

ZERO INFLATION AND LACKLUSTRE GROWTH

Our View on Financial Markets

September 30th, 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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Review

Our scenario of a weak economy featuring depressed commodity prices and low interest rates is being confirmed by declining growth rates in many countries.

If vast markets like China register declining growth during the course of their social, political and economic change, this naturally has ramifications for all market participants in today's globalised world.

Accepting that the economy is a complex, adaptive system means taking a back seat, allowing market's invisible hand to operate and focussing primarily on credit and money supply cycles. These should be the central tasks of politicians and of central banks.

Viewed from this angle, the lack of government willingness to introduce necessary reforms and the powerlessness of central banks have never taken on such major dimensions as they do today. The most important instrument – monetary policy – no longer works as it ought to.

The flood of liquidity being pumped into the economy is having no effect and a more restrictive monetary policy would drive some nations to the verge of bankruptcy.

Many factors are thus having an impact on the entrenchment of the currently prevailing situation: extremely lacklustre growth rates, zero inflation as a result of productivity progress and structural oversupply in tandem with further political unrest surrounding the reforms under way to resolve the Eurozone's debt problems.

Conclusion

The transitional phase with a sluggish economic cycle may continue for several years without entering into a strong recession. Given the outstanding adaptability of the world's leading global companies, a continuous increase in corporate profits is to be expected, however, even against a backdrop of a marginally growing economy.

Share price corrections in response to disappointed profit expectations, negative market constellations or shortterm periods of exaggeration can never be ruled out, but are an inevitable part of market developments.

Nevertheless, over the long term, those investors will be duly compensated who display a high degree of perseverance to hold on to their positions in global, well-managed and solidly financed companies while making selective additions to their portfolios during phases of market turbulence.

Investment Policy

In the current low interest rate environment we see no reason to deviate from our tactical overweighting in equities at the expense of bonds.

Moreover, our cash position allows us to react at short notice and to make purchases if major market turbulence provides attractive purchase opportunities.