ARVEST

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# Investor Info

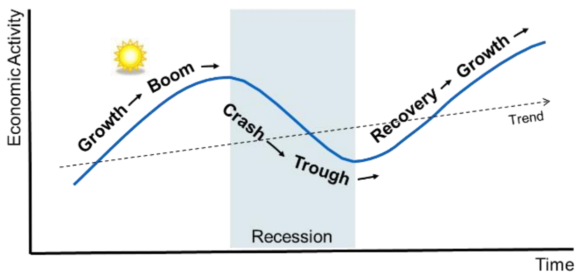
## Investment Commentary

## Briefing from the ARVEST Investment Committee

After the previous year was marked by exceptionally low price fluctuations, stock markets came back to life in the last quarter. Most relevant news came from the USA. In the wake of the US corporate tax reform, analysts increased their earnings expectations. Stock prices rallied sharply in January before correcting immediately at the beginning of February, after fears of higher inflation and a more restrictive monetary policy took hold. Since then, the stock markets have not calmed down. Market participants were busy reassessing the predominantly political news. The new protectionism of the Trump administration, the fragile military interests in the Middle East and the changed expectations regarding data protection among the large social media groups were particularly significant. The stock price losses in February and March worried investors. Is this the beginning of a major stock market crash?

### Future Prospects

The ARVEST Investment Committee continues to assess the global economy as a whole to be in a moderate growth phase synchronized in all regions. Not much has changed since January.




The economic momentum in the industrialized countries has slowed somewhat, but the economic developments in the emerging economies and trade between them have been very pleasing. We see no signs of a significant overheating of the global economy beyond the limits of its capacity and thus see no relevant macroeconomic recession risks for the next three to six months.

With regard to interest rates and inflation expectations in the US dollar, investor sentiment has calmed down since the beginning of February. However, the ARVEST Investment Committee will continue to follow these factors very closely. We have already pointed to the associated pressure on equity market valuations earlier when we made corresponding tactical adjustments to our cyclical investment strategy in the fourth quarter of 2017. Apart from that, we see no massive valuation risks for stock prices. Although investors were somewhat carefree until the end of 2017, there was no euphoria comparable to earlier boom phases. High, slightly rising share prices with increasing volatility are characteristic of a boom phase with an associated bubble; as are euphoric market participants hoping for further price gains with fluttering nerves. In our opinion, the stock market upswing did not show any signs of exuberance until January 2018. However, this period of exurberance in January was short and it therefore cannot qualify as an independent boom phase. However, should investors overcome their current concerns in the coming weeks and months, and should equity prices soar again, the ARVEST Investment Committee could date the beginning of a new boom phase retroactively to January 2018 at one of the next strategy meetings.

Attentive readers notice the use of terms related to mass psychology such as "boom" and "despair" in our phase classification. We use these words on purpose. Both severe stock market movements and recessions are primarily mass psychological phenomena that can manifest themselves in a similar manner and in close interdependence.

A recession is not triggered because there is something structurally broken in an economy. Workers have the same skillset as before and factories also produce without interruption. Recessions happen because a small downturn intensifies itself. Everyone worries a little more, saves a little more and therefore spends or invests a little less. People observe and imitate each other and thus strengthen the dynamics in one direction by learning from each other.

Governments and central banks experienced in market economics know this of course. There are basically two ways to react to this. They can replace the lost spending (e.g. directly with government investments or indirectly with interest rate cuts) or they can influence expectations and explain to people that things are actually fine and that they should just go back to beeing cheerful and optimistic. The latter, of course, only works if the institutions are credible and if optimism can be further increased at all. However, if we are already in a general euphoria, an increase is naturally no longer possible. This is precisely why the ARVEST Investment Committee looks for signs of a boom phase, though it’s often difficult to tell in real time. However, the disequilibrium and thus the probability of an unstoppable spiral movement are then much greater.

As a baseline scenario, the ARVEST Investment Committee maintains moderate economic growth with slightly rising interest rates. Howerver, the likelihood of unpleasant surprises also increased in view of a potential trade war between the USA and China. We maintain our investment structure and equity exposure, but once again increase our focus on quality assets.

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On behalf of the Investment Committee
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