

MARKET FORCES TO WIN THROUGH

Our view

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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

Market forces to win through

October 2017, André Kistler and Benjamin Schoch

The end of bloated central bank balance sheets?

The current financial system finds itself in unknown territory. The problems carried over from the financial crisis are unmistakable: overcapacities and a lack of inflation. Significant mountains of debt and aggressive corporate financing are further potentially explosive aspects of the current environment.

Summary: The absorbing of the vast amounts of liquidity is overdue. Striking the right balance and the speed at which this process takes place will be decisive. We will follow the actions of the central banks with great interest, but we are not under any illusions: future economic contractions will also be covered once more via money creation.

United Europe?

The fundamental question as regards the EU remains unanswered. More or less integration? France wants a common EU budget, the convergence of national tax and social systems and a financial transaction tax. However, important institutions in Germany are striving to ensure just the opposite.

Summary: In terms of economic policy, the EU remains a major source of uncertainty. As long as the single currency and the communitarisation of debt persist, EU crises will erupt again on a regular basis and fundamental questions will be raised.

Deglobalisation as a result of nationalist tendencies?

Protectionist barriers against the impact of globalisation and nationalist resistance are once again in vogue.

Summary: Market forces will win through in the long term against any moves toward separation. The process of international digital networking is continuing its course unabated. Global data flows are playing an ever-greater role in economic performance and there will be no slowdown in this development. The high level of transparency generated by the Internet and social media is seeing new standards being set, creating both pressure and momentum and providing governments, companies and people with completely new opportunities.

Expensive equities?

When equities scale new heights, there is often a feeling that this time everything will be different, that things are better than before and that the current bull market is sure to advance much further yet. However, there is very little sign of such euphoria at present. On the contrary, there is a great deal of caution and scepticism on the market and experts are repeatedly expressing their opinion that equities are expensive.

Summary: The price-earnings ratios of all companies are indeed 10% to 20% above the historic average, but there are marked variations between individual sectors and firms. This comparison also largely neglects to take account of the current situation with negative interest rates and a low inflation outlook: although we do not know exactly how inflation will develop during the next ten years, we do know that it will remain low due to the following reasons: globalisation and digitisation are leading to liberalisation and an environment of ultra-intense global sales and price competition.

Investment policy

Swiss-franc interest rates will increase slightly in light of the somewhat less expansive approach adopted by the central banks and the base effect in commodities. However, this expectation will not lead to any fundamental changes in our portfolio allocation: short-term considerations rarely pay off and not every market boom is followed by a crash! Nevertheless, should the stock markets continue to advance strongly, we will once again realise profits on a selective basis.

As regards the corporate landscape, the long-term political and economic framework conditions represent the central point of reference. Nothing has changed in this regard and the economic outlook remains positive.

The success factors that lead to the generation of added value in the long term are not complex: a sufficiently long investment horizon, a convincing investment philosophy with profound financial analysis and long-term investments in the world's top companies suffice.