VALUE STOCKS

Investment policy
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Economy

No sooner do financial markets correct than scores of market observers start fretting about gloomy times ahead and a fundamental turnaround in returns. Their fear is that the years of stock market gains will end, interest rates will have to be raised sharply in the face of rising inflation and expected returns will be massively reduced. In addition, one should move out of growth stocks into value ones.

Obviously, we are all deeply concerned about the Ukraine crisis. Yet, as investors, we have to take a more nuanced approach. Periodic corrections in the equity markets are a healthy development in the long term, placing a damper on excess exuberance and consolidating the basis for the next upswing. Weekly fluctuations in equity markets are no indication of long-term investment gains.

Investors who are not distracted by short-term fluctuations and media headlines participate over time as shareholders in companies' potential future growth in revenues and earnings. This is the very purpose of equity (stock) investments in contrast to debt capital (bonds) or savings accounts. That said, it is crucial to select successful companies carefully.

Historically, all economic downturns and recessions have been shorter than the subsequent upswings. In addition to the economic conditions (monetary and fiscal policy), this is primarily due to corporate agility and people's determination to strive forwards and to innovate.

First-class companies increase their earnings on a sustained basis, justifying higher valuations: The better and more stable a company's profitability, the more investors are willing to pay for its shares. Whether this company is a value or a growth stock is irrelevant; all that matters is the long-term earnings outlook.

Outlook

We do not expect the aforementioned market forces that have been evident for years to subside. The quality, agility and profitability of many Western companies are more impressive than ever. These achievements cannot be readily derailed.

The nightmare scenario of uncontrollable core inflation is losing credibility in the wake of slower economic growth and continued fierce global competition. Digitalisation makes it possible to compare prices globally, while the post-pandemic expansion of production capacity is placing a damper on inflationary tendencies.

Should the high inflation rates continue for longer than expected in the wake of the energy transition, the shortage of skilled workers and the possibility of sealed-off markets, quality companies will become even more crucial for investors: contrary to real negative yields on savings accounts or many bonds, these stocks will generate real growth in value.

Conclusions for our investment policy

There are times when patience and endurance are called for. However, anyone investing in first-class leading companies with an impressive earnings outlook stands to be rewarded in the long term. Whether this or that share category has more or less catch-up potential in the meantime is ultimately irrelevant.

As long as quality companies can continue to evolve and adapt to the economic environment, we do not see any worrying long-term developments. We are keeping the stocks we prefer slightly overweighted at the expense of bonds, which now have somewhat higher, but still below-average yields in real terms.

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