PREFER REAL ASSETS

Investment policy
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Economy

Inflation and the interest rates required for combating it declined over more than 30 years, reaching their lowest point during the coronavirus pandemic. At the same time, muted economic growth amplified the feeling of permanent price stability.

The coronavirus pandemic then arrived and, with it, demand-side and supply-side shocks, followed by the war in Ukraine. The accumulation of these events surprised everyone in terms of their extent and breadth, exerting a material impact on prices. Financial markets were forced to digest an inflation and interest-rate shock within a short space of time.

So it comes as no surprise that capital markets are volatile. If they were not, it would be necessary to ask why the term "risk premium" exists. What makes this bear market unique is the fact that virtually all asset classes – bonds, equities and real estate funds – have corrected by at least 10% (and as much as 40%). Nor have the prices of bluechip equities been spared this revaluation. In fact, the higher and more sustained earnings growth has been, the greater the decline in the share price.

Currently, investors are focusing solely on risks and the extent of the crisis. However, by looking further into the future, it is possible to see that a substantial part of the correction in the equity markets is probably already priced in. In the long term, the upside forces inherent in people, companies and markets will come to the fore.

As growth years outnumber recession years by a large factor, it is important to position oneself appropriately. The corporate sector is in a superb condition, and supply chain problems and supply bottlenecks will be resolved over time.

The relentless pace of the digital transformation, global competition and muted economic growth will place a damper on the current high inflation rates, which will settle down at a higher level than pre-pandemic.

Outlook

Equities should be very high on the shopping list when financial markets correct on a massive scale and the negative underlying conditions and outlook come close to bottoming out. By the time the turmoil of war, inflation fears, concerns over growth and pandemic lockdowns have dissipated, it will be too late. Seen over the long term, bluechip equities and real estate offer the best means of preserving purchasing power. Well-positioned companies are flexible and can increase their revenues on a sustained basis. With the pivot in interest rate policy and the correction this has triggered on the equity market, many company valuations have come close to their mean fair value.

Caution should be applied to sovereign-related investments and also to the Eurozone. It is only now that the huge supply of money is being scaled back, while an effective cut in the gigantic public-sector debt remains a pipe dream. The European Central Bank must either tolerate high inflation rates or endanger the insolvency of a number of the member countries. This intractable struggle will put the future of the euro to the test again.

Conclusion

No matter how you look at it, there is no alternative to investing in the equities of solid-growth companies, particularly after the corrections to valuations in financial markets. If prices continue fluctuating in a downward direction, these companies will become even more attractive, offering outstanding opportunities for investors in the long term.

For this reason, we are continuing to slightly overweight equities at the expense of bonds. Even though bonds will return to positive yields once interest rates return to normal, equities will remain the most promising investment instrument for preserving purchasing power in the long term.

Given the deteriorating outlook for the Eurozone in particular, we see no reason to reconsider our preference for solid, Swiss-franc denominated investments.