LONG-TERM THINKING

Investment policy
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Economy

Faced with an unprecedented rise in inflation and a number of geopolitical conflicts, investors currently need nerves of steel and lots of patience. The economy is also slowing down, while interest rate hikes by central banks are further reducing investors' appetite for risky asset classes. Many react to such periods of crisis in the same way: they see the causes and impacts but cannot (yet) identify any turning points. Short-term events and fears outweigh the long-term focus and opportunities. No one likes uncertainty, and yet we have to accept it. Bearish phases are part and parcel of investing, and retrospectively always culminate in upward market trends. In volatile markets, it is all the more important to stick to tried and tested principles.

1. Our state of knowledge is continuously expanding, and humanity is making progress. This is the main driving force behind the incredible increase in prosperity seen over the generations.

2. If we look at entire economic cycles, the corporate earnings and stock market valuations of high-quality companies always trend upwards.

3. Buy low if the core quality is right, and only sell if the price is genuinely too high. Investors can hold premium companies for a very long period, during which time their value multiplies.

4. The markets will arrive at the fair value over the long term. It is therefore important not to be distracted by short-term factors. Patience is one of the key virtues of the successful investor.

5. First-class, diversified equity portfolios are the safest and most profitable investments over the long term. That is precisely how investors survived the worst catastrophes of the last century.

Outlook

"Normal" bear markets usually arise due to an economic downturn or because credit bubbles burst. To date, the corrections on the financial markets have primarily been driven by higher interest rates. The coronavirus pandemic restored a degree of cyclicality to a world characterised by zero inflation, zero interest rates and zero growth, with demand and supply shocks exerting a massive influence on prices.

After more than seven years of negative interest rates, central bank policy is now becoming more restrictive. Controlling interest rates in order to combat inflation is not an exact science, however. It requires patience to slow down economic actors and get price increases back on track.

Conclusion

In the current transitional phase, it is crucial that investors focus on companies with healthy balance sheets and earnings. Even some of our preferred premium companies have undergone substantial price corrections. We have no doubts whatsoever about their potential for success going forward, however, and are therefore maintaining our long-term positioning.

Profit-taking during good stock market years means we have sufficient liquidity reserves to take advantage of attractive purchase opportunities.

Equity sales would only be necessary in the case of inferior companies in the portfolio. Such companies run the risk of having to increase their capital at this stage due to poor financing or a drop in profits.

In our mixed mandates, however, the elimination of negative interest rates in Switzerland offers a welcome opportunity to reinvest some of our liquidity in short-dated bonds with attractive interest rates.