July 2016 | Issue no. 102

Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

The British vote on the membership of the European Union outshone all other economic news in the second quarter of 2016. According to the minutes of the Federal Reserve meeting on June 14 and 15 even the US Federal open market committee chaired by Janet Yellen discussed "Brexit" in an extraordinary agenda item. Members noted a considerable uncertainty about the outcome of the vote and its potential economic and financial market consequences.

In the meantime, we know that 52% of Britons want to leave the EU. This vote led to a political earthquake in the UK. The Prime Minister David Cameron as well as important voices in favor of leaving the EU stepped back from daily politics. Yet the outcome of the forthcoming negotiations between the United Kingdom and the European Union is completely open. The consequences for the world economy are therefore still unclear as some members of the US Federal Open Market Committee recently emphasized in private speeches.

The ARVEST Investment Committee promptly tracked the referendum on United Kingdom membership of the European Union just like the rest of the financial community. But we drew conclusions for our investment policy which go beyond the specific referendum.

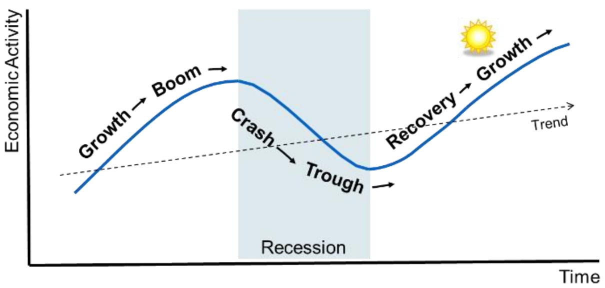
Our investment policy is based primarily on an analysis of global economic cycles and of market valuations. Here, we rely largely on data sets, which are reliably available only since the Second World War. However, these data sets reflect economic achievements of past decades, such as the continued expansion of global free trade, the supremacy of a stable international monetary system, the prevelance of market based principles or the prevention of violent conflicts in geopolitically dominant countries.

The Investment Committee recognizes those underlying paradigms and tracks their development systematically. Firstly, they have a current, mostly market-psychological impact on our data for the analysis of business cycles and market valuations. Secondly, it would of course have a major impact on our investment policy if the investment committee assessed the likelihood of a paradigm shift fundamentally different from the market consensus.

With respect to the Brexit decision we see in particular the risk that it is likely to be interpreted as a symptom of an underlying globalization angst rather than as an expression of liberal independence. The ARVEST Investment Committee continues to believe that fiscal and monetary authorities will be successful in avoiding a collapse of world trade because of protectionist measures. However, we will monitor developments closely. Reliable economic data raised after the Brexit decision will be available from September.

The mentioned tracking of political events does not mean that we will refocus our investment policy on political forecasts. We will continue to refrain from betting on the outcome of general votes or presidential elections. On the one hand we know that financial markets often react very rapidly and fairly accurate if events of this kind happen. It would be presumptuous to assume that we can rely on better sources earlier to predict short-term market reactions. On the other hand, we also always fared well in ignoring our own political opinions. Concrete political events always carry the danger for a decision making body that the wish is father to the thought. And this would be the direct route to bad investment decisions.

Future Prospects



The ARVEST Investment Committee continues to assess the overall global economy to be in a moderate growth phase leaning towards weakness rather than boom. According to leading indicators a recession is not likely to be expected in the USA in the near future. The European economies will likely continue to recover. In spite of mixed signals we expect only slightly lower economic growth in the Chinese economy.

In addition to economic developments the ARVEST Investment Committee considers valuations of various asset classes when forming its investment policy. According to our preferred valuation methods stock markets are still fairly priced relative to cyclically adjusted corporate profits if we take low inflation and low interest rates into account. We hardly observe any irrational prices which market participants are often prepared to pay during a boom. This does not apply to bond markets which soared in light of the British referendum and can certainly be described as overpriced. For example, more than a third of government bonds of all developed countries have a negative yield to maturity. Therefore, emerging markets should benefit from stabilized commodity prices and relatively attractive refinancing conditions. In spite of increased volatility in financial markets the ARVEST Investment Committee continues to prefer stocks and cash over bonds.

07.07.2016
On behalf of the Investment Committee
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