NEW SHORES

Investment policy
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April 2021, Benjamin Schoch and André Kistler

Economy

Like the spectre of deflation at the height of the coronavirus crisis around a year ago, the spectre of inflation is now dominating the economic recovery in the media. However, discussion about the level of short-term inflation rates is not conducive for our long-term investment activities.

1. Although the economic recovery is progressing around the world, its speed and shape continue to depend on the specific pandemic factors applying in each country, sector and company (numbers of cases, government lockdown measures and progress with vaccination campaigns).[1]

2. Demand is surging on the back of a steady economic reopening of economies, strengthened by a massive fiscal policy stimulus. Inflation rates are rising somewhat faster as a result, after falling in the past year (baseline effect due to rising prices).

3. However, the key economic figures have not changed much over the long term. Pent-up demand will abate over time – the effect of the overriding structural trends is too strong. The excess capacity that continues to exist, growing overindebtedness, increasing ageing of the population and accelerated digitalisation will deflate any lasting inflationary pressure.

4. Luckily, the next few economic quarters will be about making up lost ground. After that, we will be back to the familiar old world of weak growth and low inflation. Government debt will continue to spiral unchecked, as will the torrent of money gushing into the economy. Our generation will probably not live to see monetary and fiscal policy normalise.

Outlook

Many investors are guided by the past and do not sufficiently take positive upside factors into account. The world is constantly advancing towards new shores. We are witnessing new scientific achievements all the time, new products and services are being developed and made accessible, and global prosperity is continuously rising. You can put your faith in these factors and invest in them too. There is no better investment opportunity for this than stocks in first-class and solidly funded companies. It is often said that the low interest rate world is dangerous as it is increasingly forcing investors into this asset class. What people forget is that shrewd equity investors are investing in corporate earnings yields of 5 to 6% with a long-term upwards trend. So we do not think negative yields on bonds from governments that perpetually run up debt or a savings account that shrinks each year due to negative interest rates are "safe" alternatives.

Conclusions for our investment policy

Even though some quite striking price falls can be seen in equity markets at irregular intervals, these are unimportant for a quality-focused investor with a long-term horizon. In particular, the past year of the coronavirus pandemic has clearly proven that remaining invested in good quality and ignoring short-term, emotionally charged reasoning is one of the keys to being successful.

The earnings prospects for the corporate world have brightened. Our systematic search for sustainable returns will continue. We are therefore maintaining an overweight position in the stocks of solid quality companies at the expense of fixed income. And with regard to the latter, we have dispensed with the negatively yielding sovereigns described above and prefer the bonds of solid companies as an alternative to negative interest rates on liquid funds.

[1] See "Looking ahead" investment policy, July 2020