THE POWER OF GLOBALISATION

Our **View** on Financial Markets

April 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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Macroeconomic Situation

Although the deflation feared by many central banks and market commentators has become reality, the detrimental effects of a negative price spiral will not occur. In fact, the main positive factors driving this development remain unrecognised or are being underestimated.

There is a global surplus supply in combination with weak demand for goods. Low commodity and energy prices, high levels of sovereign debt, demographic changes due to aging of the population and consistent productivity gains are pushing prices down in the long term.

Now that the Swiss franc has regained its strength, forcing the Swiss industrial segment to boost innovation and efficiency, interest rates are set to remain low in Switzerland in the long run, not least relative to other countries.

It may be some time before we see a noticeable recovery of commodity prices, or rising labour and capital costs. Given extensive globalisation, interest rates will never revisit their pre-financial crisis levels. In fact, thanks to the absence of a demand surplus, we predict that the current feeble upturn will last several more years.

The main factor that could jeopardise this prediction is a further loss of confidence in the euro, which would continue to seriously weaken the single currency and fuel rising inflation in the eurozone.

Conclusion

Low capital costs and open, liberal sales markets offer excellent conditions for entrepreneurship. The environment is also good for equity investors. Equities are still moderately valued when measured in terms of the fundamentals (risk premium and substance over assets), while offering relatively high and secure distribution yields.

Overbought markets, disappointing expectations, earnings revisions, negative technical trends or geopolitical events could trigger price set-backs at any time. However, any correction should only be temporary. In the long term, we are far more likely to see equity prices continue to rise and keep adjusting to bond valuations in the current low interest rate environment.

We are living in a completely new and fascinating economic world, shaped by widespread increases in wealth levels, zero inflation, low interest rates, low commodity prices, technological change, modest long-term growth and record-high corporate earnings. Globalisation is the relentless driving force behind these unprecedented developments. At the moment, the entire investment world has still massively underestimated the impact of globalisation.

Investment Policy

Following the Swiss National Bank's decision to remove the EUR exchange rate floor, we have continued to increase our equity weighting at the expense of the fixed-income segment and are now substantially overweight relative to the strategic allocation.

In response to low opportunity costs, we have also slightly increased our gold position, but without significantly reducing our cash holdings. We are maintaining the existing liquidity cushion in order to be able to react should financial markets face turbulent periods.