CONSOLIDATION

Investment policy
July 2024

Moritz Baumann
Head of Research

André Kistler
Chief strategist at Albin Kistler AG

The market assessments, which appear on a periodic basis, are available to download in PDF format on the Albin Kistler website:
https://www.albinkistler.ch/en/dokumente

Consolidation

July 2024, Moritz Baumann and André Kistler

The global economy is going through a period of consolidation at present. As so often at such times, full of ebbs and flows, the myriad economic indicators are sending out mixed signals. We can expect this directionless drift to continue for a few more quarters yet, and the next upswing to be muted, for several reasons:

Inflation and its effect on wealth

The reversal in interest rate policy has brought inflation rates in the major currency areas back down to tolerable levels. However, we should not lose sight of the fact that the rapid rises in the cost of living over the last few years have substantially eroded many people's savings. Over the last three and a half years, the US dollar and euro have lost a full 20% of their purchasing power (the equivalent figure for Switzerland is just 8%). Asset erosion on this scale is drastic and leaves behind a lasting legacy. Although highly expansive fiscal policy is delivering some relief, it should come as no surprise that consumer sentiment remains subdued.

China's asset crisis is having a global impact

For nearly two years now, China has been in the grip of a property sector crisis with far-reaching repercussions. The shortfall in real estate gains is also creating a huge hole in China's public finances. The country's growth model, which is built around investment and exports, has hit the buffers. A necessary deleveraging process is now underway, resulting in weak demand and deflation. The effects can be felt far and wide – including in the annual reports of global corporates.

Protectionism

We are living in a time when state intervention is on the increase. Hardly a week goes by without a new unilateral trade-inhibiting measure being announced. From the neutral perspective of an economist, it is clear that meddling with functioning market mechanisms has negative consequences for growth potential and prosperity.

Investment policy and positioning

Sooner or later, these constraints on growth will be overcome. Let's focus on the long-term positives: inflation is under control, the corporate world is fundamentally healthy, and it remains the wellspring for continued progress and value creation. As such, global economic output is set to keep growing in the coming years, with corporate earnings rising as a result. This will form the basis for higher share prices in the long run.

There is a general recognition that the current equity market rally is not broad-based, but dominated by a handful of sectors and companies. Some see this as a warning sign, but we regard it as confirmation that equities as a whole are not overvalued. There are still large numbers of high-quality companies whose stocks are trading at attractive levels owing to the sluggish economy and temporary earnings weakness. That applies to Switzerland in particular. We are maintaining an overweight position in equities.

We remain concerned – as we have been for a long time – by escalating government debts in many countries. It is already some 15 years since the euro crisis, and the single currency area's problems are still the same, only bigger. Public debts also continue to spiral in the US. We are therefore steering clear of most sovereign issuers.

What about geopolitics? That is reflected in our underweight stance for fixed income. Within the equity allocation, it would be wrong-headed and presumptuous to gear the portfolio to specific scenarios. A balanced mix of sectors, the avoidance of direct exposure to emerging markets and rigorous management of individual positions will allow us to navigate the uncertainties effectively.