ARVEST

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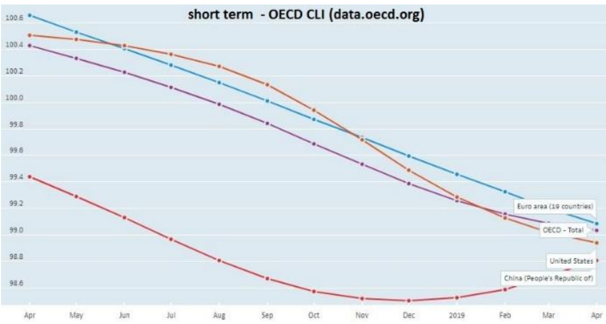
Investor Info

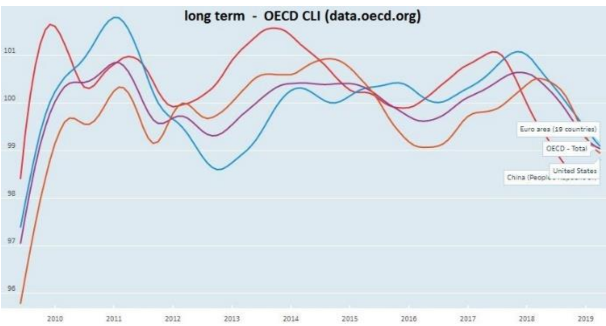
Investment Commentary

Briefing from the ARVEST Investment Committee

The rally on the stock markets continued in the second quarter of 2019. New all-time highs were reached in Switzerland and the USA. Non-cyclical sectors were particularly in demand. Other defensive assets such as bonds, gold and safe-haven currencies, e.g. the Swiss franc and the Japanese yen, also gained ground.

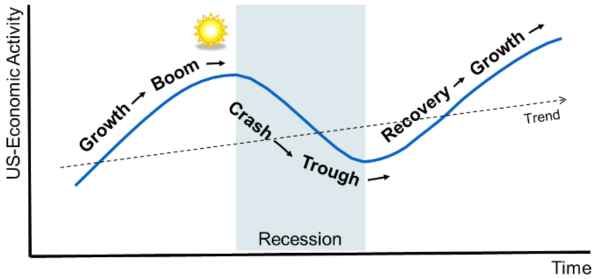
Our market and economic analysis is similar to that of the investment commentary three months ago. But why has the AKO Investment Committee now decided to become more cautios about the asset allocation of the portfolios?





The two charts with leading economic indicators for the eurozone, the US, China and the world (OECD countries) illustrate our decision. They both show the same data first in the short term for the last twelve months and then in the long term since the financial crisis. The short-term chart shows how the global economic slowdown has increasingly spread to the US in recent months, with the result that below-average growth is now to be expected also for the US (below 100). This time, we are paying more attention to this poor outlook than in the past. As the long-term chart shows, the last two periods of global weakness from 2011 to 2013 and from 2015 to 2016 were regionally less synchronous. Also, the US, which is crucial from an investor perspective, has previously been able to form a low above the value of 99. Above all, however, we noted in our last investment commentary that, on the basis of our holistic assessment, the US is in a boom phase now for the first time since the financial crisis. The US is thus more vulnerable to overheating, despite the continued optimism from market participants and analysts.

In addition to the current state of the US economy, we are particularly concerned about the recent escalation of the trade dispute between the US and China. In May, this has expanded from a classic tariff dispute to a boycott of systemically important companies such as Huawei. From an economic and political-strategic point of view, this has a completely different scope. In our view, this worsening of the situation essentially threatens the continuation of the global productivity gains achieved over the last two decades. Even if US companies are allowed to deliver to Huawei again after a renewed "cease-fire", the underlying concerns have likely become firmly entrenched in in the minds of the American and Chinese protagonists. Both governments are likely to take measures to limit such risks, which at best will only increase costs for businesses.



Future Prospects

In the US economy, the signs of a boom phase have solidified. The economic indicators leading 9-12 months are already warning of the beginning of a US recession. However, such is not yet confirmed by the shorter leading, more reliable indicators. Overall, therefore, it is still too early to warn of an imminent slide of the US economy into recession. US and Swiss equities are expensive, especially considering the business cycle. In addition, the very low inflation expectations permit unusually low, often negative nominal interest rates, which also led to high valuations of other assets classes such as bonds and real estate.

How does the ARVEST Investment Committee position itself in this situation? Due to our concerns about the resilience of the US economy, we have reduced the equity allocation to the lowest strategic range, as our ARVEST CYCLE investment strategy suggests during boom phases. In the coming weeks, we are likely to leave the equity quota at the upper end of this range. However, we are prepared at all times to further reduce the equity quota tactically, depending on the development of the trading dispute or new economic data. Only in exceptional cases will we extend fixed-income maturities as much as we did in previous boom phases, as even long-dated bonds often have negative yields to maturity. This leads to a higher liquidity in the portfolios. If investment restrictions permit, we can also hedge equity positions with derivatives. This is an interesting alternative as long as stock markets volatility remains low. We remain committed to genuine diversification of equity investments and prefer high-quality, international value stocks to the high-flying US growth stocks that have shaped media coverage in the current economic cycle. In the long term we remain convinced of equities, but in the short term disciplined action is called for, even if market participants should cause further price increases in a boom-typical euphoria.

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On behalf of the Investment Committee
Stefan Kimmel
Chief Investment Officer ARVEST Funds AG