ADJUSTMENT

Our view
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January 2019, **André Kistler and Benjamin Schoch**

Economy

As expected, economic momentum slowed in most industrialised nations. The flatter US yield curve, declining orders for investment goods and recently communicated corporate results confirm this trend. The trade dispute between the US and China is also giving rise to concerns among many market participants. In the face of all these fears, however, key differences compared to past periods of flattening economic growth must be remembered:

1. We live in a more efficient world: globalisation and digitalisation are flattening economic and inflation cycles. In contrast to past "boom and bust" cycles, almost no price pressure is being observed in the industrialised nations due to an overheated economy. The majority of exchange-traded commodities are even experiencing a decline in prices.

2. The moderate increase in Swiss interest rates observed over the course of 2018 experienced a marked countermovement during the final quarter. Real Swiss interest rates are close to record low levels. With the exception of the Federal Reserve, no substantial rate hikes have been implemented by the central banks of industrialised nations. Put simply, the financing conditions for states, companies and private individuals have until now only tightened slightly in the US. Whether the yield curve flattens at 2.6% or, for example, at 5.0% represents a relevant difference.

3. Existing trade relationships should be regularly scrutinised and, where necessary, extensive renegotiations should be held with long-standing partnerships possibly being restructured. Only in this way is it possible for more open, fairer and more transparent conditions to be created over the long term.

Outlook

Irrespective of whether current developments result in a flattening of economic growth or a minor recession, experience has shown that the negative part of the economic cycle is shorter in duration and until now has always been replaced by a longer-lasting period of positive growth. In an economic slump, the need for investment always accumulates in light of caution on the part of consumers and companies.

In the case of budding stock market and economic pessimism, in particular, there is a danger for investors that adopting a short-term approach driven by fear could see them uninvested or underinvested during the next upswing. Stock market phases characterised by fears and slumps in prices provide long-term investors with buying opportunities.

In the new year, the focus of the equity markets will remain on monetary policy approaches: in a world with almost stable price growth, the Federal Reserve should if possible avoid adopting an overly hasty stance with respect to rate hikes.

The Swiss National Bank would, however, be well advised to tone down the negative interest rates despite the strength of the Swiss franc, providing it once more with greater freedom of action with a view to probable euro problems.

Investment policy

Further economic downturns or fluctuating equity markets will force us to adopt an even more systematic approach in keeping the quality of the companies held in our portfolio and our Swiss franc allocation high.

Due to the lower equity markets, the risk premiums and dividend yields to be expected have increased once more. In the new year, we will therefore also take buying opportunities on a selective basis and maintain the equity overweight position at the expense of bonds and through the partial deployment of liquidity.