

LONG CYCLE

Our View on Financial Markets

July 7th, 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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Economy

We have repeatedly described the macroeconomic outlook as one of moderate global growth in a low-inflation environment, and this view remains intact even after the bumpy first half of 2015.

Despite the protracted discussion surrounding a preliminary US rate hike and the massive monetary intervention on the part of all major central banks, there has been only a marginal shift in the economic picture. The global economy is in a record-long, moderate upward cycle, with the transition phase of low interest rates set to continue for several more years.

The politically weak condition of the eurozone is reflected once more in the response being taken to the defiant stance of Greece. At the same time, the dispute is exposing the unsustainable underpinnings of the monetary union.

Following the “no” vote in the Greek referendum, the creditors will have no choice but to accept a further substantial restructuring of debt including massive depreciation. What is more, the only hope Greece has of regaining sustained competitiveness is to leave the Eurozone. In the meantime, the trials and tribulations of this process, which shows little understanding of what is at stake, will continue.

With the abolition of the cap on the euro/franc exchange rate, the Swiss corporate sector is facing even more overtly the consequences of the strong franc. Although the SNB's intervention has set a painful process in motion, the legitimacy of this decision is gaining more acceptance.

Once again, Swiss companies will be able to make up for the currency-induced disadvantages and reinforce their position in the global markets through innovation, cost leadership and quality.

Looking out over the next twenty years, the Swiss franc will remain the world's strongest currency with the lowest interest rates despite its current overvaluation.

Investment Policy

Given only the minor changes in the macroeconomic environment, we are not making any notable adjustments to the investment policy. Shares in internationally active and leading blue-chip companies with profit margins of around 6% are highly attractive in the current low-interest environment.

With real interest rates intact, we are retaining our exposure to selected CHF bonds, with a focus on solid corporate issuers, and are supplementing these with individual foreign-currency exposure for diversification purposes. However, fixed-income securities are kept significantly underweight due to the relatively modest returns.

The last six months have repeatedly shown that knee-jerk reactions in phases of exaggeration result in poor investment decisions. Investors who do not lose sight of what really matters are not put off by short-term fluctuations. Therefore they have weathered the recent turbulence unscathed.