FEARS

Our view
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Fears

April 2018, André Kistler and Benjamin Schoch

The equity markets find themselves in a period of consolidation; the time has come to digest the significant price gains seen in recent years. The mood among market participants had recently been overly positive, with complacency and carelessness predominating in many areas. For the moment, the price correction represents a technical movement triggered by fears.

World trade fears

The expansion of world trade seen over the past 30 years is extremely impressive. The fact that globalisation is not always a linear process and can occasionally trigger tensions between trading partners benefiting to different extents is as obvious as the observation that there can be no turning back from global free trade.

Fears of erupting trade wars are understandable but this risk is nothing new and rears its head time and again. At worst, disputes can also escalate. Ultimately, the powers or reason and logic as well as market forces will win through. The basic principle of free trade and the political liberalisation of interstate dealings cannot be reversed against the backdrop of digitalisation (transparency and comparability) and the Internet (social media).

Fears of rising interest rates

Inflation and interest rate fears are also understandable at the current stage of the upward cycle. Capacities are becoming more stretched, prices are rising here and there and we are seeing increasing demands for higher wages. However, we believe that fears of a marked interest rate turnaround such as those seen in the 80s and 90s are misplaced.

Due to global networking, the Internet and the sharing economy, the current economic cycle is less pronounced and prices are being set far more competitively. Gradual interest rate hikes are a reflection of increasing economic activity and represent no real risk for companies in good financial health.

Outlook

In the US, the risk of an unwelcome rise in inflation is currently greater than in the EU. The weaker dollar, increasing infrastructure spending, higher debt and falling taxes are fuelling the economy and increasing the threat of (overly) aggressive interest rate hikes in the area of monetary policy.

In the EU, recent corporate figures have already been responding negatively to the strengthening of the euro. The first tentative ECB interest rate hikes are expected next year at the earliest. The structural problems of the EU's debt-hit countries remain unresolved. In the event of a marked increase in interest rates, it would not be possible to settle the government debt interest and an EU crisis would be inevitable.

The Swiss National Bank is observing the domestic real estate market with growing concern and could therefore be inclined to slightly loosen the negative interest regime over the course of the year. However, CHF interest rate risks remain limited: despite a palpable improvement in economic performance, only decimal changes are being observed for core inflation, which is a relevant factor for interest rate developments.

Summary

Equities became slightly more attractive during the first quarter and offer buying opportunities on a selective basis. We do not believe that there is any great risk that trade frictions will escalate and trigger a global, far-reaching economic crisis. Those who fully shut themselves off from this globalised world run the risk of being left behind by technological and economic advancements. We believe that this environment offers unique opportunities and potential for quality companies.

The time factor, however, plays a central role in the current assessment of opportunities and risks: we are not investing for the coming months, but rather for the coming years. Fluctuations on the financial markets are part of the investment cycle even if investors have been spared them in recent years.