view the risk of a change in interest rates as limited and remain selectively committed to long-dated paper.

This year, too, will bring unexpected events as well as positive and negative surprises. Our focus on quality and substance means that discretionary portfolios are ideally equipped to face the coming challenges on the financial markets.