BOOSTING FACTORS

Our **View** on Financial Markets

January 1st, 2014

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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

The global economic picture has brightened considerably over the past few months, driven by a noticeable increase in growth in the US. Despite setbacks in some emerging markets, this segment will continue to support growth in future.

In contrast, persistent structural problems in continental Europe are continuing to hamper growth in the region. In this respect, we agree with leading economists that the only way to help the old continent back on its feet in the long term is to clear the enormous debt burden.

In the wake of this positive overall development, deflationary factors are increasingly losing their impact. A healthy labour market, stabilising commodities prices and rising capacity utilisation illustrate this shift. However, a normalisation of the money supply, which has been massively expanded by the leading central banks, is still a long way off.

As we have often mentioned, globalisation is still the key driver of the recovery. Subdued consumer demand over the past few years and, in connection with this, companies' postponed investment activity will drive growth more strongly than generally expected.

The danger of a widespread recession is therefore fading, even if the problems of the debt economy in Europe remain unresolved.

Investment Policy

The ongoing bull market is partially offsetting the described economic upturn. However, the mix of an expansive monetary policy, low interest rates and rising company profits, in conjunction with moderate valuation, is continuing to stimulate the equity markets. Overall, we are leaving equity weightings neutral, but will abandon premature rebalancing if prices continue to rise.

For bond investors, the combination of a potential rise in interest rates and an increasingly steep yield curve present a major challenge. It is important to find a balance between risk and return opportunities, which is why we are opting for a portfolio maturity that is slightly below average in conjunction with disciplined staggering of maturities, and are focusing on solid corporate debtors.

Our focus on substance and sustainable corporate profits offers a high degree of security, even in the current climate, without limiting profit potential.