BATTLE FOR YIELD

Our **View** on Financial Markets

July 21st, 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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Economy

The rate of global economic growth remains moderate. As the Fed chairwoman Janet Yellen recently observed, the US economy has suffered long-term damage as a result of the financial crisis.

The cut in the US central bank's long-term GDP forecasts is therefore a logical step, and in the global context it has also been corroborated by the International Monetary Fund. As very little serious effort is being made to resolve the debt crisis in Europe, emerging markets are also increasingly being hit by weaker demand for exports.

In spite of the sluggish state of the global economy this situation is not necessarily negative. Moderate growth avoids euphoria and premature saturation. Under these conditions the current upward phase of the economic cycle will last considerably longer than in earlier periods which pushes the risk of a worldwide recession even further into the background.

The low investment propensity of the corporate world could change at any time. Reflecting rising global competition, the wave of mergers that has been triggered in recent months has significantly increased the pressure on companies to invest the record levels of cash on their balance sheets profitably or otherwise return it to shareholders.

This scenario is supported by the almost stable price environment. It is becoming increasingly accepted that globalization and the associated increased competition are having a long-term impact on the global interest rate level.

The battle for yield is also being further intensified by the unfavourable demographic situation in the industrialized countries. To stabilize social security systems will be one of the biggest financial challenges over the next few years.

Investment Policy

Are equities still attractive today? Yes, based on our valuation measures stocks remain our preferred asset class.

We believe that the leading companies will be able to steadily grow their profits in the current environment and to create long-term added value for shareholders through relatively high and stable dividends. As a result we are maintaining our slight tactical overweighting of the equity ratio and have continually reinvested the substantial dividends received during the last six months.

Low bond yields leave very little scope for further increases in bond prices. We are therefore increasingly realising capital gains and are building up liquidity in the mandate entirely at the expense of fixed-income investments.

The current environment of continuously low interest rates and rising equity prices is extremely challenging. We believe that our cautious investment style focused on safety and quality will continue to pay off.