Albin Kistler
Wealth Management

We keep our word.

FOGGY PATCHES

Investment policy
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Foggy patches

October 2023, Moritz Baumann and André Kistler

Economy

The turnaround in monetary policy, at an unprecedented speed and scale for decades, is having the desired effect and leading to an economic slowdown. As a result, inflation rates in the major currency areas are declining but remain above central banks' targets. Central bankers are therefore taking every opportunity to warn market participants that the process of taming inflation is by no means complete.

Crushing debt mountains

Budgets are heavily in deficit on both sides of the Atlantic and will struggle to get back to sustainable levels in the coming years. Structural constraints in the areas of infrastructure, security, health and pensions are too large. In addition, an ever greater proportion of the budget is needed to service debt. Fiscal and monetary policy institutions in the major currency areas are thus facing a Herculean task of sustainably restoring price stability while structuring their state budgets to avoid any fundamental crises of confidence. Last year's turbulence on the British bond market must be seen as a warning shot in this regard and one that should be taken seriously.

It is important to bear in mind that the already immense mountains of debt will continue to grow. And in the long term, haircuts and painful restructuring are inevitable. Countries such as Switzerland, where the budget and monetary policy are remarkably stable and predictable, are at an advantage. This creates attractive conditions in which businesses can thrive and drive growth and progress.

Outlook

In view of the multitude of concerns and challenges, it is not surprising that the majority of investors are unsettled and equity markets are reacting nervously.

It will take time for economic players to adjust to the new environment. We see no reason to deviate from the scenario we have outlined for the coming quarters: weak growth, coupled with stagnating or even falling corporate earnings. With the cooling economy, price pressure will also continue to ease. Structural factors such as skills shortages, the energy transition and the reorganisation of global supply chains will, however, ensure that inflation rates outside Switzerland will stay elevated for some time and exceed central bank targets. Not least as a result of these inflation differences, the Swiss franc will have a much lower interest rate level and will continue to demonstrate strength.

Unlike governments, the corporate world is in good shape despite economic headwinds. Digitalisation, which is progressing at an impressive pace, and international interconnection are marching on and offer attractive growth opportunities for healthy, top-notch companies.

Positioning

The flat yield curve means longer bond maturities are scarcely compensated with additional yields. We are countering this with a duration significantly below market level.

We have taken advantage of the sometimes considerable price gains in the past few months to take profits in selected stocks. In mixed mandates, we remain slightly overweight in stocks as we believe that exposure to first-rate companies will provide the highest level of security and superior potential for growth in value.