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Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

While the global economy overall is still in a recovery phase, individual economies such as China or Brazil have not been able to benefit from it.

However, a classic cyclic classification is not practical for **China** in any case. Though it is clear that growth in China is slowing down, this cannot be compared with downturns in developed and market-dominated economies. While in the latter a stronger downturn usually leads to a recession, this has not been true for China. Despite declining growth rates the country is continuing to grow and expand its share of global GDP in the future. The composition of China's economic data is therefore rather unusual from a Western perspective.

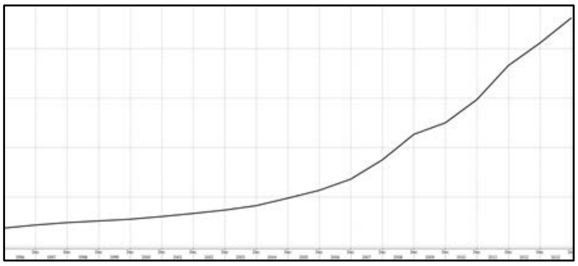

Figure 1: China GDP in USD 1996-2014

While valuation of the stock markets indicate a rather highly advanced upswing, this cannot be said of the price development in the real estate sector, which is falling. The state is also intervening with a simulating influence via interest rate cuts, which is typical of a downturn. On the other hand, the service economy and the continued strong rise in wages point to a solidly growing economy. Because of this heterogeneity, it is difficult to classify China into classical economic cycles.

Due to the slower dynamic the ARVEST Investment Committee assumes that the Middle Kingdom will tend to have growth rates of 5-7% per annum in the coming years, and thus rates of 8% or significantly more are unlikely, at least for the next few years. Nevertheless the growth potential for the future is enormous, since due to the regional differences in China the average per capita income is still relatively low. This is also compared to other emerging markets such as Turkey, where the annual per capita income in late 2013 was already higher than China by 48%, at 10,073 USD. Incidentally, at the same time the per capita income in Greece was 22,479 USD and in Switzerland 85,020 USD. It is therefore likely to take a while before China can be counted among the economically mature economies, and continued growth potential must accordingly be more deeply cultivated.

With regard to the **USA**, the ARVEST Investment Committee assumes, despite momentary weakness in manufacturing and leading indicators, that thanks to the continued recov-

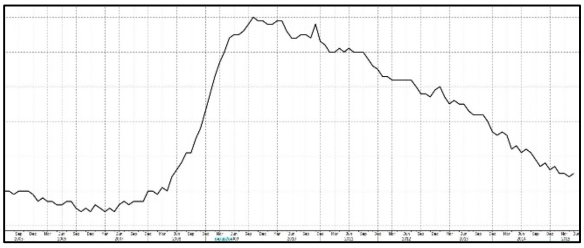

Figure 2: US Unemployment Rate 2005-2015

ery in the labour market the economy will continue to grow stably in the second half of 2015. The FED is expected to initially increase interest rates in the course of the next six months, but to first make relevant interest hikes when wage pressures and core inflation significantly rise.

The news flow from **Europe** will continue to be negatively dominated by the debt crisis in **Greece**. In this context it is easily overlooked that the European economy has been having positive growth rates for some time now.

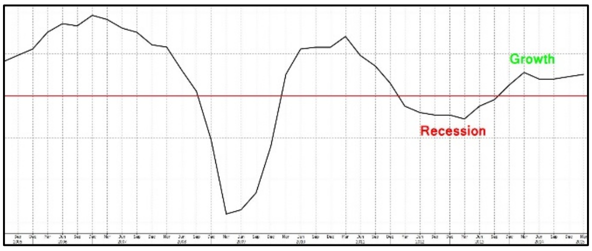

Figure 3: Euro Area GDP Growth Rate 2005-2015

The ARVEST Investment Committee is confident that despite the Greek irritation the recovery in Europe will continue in the future, which will likely be accompanied by monetary policy measures from the ECB. Despite the impending Greek default, we do not expect there will be a collapse of the euro area.

Market Valuation

Given the current interest rate environment and the expected interest development, **US equity markets** still appear not to be overvalued, although the P/E multiple has also expanded significantly in recent years. Cyclically-adjusted indicators do however point to valuations in the top position. The strong divergence between different valuation criteria could be related to a certain extent with significantly increased share buybacks (financial engineering) by US companies.

From a historical valuation perspective, **European markets** still remain more attractive than US markets. The uncertainties associated with Greece should in fact offer a chance to increase exposure to European companies at even more attractive rates.

Emerging markets, with the exception of A-shares in China, are also not assessed as expensive given the local interest rates. On the other hand the respective currencies still indicate loss potential despite interest rates having already decreased.

Outlook

The ARVEST Investment Committee expects that with the forthcoming interest rate hike in the US the appeal of **USD** will further increase. In terms of currencies the USD therefore appears more interesting than the **EUR**. However, in terms of the stock market, we tend to favour **Europe** due to the valuation differences, whereby cyclic stocks are particularly interesting because of the greater potential for earnings growth (via revenue growth and margin improvement).

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On behalf of the Investment Committee
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