BE PATIENT

Investment policy
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Economy

The economic slowdown is becoming more evident, but it is much more moderate than many had feared. And this is despite a large number of challenges, including war in Europe, turbulence in energy markets, persistent inflation, a reversal in monetary policy and an unsettled banking sector.

Individual areas of the corporate sector are already cautiously optimistic about the future and can see the first signs of stabilisation. And at the same time, labour markets continue to face shortages. So is a recession off the table after all? Or if there is, then only a mild one? We do not consider it productive to focus on these types of questions. Instead, we see the current situation as confirmation of our view that

- the global economy is extremely robust. Growth is the rule, contractions the exception.

- Digitalisation means that economic players are better connected and more comprehensively informed. This transparency means they can react more quickly to new circumstances. Economic imbalances are therefore identified and corrected more quickly. Despite the latest turbulence in the banking sector, the advantages of this interconnection by far outweigh the disadvantages.

- People frequently underestimate the adaptability of well-run companies. The result is that many market participants are too pessimistic in their forecasts in times of crisis. This means there are opportunities for long-term and optimistic investors.

Outlook

The economic dip will probably linger for a few more quarters before the next upturn comes. Persistently high inflation should continue to recede during this time. The weakening economy itself will be primarily responsible for the decreasing price pressure here, along with base effects. However, factors such as the skills shortage and the cost implications of the energy transition suggest it will take more time to return to a much lower level of inflation. Central banks will therefore stick to their hawkish interest-rate policy. In the medium term, inflation and therefore also interest levels will stabilise at a higher level than we were used to in the "pre-coronavirus" years. This means increased risks for debt-laden countries and companies.

Conclusion

Even the best companies are currently facing significant challenges, and some of them are having to cope with setbacks in their operations. In addition, the sharp and rapid rise in interest rates has driven up uncertainty in the banking and financial sector.

From an investor perspective, it is important to be patient in economic cycles like these and not give too much weight to possible short-term disappointments. Well-run and financially solid companies know how to hold their own in this sort of environment.

Earnings yields on stocks remain attractive relative to historical standards, despite higher interest rates. We therefore remain overweight in equities. Increased inflation makes holding liquidity an increasingly costly strategy. It is though possible to achieve attractive nominal yields again in corporate bonds, even in short and medium-term maturities. We are therefore reducing our previously increased liquidity reserve in favour of bonds denominated in Swiss francs.