COMPANIES IN GREAT SHAPE

Our **View** on Financial Markets

May 16th, 2014

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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The global economy is already in its sixth year of moderate yet continual growth. We see no indications of a speedy reversal of this trend.

1. GLOBALISATION – DRIVING FORCE

Globalisation is the central driving force: Internet, information technology, automation, education, democratisation, competition between locations, free trade and increasing prosperity. The different cycles in the various regions are tending to balance each other out.

2. LONG UPWARD CYCLE

The current upward cycle will last far longer than in previous time periods, while moderate growth is preventing excesses and early saturation.

3. NO RECESSION

There are no signs of a recession. The money supply remains high and the interest rate curves are neither flat nor inverted.

4. CATCH-UP POTENTIAL

As before there is catch-up potential in the processing industries, exports and capital goods. Growth is pronounced in the USA.

5. CONTINUOUS GROWTH IN COMPANY PROFITS

Despite record-high profit margins, there will be a positive development in company profits over the next few years. Continuous growth in GDP, relaxed labour markets, stable development of energy costs as well as previously unseen high levels of quality (balance sheet, management) in the companies form the basis for this scenario.

6. MODERATE GROWTH IS SYSTEM-INHERENT

The comparably weak growth cycle is system-inherent and is an element of deeply anchored social and political structures: irresolvable indebtedness of public authorities, ageing population and baby boomers soon to enter into retirement, as well as a lack of restructuring.

7. NEW ENVIRONMENT FORINTEREST RATES

Future interest rate levels will be considerably lower than in previous economic cycles. Globalisation is leading to completely new, historical reinforced competitive structures. Moreover, the seek for yield is boosted by the ageing population. The developed world is currently neither inflationary nor deflationary; prices are stable.

CONCLUSION

Under such positive conditions, disappointments generate greater resonance of course. Such disappointments – not only those associated with Ukraine – can occur quickly and unexpectedly. Therefore it is absolutely correct and even advisable to maintain a higher liquidity ratio.

The role of bonds for protection against deflation has tended to become less important, though this does not mean that fixed-interest securities are too expensive. However, the yield differential is too high, which points clearly towards shares compared to bonds.

Fundamental comparison criteria such as valuation, return, security and prospects are emphatic proof: Shares are by far the most attractive investment category! A slight overweight in stocks at the expense of bonds is therefore our tactical position.