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& Asset Management

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POTENTIAL FOR RECOVERY

Investment policy
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Benjamin Schoch
Head of Asset Management

André Kistler
Chief strategist at Albin Kistler AG

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Economy

We certainly won't be forgetting the past stock market year in a hurry. It was a year inflation concerns, supply chain bottlenecks, energy prices, China's coronavirus policy and the war in Ukraine all made their mark. All of these factors, which we had not been expecting either, put financial markets under strain. But what we will realise over the next few years is that a temporary dip in the economy and period of uncertainty are of secondary importance to the far-sighted investor. The best opportunity to buy quality companies at a fair price is during times of doom and gloom for the economy.

Many blue-chip companies will grow their profits significantly over the next 5 to 10 years in spite of a temporary economic downturn. If we analyse economic events, we can conclude the following:

1. Further massive increases in interest rates and inflation are not on the table. Base effects come into play when calculating inflation. Energy prices already fell in the second half of the year, as did their contribution to rising prices.

2. If the economy grows at a below average rate, supply chains and commodity prices will normalise more quickly. If the shortage of skilled workers and the energy transition push prices up too much, automation and digitalisation will accelerate. Prices are performing their steering and substitution function.

3. So will we soon be returning to the "wonderland" of pre-pandemic times? No, but a disciplined investor focused on the long term will be adequately compensated in this normalised world with subdued growth rates, higher but consistent inflation and a more credible monetary policy.

Outlook

Geopolitical events, price shocks and government interventions have unpredictable impacts on the economy. Like all investors, we are exposed to these developments and cannot influence them. But we know from experience that equities in solid, quality companies offer very good long-term protection against economic dips and increased inflation.

We are in the middle of a phase of monetary policy tightening by central banks and will learn to deal with slightly higher inflation levels than we were used to before the pandemic. No signs of a severe recession in Switzerland are on the horizon. But there is substantial economic catch-up potential in the medium and long term. The correction in growth stocks is behind us and entrepreneurial success will be rewarded again. Financial markets are normally oriented towards the real economy of the next 6 to 12 months, not current or past economic figures. As soon as the economic gloom clears, stock prices will move higher.

Conclusion

If economic growth turns out to be stronger or if inflation falls more than anticipated, it would be a positive catalyst for financial markets. It is probably too early to be too optimistic, and we may have to be patient for a few more quarters, but the good times will return to financial markets in the not-too-distant future.

Thanks to our selection process focused on quality companies and borrowers with strong credit ratings, we see no reason to alter our overweighting of equities at the expense of bonds. The key factors here are the business outlook of these companies and borrowers' credit ratings, not the daily fluctuations in stock market prices. We are not forecasting a multi-year downturn in this regard, but are expecting a long-term recovery and are therefore sticking with these companies and borrowers.