WANTED: RISING EARNINGS

Our view
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Economy

The old industrialised countries are suffering from excessive regulation, protectionism, populism and overindebtedness, thus finding themselves in a state of secular stagnation. Present interest rates, an unabated flood of money and the current phase of the economic cycle do not suggest that it will be possible to quickly escape this situation.

Most central banks missed the opportunity to normalise interest rates in good time during the economic recovery. Monetary policy will therefore inevitably remain unconventional and the monetisation of debt mountains will continue in Europe, in particular. Since the euro crisis in 2011, the horrendous debt interest observed at this time for Italy (7%), Spain (7%), Portugal (16%) and Greece (40%) has been reduced significantly thanks to massive government bond buying programmes.

The other side of the coin is obvious: the European Central Bank (ECB) is financing up to 33% of the government debt of these countries and there are no economic reforms. Should there be a more considerable economic slowdown, it is conceivable that the ECB will purchase even more (government) bonds in order to keep government budgets sustainable. In light of the declining monetary arsenal of the ECB, the designated successor of the departing ECB President Mario Draghi is not to be envied and faces the prospect of making future decisions in an economically tougher environment.

When it comes to debt, budget policy and competitiveness, Switzerland remains a dazzling positive exception. The high weighting in Swiss securities for all asset classes is therefore paying off. At present, there is almost no sign of any relevant influencing factors that speak against the long-term continuation of this trend. The only negative aspect is the limited independence of the Swiss National Bank, which cannot or does not wish to detach itself from global interest rate developments.

Outlook

Despite possible downturns in the short term, the US, China and India will remain the most important drivers of growth. However, the battle for global economic supremacy is intensifying. The demographic ageing of the world population and accelerating technological change will make adjustments essential. Nevertheless, we expect positive economic and social changes.

Europe and, in particular, the European Union run the risk of being left behind in terms of technological developments and global growth. We believe that the greatest risks are posed by the potential for southern countries around Italy to drift into significant economic and financial problems that would likely lead to the ECB introducing even lower negative interest rates in the eurozone. The associated upward pressure on the Swiss franc would in all likelihood give rise to a stepping up of negative interest rates by the SNB.

Investment policy

While we currently believe that the risks of a global recession are low, they are rising. In terms of economic and stock market developments in the medium term, the trade conflict between the US and China will be decisive. Judged by the significantly lower interest rates, market participants are already strikingly sceptical as regards economic trends going forward. While profit-taking in individual securities posting strong gains appears advisable, we are maintaining our overweight position in equities.

Sustained solid earnings growth is becoming an ever more desirable commodity in the optimally informed new world. Viewed over the long term, equities of the world's best companies with secure and increasing income flows possess the greatest upside potential. With the described risk of greater negative interest rates in Switzerland, top-quality bonds still remain part of a well-diversified portfolio alongside equities despite low yields.