ABSURD INTEREST SITUATION

Our view
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André Kistler
Chief strategist of Albin Kistler AG.

Benjamin Schoch
Head of Asset Management, Currencies/Bonds Analyst

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Economy

There is now almost universal agreement: global interest rates are set to remain at low levels for a long time. The buying up of government bonds by the central banks, which was once labelled unorthodox, and the introduction of negative interest rates, which was originally designated a temporary emergency measure, have now become conventional.

Is this a sign to bet on an imminent interest rate turnaround? Hardly. While interest rates may fluctuate here and there due to market conditions, a veritable turnaround is not to be expected. The central banks' room for manoeuvre is becoming continuously smaller and calls for additional monetary support in the form of helicopter money are increasing once more. Hopefully they will not be heeded. The enormous budget deficits already represent nothing other than helicopter money financed via central banks and weak currencies.

The low interest-rate policy and expansion in the monetary supply are counterproductive: uncompetitive states and companies are rewarded, while structural reforms fail to materialise. Wages, prices and growth are stagnating due to a lack of confidence in the market and a reluctance to invest. For most industrialised countries, it is too late to turn away from this world of debt. Debt reduction would only be possible with the implementation of significant financial cuts, a recipe that no politicians would like to put forward to their voters.

There is concern that economies cannot handle any further recessions or adjustments. We have been feeling the consequences for ten years: economic and inflation cycles are becoming flatter and there are hardly any more phases of economic exaggeration. In the wake of the surge in liquidity, it is no wonder that the most important factor for the regulation of the economy has been sidelined: interest rates significantly determine the valuation of goods and the price of all investment opportunities.

Outlook

The current data confirms the economic slowdown. However, this will not end in a marked global recession or even a crisis, but rather lead to a tendency for stagnation in the old industrialised countries similar to the developments seen in Japan. Corporate earnings will also not decline drastically as many very high-quality companies are responding in too agile and flexible a manner to the changing economic framework conditions. The foundations of the globalised and digitalised economic world are broad and solid.

The Swiss National Bank underestimates the performance levels of Swiss companies and markets. With negative interest rates and currency purchases, it will be unable to stop the structurally determined long-term uptrend of the Swiss franc. It is, however, weakening its own freedom of action and endangering social peace and old-age provision. It remains to be hoped that the recent restraint shown with respect to greater negative interest rates will also be reflected in fewer currency purchases and that this stance is also maintained during stormy periods.

Investment policy

There are always risks. It is striking, however, that these risks are usually manageable, resolvable and temporary in nature. The corporate world can deal with this in the long term and is excellently positioned to sustainably increase profits and dividends. The interest situation is both absurd and unique: cities and cantons receive money for new debt and high-quality companies can borrow for ten years at zero interests rates! In contrast, real dividend yields and risk premiums are at historic highs. Those who opine that equities are rated above average underestimate both the operational performance of high-quality companies and the continuing interest situation. Combined, this provides an extremely welcome constellation for long-term investors.