LOOKING AHEAD

Investment policy
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Economy

How is the current period of economic recovery different from the upturns following past financial market and economic crises? In its diversity. Rarely has economic development differed so much by country, economic sector or business unit. The pandemic is repeatedly impacting market participants' confidence as an unpredictable factor and is putting global value chains to the test.

In this period of recovery, in which countries are experiencing varying cycles, individual economic sectors remain under pressure as a result of protective measures and inflation rates are largely determined by supply bottlenecks, a far-sighted look ahead is all the more important. Especially for investors with a long-term horizon:

- It does not matter which country achieves the highest economic growth in the short term. Anyone who invests in a balanced mix of blue-chip companies will remain successful. This means country categorisation is not useful either, as due to globalisation, a country's local equity market hardly reflects its economic performance any more.

- For investors with a Swiss franc perspective, the rise in inflation rates globally plays a lesser role due to the strong domestic currency. The inflation rates expected in the long term are more important for Switzerland, and these will remain significantly below those of the EU and the US.

- Is trouble looming on the interest rate front? In the US, a new interest-rate cycle is, in fact, beginning. Following the reduction of interest rates to almost zero during the coronavirus crisis, initial normalisation steps are expected in 2022. We see the risk of an interest rate shock as low, as monetary policy remains expansionary in many other countries, especially in Europe and, as a consequence, also in Switzerland.

Outlook

The expectations of cautious central banks as outlined above and interest rates kept low in the face of higher inflation rates will further cement negative real interest rates. Inflation rates are likely to vary by region, but should stabilise at a higher level: the deflationary forces of globalisation and digitalisation are counteracting cost increases due to a shortage of employees, climate policy (energy prices) and tax increases (overindebtedness).

The risk of enduring negative real interest rates is highest in Europe: In the EU, the ECB's money supply, large amounts of debt and the competition deficits of the member states are steadily rising. Many countries cannot afford higher debt servicing costs. Because this means interest rates cannot rise, the single currency serves as the only "valve". Little wonder then that the euro is depreciating against many currencies.

These implications also affect the Swiss National Bank. It is still reliant on the ECB and will have to allow further appreciation of the Swiss franc sooner or later. This means that a departure from the negative interest rate policy that Switzerland has pursued for seven years is not getting any closer: Any interest rate hike would cause the Swiss franc to appreciate too much.

Conclusions for our investment policy

Persistently negative real interest rates and rising profits create a good starting position for blue-chip stocks. Cautious central banks and hesitant rises in interest rates will not trigger a recession. Solidly financed companies can deal with somewhat higher interest rates without any difficulty. Such companies will also perform extremely well in the future and impress us with rising earnings. Even though this may come as no surprise to you, we continue to give these quality stocks a higher weighting at the expense of fixed income and would systematically use any temporary corrections to make more acquisitions.