ARVEST

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Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

In the first quarter of the year, global equity prices rose by 4.4%. From the perspective of a Swiss francs investor, stock markets in South Korea, Brazil, Switzerland and Europe have developed better than the average. In view of the harsh rhetoric about tax policies from the White House, the formal start of Brexit negotiations and the protectionist election platforms of European government candidates, this outperformance may be astonishing as many export-oriented companies are listed on these exchanges. Do market participants simply ignore possible economic policy setbacks? Or are they just hoping that everything will not be as bad as it seems?

In the past quarter, the ARVEST investment committee analyzed comprehensively the issue of how economic policy uncertainty affects the economic cycle and the stock market. The first question was to clarify whether economic policy uncertainty has actually increased in recent years. Perhaps we only consider this to be true, subjectively influenced by the strong psychological effect of recency bias. To ensure objectivity, we drew the data from the scientific study published by the American National Bureau of Economic Research (NBER)[1]. The result of the analysis is clear. Over the last two years, global newpapers published more articles that causally linked to expressions of uncertainty, economy and politics than ever before. This is shown by the black line in the chart below.

But if one assigns the articles to their respective historical events, it soon becomes clear that they had no predictive power. The US economy had entered the recession (red area on the chart) many months before the peak of media coverage, both in 2001 and 2008. Both events, 9/11 and the global financial crises, had an American origin and were obviously relevant to the US recession. Increased media

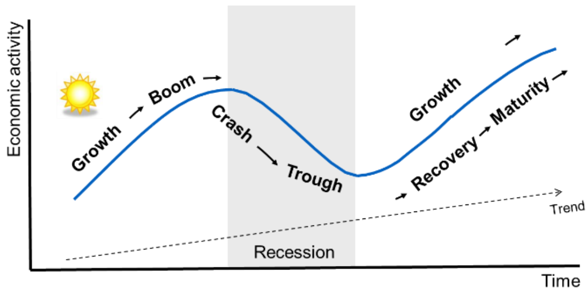
[1] www.policyuncertainty.com

coverage also didn't warn of the risk of major bear markets. The global stock index (fine brown line in the chart) corrected long before any peak in enonomic policy uncertainty was reached. Actually, it was often already on the rise again by then.

For long-term investors, high economic uncertainty in the media thus falls short as a useful warning signal. In the short run, it may be true that there is nothing that stock markets hate more than uncertainty. During the periods of heightened economic policy uncertainty, stock markets acutally experienced strong daily volatility in both directions, which can strain the nerves of day traders. As long-term investors, on the other hand, we tend to think that the more quiescent periods, as in 2000 and in 2007, were actually more dangerous. Thus, we continue to appreciate the quotation of the famous banker Carl Mayer von Rothschild (1788-1855), "Buy on the sound of cannons, sell on the sound of trumpets."

Future Prospects

The ARVEST Investment Committee assesses the global economy to be in a moderate, synchronized growth phase in all regions.



We believe that the strong development of the global economy in recent months surprised many investors. We thus consider this to be the main driver for recent share price gains. Cyclical dynamics won against political and other structural concerns.

As the economy progresses, it becomes increasingly important for equity investors that companies can increase their sales and profits. If this is the case as expected, the currently high valuations will be no obstacle to buy equities for many investors. Thus, further price increases can be expected. From a regional point of view, the current stock market valuations favour European and Asian markets. It should be easier for companies in these markets to increase their profits. Taking into account the current economic cycle, low interest rates and still low inflation, stock market valuations are relatively fair from a global perspective. We hardly observe any irrational prices which market participants are often prepared to pay during a boom period at the end of an economic cycle. In contrast to one year ago, investor sentiment has improved significantly. A further upswing in the mood is still possible. However, if this were to happen without any fundamental improvements in the real economy, we believe that this could indicate the start of a dangerous boom-typical euphoria. Nevertheless, in the current low interest rate environment, we still continue to prefer shares and liquidity over bonds.

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On behalf of the Investment Committee
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