RISING CORPORATE PROFITS

Our view of the financial markets
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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

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Industrialised countries in a state of flux

Since the financial crisis eight years ago, monetary supply and debt levels have increased to new historical highs. Welfare and pension programmes can only be financed through the assumption of further debt. An interest rate hike of 1% would, however, increase annual debt servicing costs in the industrialised countries by 30% to 50% over the medium term.

Demographic developments remain unfavourable and continue to weigh on growth. Youth unemployment rates in the EU's southern states stand at unacceptable levels. Confidence in governmental authorities has hit rock bottom and disenchantment with the EU has never been as great as it is today.

Upcoming elections in Germany, the Netherlands and France are likely to see a continuation in the political turnaround. The old-style welfare state is an outdated model and cannot be financed in its current form. The longer time goes on, the more prominent and unavoidable major reforms in Europe will become.

Globalisation and markets

Are we now at risk of seeing the far-reaching economic barriers and trade friction feared in many quarters? In the long term, this is unlikely: The human endeavour to strive for betterment (competition), technological thrusts (digitalisation) and international dependencies (specialisation) are far more decisive than the power of individual politicians.

The positive economic aspects of globalisation will not be halted. Free trade is not always found where we are led to believe it exists. In many cases, free trade means (hidden) regulation.

The extremely intense level of global competition, driven by overcapacities, demographic developments and the Internet, is serving to limit the potential for an increase in inflation and thus also for interest rate hikes. The European Union's as yet unresolved problems will also keep Swiss-franc interest rates under pressure for some years to come.

Impact of emerging changes

- Trend towards liberal realpolitik and lower corporate taxation as a reflection of global competition
- Greater pressure towards new regulation
- Higher state infrastructure spending to be expected
- Increased levels of confidence among consumers and entrepreneurs (investments)
- Increased growth rather than zero growth
- Initial continuation in the build-up of debt
- Only a slow increase in inflation

Conclusion and investment policy

After many years of stagnating growth rates, backlog demand and the growth-promoting measures of liberal governments will see a slight acceleration in economic growth. A recession is not in sight.

The more positive economic outlook in the US will see a recovery in the corporate profits of globally active companies and this could, with a slight delay, also have a positive impact on Europe's regional domestic markets.

This will provide good conditions, for companies, employees and investors. Equities are attractively valued in this environment of stable prices and we are thus maintaining our overweighting in this asset class.

It is not primarily regions or sectors that determine our securities selection, but rather the quality of the companies: predictable earnings, a leading market position, a solid balance sheet and above-average returns on investment generate success in the long term.

Those companies and issuers that will also be able to create significant added value for investors in the expected market environment of the future are incorporated in our client portfolios.