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Investor Info
Investment Commentary

# Briefing from the ARVEST Investment Committee

For once, practically all investors can look back on an excellent financial year. In fact, all relevant asset classes closed 2019 with a positive return, even if the result is reported in strong Swiss francs. Equities were most successful, but even the already very expensive bonds posted further price gains, although the shortage in long-term government bonds highlighted in the last Investment Commentary eased a little. Thus, in 2019, only those who had to pay negative interest on bank deposits ultimately lost money.

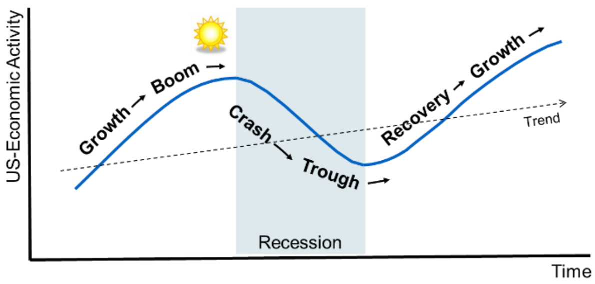
This price spurt on the financial markets came somewhat as a surprise. After the sharp stock market drop in December 2018, analysts' forecasts for last year were cautious. The continuous price gains reflected neither the weakening global economy with stagnating corporate profits, nor the intimidating political headlines regarding the US trade dispute with China, the Brexit or the political uncertainties in the Middle East and North Korea. From a market perspective, even the politically divided US Congress, which opened an official impeachment procedure against the President, only made marginal notes.

How did this seemingly independent life of the financial markets come about? The decisive factor was certainly the aggressive supply of liquidity to the economy by central banks in the USA, Europe, China and Japan. With three interest rate cuts in 2019, the US Fed reversed the earlier tightening of monetary policy. In view of better US economic data in the fourth quarter 2019, it appears that this has averted the danger of an imminent US recession, which previously threatened to take hold in the wake of a weakening global economy.

However, this extremely stimulative monetary policy of the major central banks with global reserve functions entails risks of its own. The other central banks, such as the SNB, find themselves in a prisoner's dilemma. They must participate regardless of the state of their domestic economy if they do not want to risk a critical appreciation of their own currency, which would be particularly dangerous for the export sector. Above all, the same applies to money as to any other good; the greater the supply, the lower the value of the good offered. Whereby the value of money is ultimately measured by its price stability, i.e. future inflation.

Currently, inflation worldwide is at a historically low level. The financial markets and surveys assume that this will remain so in the coming years. Money should therefore remain valuable. Many analysts even see a risk of deflation.

Given the perceived flood of money from central banks, what is the reason for this conclusion? In addition to structurally disinflationary factors such as globalization, it is certainly crucial that a large part of this liquidity does not flow to consumers via banks (lending), companies (wages) or the state (tax cuts), but quickly finds its way to investment markets. Cheap money is thus driving financial investments rather than consumer goods prices. The risk of financial bubbles increases and, as valuations rise, the extent of a potential downward correction increases. This unequal supply of money between the financial markets and the consumer world does not seem sustainable to us in the long run. In this respect, inflation and future interest rate developments seem to us to be the key indicators that need to be monitored closely.




**Future Prospects**

Global economic growth remained at a low level but seemed to stabilise in the fourth quarter of 2019. In particular, the short leading and the long leading economic indicators for the USA improved. At present, none of the models we are tracking warns of a US recession. The significant reduction in political risks in the fourth quarter has improved the soft data on corporate and investor sentiment. These are now better in line with our assessment of last April that the US is in a protracted boom phase that could extend the economic cycle beyond the election year 2020. Many American and Swiss stocks have become expensive. The very low inflation expectations allow unusually low, often negative nominal interest rates. This has led to very high valuations also for other asset classes such as bonds and real estate.

We assume that the financial markets will be heavily influenced by political news until the US elections in autumn 2020. Political news did not have a significantly negative impact on the markets last year. The US trade conflict with China eased just before it could cause major damage to the global economy. However, this conflict will continue to accompany us and remains central to the global economic structure. The key challenge will remain to distinguish between daily events and lasting developments in the flood of news.

How does the ARVEST Investment Committee position itself? We continue to keep the equity exposure at the lowest strategic range, as our ARVEST CYCLE investment strategy provides for boom phases. In view of the risks associated with other investments, we are tactically leaving the equity quota at the top of this range. However, we are prepared to adjust the equity allocation at any time, depending on the development of the trading dispute or on new economic data.

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On behalf of the Investment Committee
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