ARVEST

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Investor Info
Anlagekommentar

Briefing from the ARVEST Investment Committee

General market environment

Leading indicators have continued to improve worldwide. The purchasing managers' indices of the most relevant national economies, apart from France, are above 50 and therefore continue to point to economic expansion. The country furthest along the economic cycle is the USA. Even though the latest economic data was slightly below expectations, there is still upside potential for the US economy without the danger of overheating. It is expected that the US dollar will continue to remain attractive for investors in the foreseeable future due to the more favorable underlying conditions, especially compared to the eurozone, and related lower risks. Further upward impetus could also be provided by the likely interest rate hike by the Federal Reserve in the current year. However, it is also conceivable that the Fed will allow itself more time to take the first interest step, as there is no risk of inflation nor other signs of overheating, which would have to be tackled using interest rates as a weapon.

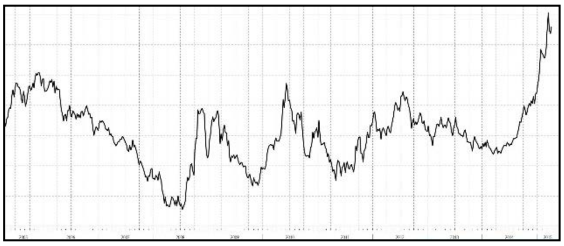

Figure 1: USD/EUR exchange rate 2005-2015

In contrast to the US economy, many European economies are still contending with the acute negative effects of the recent financial crisis; however, progress is also being made in Europe. The ECB is trying in the meantime to use the same medicine that seemed to have worked previously in the USA - namely quantitative easing - to strengthen the hitherto still fragile recovery. If the resulting depreciation in the euro is sustained, the positive impact should be even more clearly positive in the eurozone than in the USA due to its export orientation.

As the USA emerged from the recession earlier and faster, US companies currently have higher profit margins than their European competitors. The Investment Committee assumes that margins in the USA can hardly increase any further given their already historically high levels. An increase in profits is therefore only possible via an increase in sales. On the other hand, profit margins have not yet returned to normal in Europe, Japan and many emerging countries, which is why there may be positive profit trend surprises on slightly improved underlying conditions. The latest general economic data from Europe was surprisingly positive, which is also likely to be reflected in corporate profits in the medium term.

This could also be helped by the low energy prices, which have led to declining costs for the economy and declining prices for consumers without exerting downward pressure on wages. On the contrary, purchasing power seems to have increased considerably Iin Germany, for example, as significant wage increases were agreed for many employees despite zero inflation (most recently in the German chemical industry with an increase of +2.8%).

Conversely, low energy prices on the world markets should lead to serious economic problems for Russia, if they remain at this level for a longer period of time. The ARVEST Investment Committee expects a deep recession in Russia, which is likely to be accompanied by downward pressure on its currency with very high inflation. However, the Investment Committee does not anticipate an immediate collapse of the economy as a whole, as the Russian economy was able to build up financial reserves to some extent from the previous good years and did not refrain from significantly reducing its debt ratio.

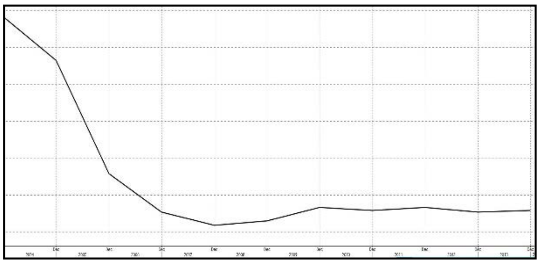
Figure 2: Russia debt as a % of GDP 2004-2013

The Chinese economy has been growing constantly for years. However, growth rates have fluctuated sharply between 6% and 12% over the last 20 years. Since 2010 it has fallen from just under 12% to a current rate of 7.3%, which is seen as an area of concern by many economists. The ARVEST Investment Committee takes the view that it does not matter whether GDP grows in future by 7% or perhaps by only 4%-5%. In our opinion, it is much more important that general wage rates and thus domestic consumption continue to rise on a strong and stable basis. Under this strategy the one-sided dependence on debt-based investments can be reduced and qualitative growth less subject to fluctuations achieved, from which not only China but also the total global economy can benefit.

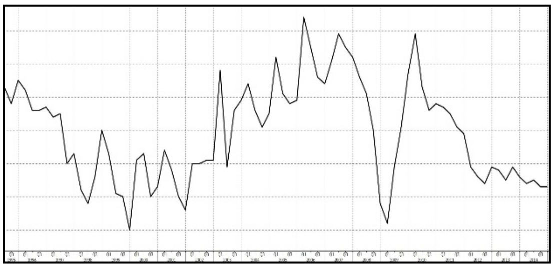
Figure 3: China GDP YoY 1995-2014

Outlook

The Investment Committee assumes that global equity markets are fairly priced on an overall basis. There are also no signs of an imminent recession either in the USA or other important economic regions. There is therefore no reason for reducing equity exposure in portfolios managed by us. However, as valuations on the US stock exchanges are rather high in relative terms compared to other exchanges, it is recommended that the regional shift towards more investments in emerging countries as well as the eurozone be continued. This recommendation does not apply to USD bonds with shorter maturities, as future exchange rate gains are likely for the US dollar due to the continuing attractive underlying conditions.

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On behalf of the Investment Committee
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