Albin Kistler
Wealth Management for Private Individuals
& Asset Management

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INVESTING SAFELY

Investment policy
March 2022

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Economy

The invasion of Ukraine is affecting us all. We will not delve in depth into this tragic and moving conflict here; rather, we will try to focus on the underlying economic factors and evaluate the most significant changes.

1. Economic performance

Geopolitical conflicts always produce short-term uncertainty and act as a drag on economic growth, as businesses and states hold back on investing while private consumption – the largest component of GDP – also shrinks. Consumers' disposable incomes are contracting in the wake of higher energy prices, and the economic impact of the sanctions imposed will also affect western countries and businesses. In the near term, we therefore expect a fairly swift reversal in economic growth for western nations to below the trend level. Hostilities are often shocking, but as a rule they are not associated with long-lasting global economic effects.

2. Inflation and interest rates

The slowdown in economic growth outlined above will have a dampening effect on core inflation rates and is likely to solve the problem of goods bottlenecks sooner than had been anticipated. The flipside is that the Ukraine conflict will continue to exert an impact on energy prices. The energy transition that Europe and the US are striving for will also have an inflationary effect. If they were guided solely by inflation, central banks would need to hike interest rates, marking an end to the negative interest rate regime that has prevailed for the last decade. In the light of the geopolitical conflict, however, western central banks will guard against raising interest rates too quickly, as this would remove further liquidity from the markets at an uncertain time.

Outlook

Economic growth will fall back below the long-term trend rate sooner than expected. The risk of stagnating growth and rising inflation has increased as a consequence of the conflict and the sanctions imposed by both sides.

Central banks therefore have limited scope to tackle inflation. We do not expect any significant interest rate hikes while the conflict and the associated uncertainties persist.

Negative real interest rates will therefore be with us for longer than had been expected. Currencies of countries with high inflation rates that are getting deeper into debt will come under further pressure.

Conclusions for our investment policy

There is a widely held view that political impacts on markets tend to be short-lived, and that has proved true in many previous crises. In uncertain times, blue-chip companies from solid currency areas offer better protection than supposedly high-yield bonds or speculative growth stocks from emerging markets that are short on transparency.

Particularly if a scenario of slowing growth, persistent inflation and delays in rate tightening materialises, investors have no alternative to blue-chip stocks.

For this reason, we have not adjusted our client portfolios. We have faith in the long-term potential of our carefully selected, high-quality companies, and most exposures are still in Swiss francs.