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Investor Info
Investment Commentary

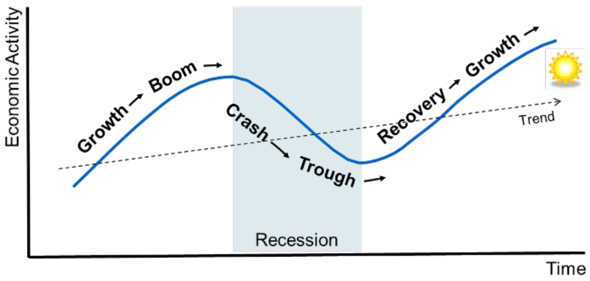
Briefing from the ARVEST Investment Committee

After a difficult start, stock markets ended almost at yearly highs in the past year. The North and South American stock market indices were particularly strong. The European and Asian equities markets were not able to compete. In the first half of the year, commodity and precious metal prices as well as related investments recovered. In the second half of the year, cyclical equities also performed strongly.

in 2016, the tactical decisions of the ARVEST Investment Committee showed success. One year ago, we wrote in this briefing about the bottoming out of commodity prices, what actually happened soon afterwards. Within only two years commodity producers had reduced their overcapacities which had been formed during the industrialization of China during 2003 and 2013. This market adjustment was painful for many producers. However, the quickness of the correction also ensured that the deflationary negative feedback loop was interrupted rather quickly and thus a global recession could be avoided. In April, we explained why the mood was worse than the actual situation. In particular, we had a favourable cyclical view of the US economy and looked at market corrections as buying opportunities. In July, we discussed the consequences of the British vote to leave the European Union. We subsequently strengthened our risk analysis regarding the possible effects of an increasing protectionism on world trade. With respect to our investment policy, we decided to continue to rely on sound economic data and not to engage in political betting. This restraint served us very well in November. We still know of no expert who has correctly predicted the election of Donald Trump as US president. However, the completely mistaken market forcasts for this outcome were even grimmer for short-term investors relying on them. In October, we briefed about the prospects for share price gains based on the still widespread pessimism of many investors. At the same time, we warned against overpriced bond prices, which occured because of the undesirable effects of the central banks' zero and negative interest rate policy, which is likely to become increasingly questioned by market participants.

Future Prospects

The ARVEST Investment Committee assesses the global economy to be in a moderate growth phase with renewed vigor.



Stock prices have increased strongly since the 2008 financial crisis. We now consider equity markets to be expensive, especially in the USA. It will become more and more important for equity investors that companies can increase their profits and revenues while the current economic cycle lasts. If this is the case, for many investors the currently high valuations will be no obstacle to buy equities. Thus, further stock price increases can be expected. From a regional point of view, the current stock market valuations favour European and Asian equities. It should be easier for companies to increase their profits in these markets rather than in the USA not least

because of their respective point in the economic cycle. Although this strategic overweight of European and emerging market equities has not worked in the past few years, we remain convinced that it will pay off in the long term. According to our preferred valuation methods global stock markets overall are still fairly priced if we take low interests and still low inflation into account. We hardly observe any irrational prices which market participants are often prepared to pay during a boom at the end of a business cycle. In this low interest rate environment, we continue to prefer equities and liquidity over bonds.

The ARVEST investment committee did not notice any signs that sufficiently pointed towards a regime change regarding inflation / deflation, debt economy, market participants / market liquidity, China's economic transformation, protectionism or trust in governmental institutions. We are currently assessing relevant risks in all these areas, but we estimate the risk of short-term escalation to be low to moderate. Political developments, however, have become much more unpredictable. In 2017, it will remain highly important to carefully distinguish between political rhetoric and political decisions with economically lasting effects.

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On behalf of the Investment Committee
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