A WORLD FULL OF ZEROS

Our view
October 2020

Benjamin Schoch
Head of Asset Management

André Kistler
Chief strategist of Albin Kistler AG

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Economy

Following the massive economic slump observed in the first half of the year, numerous countries, sectors and companies have embarked on a noticeable recovery. The strength and duration of this recovery both remain uncertain, with short-term events being too dependent on the course of the coronavirus. More significantly, our long-term scenario of zero inflation, zero interest rates and subdued growth has become further set in stone, with a consensus having now been reached on the arguments on which it is based: globalisation, digitalisation and demographic developments are having a deflationary effect and are stabilising moderate rates of growth.

Whether industrialised or emerging: governments are doing everything in their power to alleviate the economic slump caused by the pandemic. Interest rates have been cut to a global low, while government spending budgets have been significantly overstretched. The debt of many countries is reaching a level that will make it impossible to move away from debt monetisation: the European Central Bank is now taking on around 2 billion in government debt every day, while this figure for the US Federal Reserve is even 4 billion.

This raises the following question: is the wave of inflation that the consensus view has now been predicting for 10 years approaching us? The answer is no. Both inflation rates and inflation expectations primarily depend on the economic trend, which continues to be sluggish. The inflation targets of the central banks are rarely met; they merely represent an attempt to manage inflation expectations. And even these attempts to guide expectations are only successful in very few cases: although the money presses of the central banks have been running at full speed for more than ten years, no worrying price rises or consumption excesses have been observed. The scenario of zero inflation, zero interest rates and subdued growth will accompany us for many years to come. This realisation has now also been taken on board by numerous other market participants.

Outlook

Generally speaking, however, the consensus view is too short term and assigns too much significance to current problems and fears, also doing so in an overly one-sided manner. In the vast majority of cases, those who negatively assess long-term economic expectations are making a fundamental error.

They overlook the strongest market force of all, namely the permanent endeavour of people to strive for success, innovations and achievements. Today's world with its massive overcapacities, flood of liquidity and optimal levels of awareness (digitalisation, Internet, maximum transparency) is a stable and closely interwoven world.

A state-protected environment such as this in which risks within the corporate world are constantly becoming smaller and rarer is likely unique in history. Even if individual economic sectors find themselves under heavy pressure in the wake of the coronavirus pandemic, the number of bankruptcy proceeding is significantly lower than that seen in previous crises.

Conclusion for our investment policy

The corporate world will recover faster than expected and continue its excellent track record. The positive mood on the equity markets has already pre-empted this expected development to some extent. Over the coming years, the equities of first-class companies will become an increasingly sought-after commodity in a world that is predicted to be stable and characterised by low growth.

Investors are increasingly recognising that the valuation standards of past decades for high-quality companies will be adjusted upwards. In a world with persistently negative interest rates, real net income yields of between 4% and 5% are also highly attractive. Temporary fluctuations will not prevent the continued rise in equity valuations. Based on this long-term view, we are maintaining our slight overweight position in equities of first-class companies.