Albin Kistler
Vermögensverwaltung für Private
& Asset Management

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# CONFIDENT DESPITE SLOWDOWN

Our view
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# Confident despite slowdown

April 2019, André Kistler and **Benjamin Schoch**

## Economy

Those who invest saved funds are on the lookout for returns as well as safety. Interest rates play an important role here. However, interest rates not only determine returns, but rather also the underlying economic developments and the valuation of bonds, equities and real estate. Put simply, the lower the interest rates, the more advantageous the financial framework conditions are for entrepreneurs and investors.

The monetary policy of the key central banks has therefore been in the spotlight for a number of years. With the unconditional low interest-rate policy and the massive purchases of government bonds in all major currency areas, the central banks have departed from the "normalisation path" known from past economic cycles.

The level of monetary intervention is impressive: around 40% of US government bonds are still held by the Federal Reserve (17%) and other central banks (23%), including the Swiss National Bank.

The interest burden for the US state currently stands at around 2% and thus in comfortable territory with respect to the budget deficit despite investor concerns. As a reminder: the interest burden was between 6% and 8% prior to 2007. The most recent statement made by the Federal Reserve that it will once more slightly increase its US government bond holdings will keep the interest burden low.

A similar picture is emerging in Europe: the European Central Bank holds 20% to 30% of the government bonds of its member states and is thus also keeping the interest burden of these debt-burdened nations low.

These facts reinforce our view that a reduction of the bloated central bank balance sheets and the scaling back of widespread low interest rates are some way off.

## Outlook

During the first half of the year, global growth rates will once again disappoint, but the levelling off will be relatively mild. Consensus and investors adopt a very short-term view of things and follow quickly changing emotions (fears of a recession, inverted yield curves, recent monetary-policy decisions, etc.) instead of basing their decisions on long-term economic prospects.

Digitalisation will also have a dampening effect on inflation in future and further advance global networking. The financing of government debt mountains will be ensured via the continuation of the expansive monetary supply. In uncompetitive countries (some of them in the EU), the economy will stagnate and interest rates will remain at a low level for many years to come. Demand for the Swiss franc will stay high. The digital revolution and the up-and-coming emerging markets will provide persistent global growth impetus.

## Investment policy

It is precisely this environment that offers first-class and agile companies an outstanding basis to thrive successfully over the long term. Even if economic growth rates no longer achieve the levels seen in past decades, sufficient investment opportunities are to be found against the backdrop of a weakly yet stably growing economy. Real corporate earnings and dividend yields stand at a higher-than-average level.

For investors, overall success over the long term is decisive and this is almost exclusively determined by cumulative company profits. We therefore utilised the slightly lower equity prices seen at the start of the year to take selective buying opportunities and re-establish our equity overweight position at the expense of bonds and liquidity.