ARVEST

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Investor Info

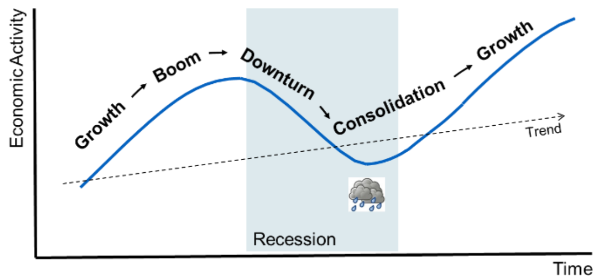
Investment Commentary

Briefing from the ARVEST Investment Committee

After the severe recessionary shock in March and April, the economy recovered in most countries in the third quarter of 2020. The corona pandemic that triggered the collapse is still far from being epidemiologically under control. Despite medical successes and broad research efforts, there is still no clarity as to when this will happen. So far, the rapid economic recovery can actually be credited to the massive support given to consumers, workers and companies by governments and central banks worldwide. This has postponed the destructive forces of a recession, but also the creative revival that comes with a crisis. With interest rates at record lows around the world, we expect that continued support from public institutions will not fail next year because of financial costs.

Future Prospects

The ARVEST Investment Committee considers that the global economy is still in a phase of consolidation. We expect the economic recovery from the recession to continue but to slow down noticeably.



After all, the primarily affected service sectors of the leisure industry will only be able to produce autonomously again when the restrictions on mobility to counter the pandemic can be eased. We share the widely held view that this growth impulse could materialise next year. However, it must be assumed that government support measures will then also be scaled back. This will probably trigger an adjustment process in which the weaker positioned companies will exit the market. In the past, this adjustment process has mostly taken place in the initial downturn phase of recessions, thus correcting the exaggerations from the previous boom. This time, emerging fears of a relapse into recession will likely reinforce calls for prolonged government support. Subsidising supply in this way would lower prices, erode corporate profits and reduce productivity and would, ultimately, dampen economic growth in the next upswing.

The timing and level of government support is a decision in which also policy factors play an important role. We are generally observing an increasing influence of politics on economic development and the financial markets. Even for companies in Western democracies, raising capital is increasingly becoming a question of political contacts rather than interest costs. The same can be said of market access. Geopolitical goals and policies are determining, for example, the extent to which technology companies from China and the USA can cooperate and which technology standards will likely prevail. Since Corona, people appear to have become more politically polarised across the board. Even wearing - or not wearing - protective masks is nowadays considered a political commitment.

In this series of commentaries, we have tried in 118 issues to base our opinion on market factors in a politically unbiased way. We continue to see this as our duty as asset and fund managers. This does not mean that we ignore the probabilities of political decisions such as the upcoming US presidential elections, because these risks are ultimately priced in by the financial markets. It does mean, however, that we do not hope for a Democratic or Republican victory. At the moment, any clear and incontestable election result in the US seems to be positive for the financial markets anyway, as it would reduce political uncertainty. But we also note that this favourable scenario is increasingly expected by market participants.

For us as asset managers, however, it is also quite clear that wearing neutral half-masks would be a pointless compromise. Fortunately, this is not at all necessary! Thanks to our investment strategy based on individual holdings, we can invest in both American and Chinese companies, for example, provided that the valuation of both investments is based on realistic forecasts of long-term profits and cash flows. In this way we can diversify the risk of betting only on the inferior technology standard.

Of course, this requirement for political impartiality does not apply to you as our asset management client. Your relationship manager will be happy to take your political views into account when selecting investments on an individual basis. We offer the appropriate investment strategies and tariff models for implementation, also taking into account your preferences regarding environmental protection or social equality of opportunity.

We expect equity markets to remain volatile as high valuations leave little room for disappointing corporate earnings for stocks that have led the equity markets in recent years. As the supply of equities remains tight compared to bonds, we remain convinced of good quality equities over the long run. In the current consolidation phase, we will increase the equity exposure only with great discipline.

9 October 2020
On behalf of the Investment Committee
Stefan Kimmel
Chief Investment Officer ARVEST Funds AG