

PROFIT-TAKING

Our view of the financial markets

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

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

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April 2017, André Kistler and Benjamin Schoch

Global economic developments have been pleasing and in line with our expectations: the slight increase in core inflation to 2% in the US and 1% in Europe primarily reflects the normalisation in commodity prices.

Global growth is recovering relatively synchronously, but still by no means at an overly excessive rate. Compared to last year, improvement has been seen in both consumer confidence and corporate business climate readings.

A rapid and significant rise has been observed in economic expectations and the very positive performance posted by the stock markets in recent months indicates that an economic upturn has already been priced in.

Unchanged factors

The key growth-inhibiting factors remain unchanged:

- Demographic ageing
- Unbridled levels of government debt
- The handling of immigration in the EU/US
- Overcapacities in the industrial and financial sectors
- Unresolved issues in the EU's southern states

“America first”

The shape taken by the planned US tax reforms is a further source of uncertainty for the global economy. In principle, the first reform to the US tax system since 1986 – with lower corporate taxation – would be a welcome development.

However, the prospect of the introduction of a border adjustment tax (BAT), which has also been outlined, increases the risk of a global recession and would lead to a massive disruption in international goods traffic, trade frictions and a higher rate of inflation in the US.

Budget-related issues and healthcare reform are currently preoccupying the new US government. There is still hope that key aspects of the tax reform plans will be amended during the political debate in the US Congress and that the hidden import tax will be removed completely.

Summary

We still believe that the risk of an impending recession is low and thus also do not expect an abrupt end to the positive equity cycle. The prospect of deregulation and tax cuts has instilled new momentum in the global economy and the stock markets.

Corporate profits will increase in 2017 and are also likely to do so in the following year. However, current share valuations already reflect the high level of expectation, meaning the potential for disappointment has risen.

In particular, mercantilist measures in the US or a situation in which the planned tax reform measures are subjected to many years of political discussion and delays would put a question mark over the current upswing.

Investment policy

We are not surprised that US capital-market interest rates have failed to increase further despite the economic euphoria and that the yield curve has even flattened out this year.

The bond markets usually respond to economic developments in a more rational and accurate manner than the equity markets.

Given the increased level of uncertainty, we are using the positive performance posted by the stock markets in recent months as an opportunity to reduce the equity overweighting and partially realise accumulated profits.

One thing will not change: Over the long term, favourably valued equities of the world's top companies represent by far the most attractive investment opportunity. With the addition of carefully selected corporate bonds, significant portfolio fluctuations can be cushioned.