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Investor Info

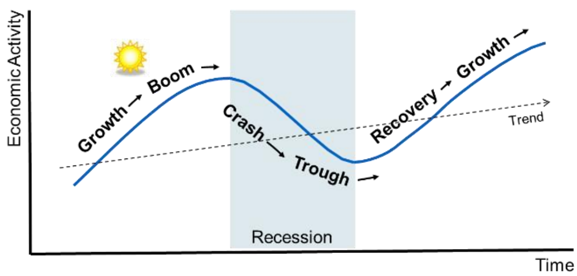
Investment Commentary

Briefing from the ARVEST Investment Committee

Investors faced a different market environment in the first half of the year. Last year, it basically was a "The tide lifts all boats" scene. This isn’t working so well in a challenging year 2018. After the upswing in January and the subsequent correction, stock prices remained in a sideways movement. In the first half of the year, only the US stock indices gained in Swiss francs, mainly thanks to growth stocks such as Netflix, Twitter and Amazon or sectors such as technology and consumer discretionary. In order to beat the stock markets in the first half of the year, one would have had to invest predominantly in these stocks or sectors. This assessment is confirmed by the value-oriented US index "S & P 500 Value", that also suffered a loss in value.

At the same time, investor worries are everywhere. The US Trade War is at the top of the list. In addition, there are high debts and budget deficits, along with rising interest rates and a US central bank that is shrinking its balance sheet and thus reducing liquidity. These concerns need to be taken seriously. Imbalances may indicate what might be different in the current economic cycle than before. Overall, however, we see the situation less dramatic for equity investors. For example, we expect potential consequences of current monetary distortions to occur rather in fixed income assets. That's why we shy away from high-yield corporate bonds or leveraged products. Moreover, the widespread negative investor sentiment is neither consistent with the sustained optimistic mood among corporate executieves nor with the still stable economic data.

Future Prospects



The ARVEST Investment Committee continues to assess the global economy as a whole to be in a moderate, regionally broad-based growth phase. In Europe and Japan, economic development appears to be stabilizing following somewhat weaker data. China's economy is feeling the liquidity constraints enacted to curb shadow bank lending, but it remains one of the most dynamic with growth of over 6%. Developments in the emerging markets are mixed, but relatively stable outside of some high-risk countries such as Turkey and Argentina. The US economy is booming. For example, for the first time there are more job vacancies than unemployed people. Still, inflation has not yet risen alarmingly. We would not be surprised if US growth also slowed somewhat in the coming months as a result of the global slowdown. In fact, this would even be desirable in view of the continuation of the US economic cycle. Our indicators show no relevant macroeconomic recession risks for the US economy over the next 3 to 9 months. Nevertheless, an overheating of the US economy with an unexpectedly restrictive interest rate policy would be a very serious threat to the global economic cycle.

And how does the ARVEST Investment Committee assess the risks of the Trump Administration's trade policy? In our view, the current increases in US customs tariffs and a considerable amount of uncertainty regarding future trade conflicts are already priced into stock markets. Tariffs are not the major problem for the world economy. Even for China the effect is limited. China's total net trade surplus is now only 3% of its gross national product, after reaching a high of 9% in 2007. Yet, the press is already writing about the largest trade war ever. However, we think that trade wars don't get real untill capital movements are restricted and non-tariff barriers are erected to disrupt global supply chains. We're not in this situation yet. Since 2016, the AKO Investment Committee has been closely monitoring the topic of "political challenges" and assesses the likelihood of a real trade war to be still very low. A real trade war hurts too many Trump voters via inflation. Nor is it in line with the US President's tactical negotiating goals. Finally, it always also takes two to argue, and fortunately, after the outcome of the French election, there are no other influential protectionist governments in the G20. Positive trade news on the other hand are downplayed. For example, the EU, with the support of German carmakers, is considering an offer to the USA to renounce today's 10% import duties for US cars completely in a bilateral agreement.

The ARVEST Investment Committee maintains the baseline scenario of moderate economic growth and slightly rising interest rates. The risk of surprisingly rising inflation has a greater impact on our investment strategy than political risks that have already been widely published. After reducing the equity ratio in our cyclical investment strategies to a neutral level in the fourth quarter of 2017, we reduced it by a further 5% for US dollar investors, as liquidity in USD became comparatively attractive. For investors in Swiss francs, pounds and euros, this is not appropriate yet due to current monetary policies with negative interest rates. In view of the double-digit growth in corporate profits, we still assess no overwhelming valuation risks for the stock markets. However, in today's market environment we attach great importance to true diversification and continue to prefer investements in high-quality, international value stocks over high-flying US growth stocks, which also dominate many US stock indices and passive ETFs.

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On behalf of the Investment Committee
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