

CORPORATE PROFITS RISE

Our view of the market situation

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André Kistler

As co-founder and chief strategist of Albin Kistler AG, André Kistler regularly publishes assessments of financial market developments.

Benjamin Schoch

Head of Asset Management, Currencies/Bonds
Analyst

The market assessments, which appear on a periodic basis, are available to download in PDF format on the Albin Kistler website:

www.albinkistler.ch/en/profile/#markteinschaetzung

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Economy

The global economy continued its moderate and steady upward cycle during the first six months of this year. Consumer confidence and corporate business climate readings also improved significantly. Until now, our key indicators have revealed no sign of overheating or potential collapses.

We find ourselves in a very long upward economic cycle that is progressing at a moderate pace. It appears that this current upward cycle will go down as the longest in history due to its sluggish nature and the fact that sectoral catch-up potential is developing time and again.

Since the financial crisis ten years ago, our world has been shaped by slow growth, low interest rates and almost non-existent inflation. The causes can be attributed to three driving factors:

- Globalisation: increase in economic capacities and global competition between locations
- Digitisation: massive improvement in price transparency, higher levels of education and efficient use of scarce resources thanks to the sharing economy
- Ageing: steady decline in consumer demand due to the ageing of western societies

The new world places an emphasis on the optimal use of productive capital and ideas. Efficient, sustainable systems are replacing the “old economy” and having a deflationary effect. It is thus not (only) the central banks that are repressively pushing down long-term interest rates, but rather the aforementioned factors, which are no longer allowing for high inflation and strong growth.

The central banks will attempt to shorten their balance sheets. However, the economic upswing is too weak and the flood of money too great. It cannot be reduced to an acceptable level within a few years without stifling growth.

Investment policy

It is quite possible that inflation and interest rates will increase slightly from their currently very depressed level. In stable economic regions, however, the new world will no longer permit high inflation rates of in excess of 3% to 4%.

Corporate earnings and interest rates will determine future equity prices. It is for this reason that a strong bear market cannot emerge without a significant recession or massively increasing interest rates. We do not currently recognise any relevant signs that these influencing factors are set to materialise.

Instead, the corporate world is in fine fettle and is impressing with positive reports on sales and earnings growth. Despite the increase in valuations, we still expect that shareholdings in first-class companies will generate promising returns in the current economic environment.

Modesty and attentiveness always remain fundamental virtues of our actions. Uncertainties and imponderables may play a role, especially in continued bull phases.

In particular, overly hasty action by the US Federal Reserve would stall the still weak economic upswing. For this reason, a focus on top quality, careful portfolio management and the holding of sufficient liquidity is essential.