

VALUATION EXPANSION OVER SEVERAL YEARS

Investment policy
January 2021

Benjamin Schoch

Head of Asset Management

André Kistler

Chief strategist of Albin Kistler AG

The market assessments, which appear on a periodic basis, are available to download in PDF format on the Albin Kistler website:
www.albinkistler.ch

Valuation expansion over several years

January 2021, Benjamin Schoch and André Kistler

Economy

From the perspective of economic history, did 2020 represent a caesura or even a negative turn in the development of our globalised economy? We don't believe this to be the case. The economic shock caused by the pandemic will not stop the deflationary trends. Instead, it will exacerbate them.

1. **Digitalisation:** Thanks to the accelerated digitalisation of processes, we are able to communicate, consume goods, transfer money and operate machines wherever we are and whatever the time of day. A high degree of transparency enables us to find the lowest possible price at any time, while the option to leave reviews allows us to force providers offering an inadequate level of quality to up their game.
2. **Globalisation:** The disruptions in supply chains caused by Covid-19 and decisions taken at a national level to partially repatriate production sites will not halt globalisation. Ever greater global networking will continue to have a positive impact on the expansion of the service sector, in particular.
3. **Demography:** While the virus is placing a burden on public health, it will be unable to slow down the deflationary impact of social aging. Various developed countries have already been observing low or negative population growth for a number of years as well as lower labour force participation rates and zero inflation.
4. **Overindebtedness:** The level of global overindebtedness is becoming more and more striking. The world is drowning in newly created money! In the wake of massive monetary and fiscal policy measures, many states now find themselves sliding even further into the debt trap: while overly generous lending may finance consumption in the short term, it puts the brake on productive long-term investments. For many years to come, the central banks will have no choice but to align interest rates with the excessive levels of sovereign debt and maintain a low interest rate policy.

Outlook

Persistently low inflation figures confirm the fact that the world we live in continues to be characterised by deflationary tendencies. Even though the next few years look set to be shaped by catch-up factors in the wake of the Covid phase, "a world full of zeros"¹ will remain the economic scenario for us in the decade to come. Is this combination of high debt, low growth rates, stable unemployment figures and marked central bank intervention something new? No, this is something that Japan has been experiencing for 20 years. Europe and the US are now also following this path. At the moment, no government wants to bear the economic consequences that would be brought about by putting a stop to the provision of massive monetary and fiscal policy support measures. Instead, our descendants will one day have to deal with the long-term impact of this exorbitant expansion of the money supply. Nevertheless, we can say that even in the biggest pandemic in more than 100 years both humanity and the corporate world are proving to be extremely adaptable. There is an acceptance of the situation, focus is being shifted and investments in innovation and digitalisation are being promoted.

Conclusion for our investment policy

Many investors do not trust this grotesque-seeming world characterised by a flood of debt and money. It is for this reason that the equity markets are attractively valued on the basis of high real dividend yields and risk premiums. Those who adopt an overly rigid view of the environment full of zeros may forget that first-class companies will also perform positively in this scenario and generate corresponding value creation and income. If high-quality companies meet expectations, their share valuations will continue to rise against the backdrop of low interest and inflation rates. We are therefore maintaining a slight overweight position in our clients' equity allocation. When selecting our preferred companies, however, we do not make any compromises in terms of either their quality or financing.

¹ See investment policy "A world full of zeros", October 2020