Valvest

Investment View – October 2017

Economy

The world economic growth advanced in the first three quarters. The purchase manager indices not only demonstrate a positive trend in the US and the EU but also the developing markets show continuous positive sentiment.

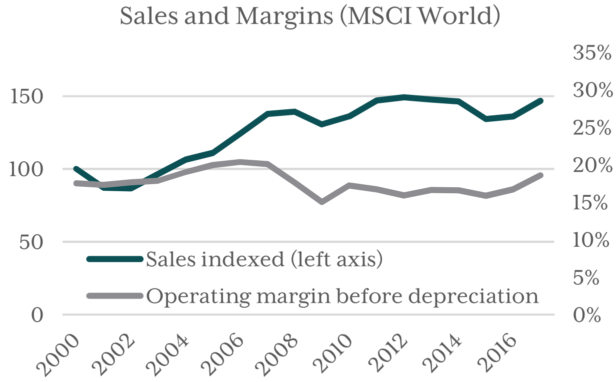
Thanks to the ongoing economic growth, lower unemployment and base building of commodity prices, we see a certain normalization of inflation as well as interest rates. Following a continuous trend of declining interest rates over the past thirty years, we have entered a prolonged process, where opposing factors such as demographic trends, global competitive pressures and automatization face an unprecedented glut of money from the central banks.

While the historically low interest rates support the demand and stimulate economic growth, they also increase the dependency on the interest rate level. This could cause growth to slow decisively in rising interest rates environment. We therefore expect stable real interest rate levels, while interest rates should increase nominally with appreciating inflation.

Equities

The majority of the companies reported positive quarterly earnings and have largely exceeded analysts' expectations. Revenues as well as margins grew, although one has to note that the various industries diverged considerably.

The strongest revenue growth came from the financial sector, who benefited from interest rate income. Technology and energy stocks were also amongst the big winners, albeit the latter mainly due to the weak comparable basis of 2016.



Source: Valvest / Bloomberg

Telecom companies and retailers stand on weaker grounds, as both sectors are challenged by disruptive technological changes, which intensify competition and margin erosion.

The scope of such fundamental changes is hard to predict and usually has severe consequences on existing firms and their suppliers. This opens up opportunities for active investors to identify attractive companies, which have become collateral damage in an oversold industry. Our ideal candidates occupy niche markets with attractive business models, which offer sustainable future earnings growth.

Conclusion

The environment of stable world economic growth coupled with low and slowly rising interest rates support our neutral equity weighting, despite some geopolitical uncertainties.

Zurich, October 2017