

AN ULTRA-EFFICIENT WORLD

Our view of the market situation

May 2017

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The market assessments, which appear on a periodic basis, are available to download in PDF format on the Albin Kistler website:

www.albinkistler.ch/en/profile/#markteinschaetzung

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Over recent weeks, there have only been tentative signs of the long-awaited equity market correction. One thing is for sure: there is no fully reliable prognostic indicator for the stock markets, with the exception of corporate profit figures (or the economic growth rates)! We continue to hold the opinion that there is no risk of an economic downturn for the time being. As to whether this will be the case for the whole of the forthcoming year, we cannot yet say.

What could bring about an equity market crash?

- Only a major global recession

What could trigger a major recession?

- The adoption of an overly hasty interest rate hike policy by the FED
- An excessive strengthening of the upturn
- An unforeseeable event/shock

There are no clear signs visible that either of the first two points will come to pass. As a long-term investor, the third point also reduces in significance.

Why has the current upturn already gone on for so long?

Globalisation and digitisation mean that one of the most important rules of the economic world is becoming less relevant: excessive money supply = rising inflation. Take on debt just because interest rates are low? No, successful companies put their faith in the efficient use of capital and generating a return on capital employed (ROCE). Utilising productive capital in an efficient manner also increases its value.

The world has become ultra-efficient:

- Our lives are based less and less on tangible assets and are becoming ever more virtual
- Less capital tied up, greater flexibility: lease and share instead of buy and own
- There is more and more demand for functioning, efficient data systems and services that make our day-to-day lives easier. Ownership and substance are taking a back seat

Summary

This increase in efficiency has already been having a massive impact on prices, interest rates and companies for a number of years and inflation (and interest rates) will remain at a depressed level for years to come.

The risk premium is therefore the most meaningful equity valuation metric and we believe that it remains attractive! Moving forward, predictable and secure future income flows as well as reliable and high dividend payments will attract even greater demand in an increasingly efficient environment.

Our investment philosophy is based on market logic

It is important that our clients and prospects also understand the rationale and benefits of our investment philosophy:

- The economy always grows over the long term
- Only inflation dictates interest rates
- It is inflation differentials alone that determine exchange rates in the long run
- A strong domestic currency is a key profit driver for a company
- Generally speaking, corporate profits rise disproportionately relative to economic growth
- The best companies boost the stock markets the most over the long term
- The values of first-class companies multiply over time

Our investment policy is also based on market logic

The impact this has on our client portfolios can be derived directly from the investment philosophy:

- Only the top 40 to 60 companies from a potential universe of 1,500 firms are included in our portfolios
- We have massively overweighted the Swiss franc and are maintaining our Swiss home bias
- We currently have a high equity and liquidity component
- We have never actively shortened the duration of our bonds

We are convinced: our portfolios are not only well equipped for calm waters, but also stormy seas.