EQUITIES OVERWEIGHT

Investment policy
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Buoyant stock market environment

Despite a dip in the economy and geopolitical challenges, equity markets are in excellent shape. Many may wonder just how long this can continue and when the next correction will come. However, to try and answer this question would be pure speculation. Share prices regularly fluctuate between euphoria and despair, but in the long term they always go in the same direction: up.

Regular readers of our investment reviews will know that Albin Kistler considers it of key importance to analyse companies. When looking at macroeconomics a good approach is to concentrate on the long-term assessment of four factors relevant to investments: the economy, interest rates, currencies and share valuations.

Economy: bottoming out

According to numerous signs, the economic trough is now behind us. Not only are a wealth of economic indicators suggesting stabilisation, companies are also increasingly painting an optimistic outlook in their annual reports, albeit a still cautious one. Our scenario of a mild downturn followed by a return to moderate growth therefore continues to hold water.

Interest rates: back to normal

Interest rates dictate the pricing of all securities. As the single most important price signal, they provide information on current and expected inflation. In this context, particular attention should be paid to long-term yields. Although inflation is still high in all major currency areas, it is under control, and a return to the world of zero interest rates is unlikely. Structural factors, such as labour market shortages, the energy transition, supply chain realignments and worrying levels of government debt (including potential tax increases), are contributing to ongoing pressures on prices. This means that annual inflation is likely to be one to two percentage points higher than before the pandemic. With current long-term yields already reflecting this scenario, we do not anticipate any significant changes at the long end of the yield curve.

Currencies: debt burden poses a risk

Over the long term, exchange rates reflect the inflation differential between two currency areas.

The more responsible the fiscal and monetary policy, the lower the inflation and the stronger the currency. We have been pointing out for years that many countries are pursuing unsustainable policies relating to debt. In this respect, Switzerland is an exception.

The Swiss franc will continue to appreciate in the long term, with occasional downturns, such as we are currently witnessing.

Share valuations: moderate

Recent price gains in the technology sector have been particularly significant. As a result, the valuation levels of individual stocks are high and cannot be justified in the medium term unless turnover and earnings growth remains consistently strong. As always, not all companies will meet these expectations.

However, if we look at the broad equity market, valuations are mostly moderate.

Scores of quality companies with profitable, proven business models have a price/earnings ratios of 15-25. Although these ratios are not cheap in a historical context, they are not exaggerated. We consider current prices to be fair.

Conclusion and positioning

Despite the normalisation of interest rates and the upward trend in share prices, first-class stocks still have a yield advantage. The corporate world will generate further profits growth in the coming years, laying the foundations for higher share prices in the long term.

We are therefore maintaining our overweight position in stocks and continue to underweight bonds.