Valvest

# Investment View – 3rd Quarter 2018

### Economic development

We are currently experiencing one of the longest stock market booms and economic growth phases on record. Considering the extent of the financial crisis that preceded it, the longevity does not necessarily have to be a negative sign for future developments. The extreme panic and psychological consequences of the financial crisis have led many investors to abstain from stocks for a long time.

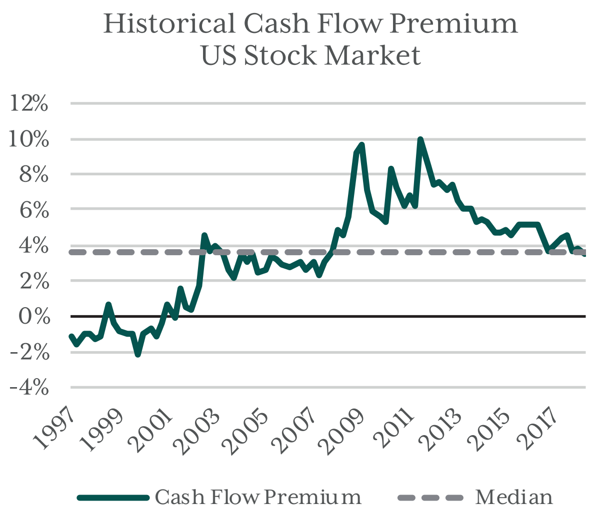
The first three years of the current stock market boom were primarily a countermovement to the massive price slump of the financial crisis and a stabilization of economic activity. Entrepreneurs and investors both had to first reduce their fear and regain courage over several years. Regaining trust can take a very long time, as observed in the lengthy undervaluation of the technology sector after the dot-com crisis. Despite continued record-low interest rates, which stimulate lending and consumption, the economy has only gradually recovered. An overheating of the economy has not taken place yet.

This year's first semester corporate figures show record-high sales and earnings growth across most industries. This money will not only flow back to the shareholders via dividends but also is increasingly being used for investments. One of the biggest beneficiaries of these investments is the technology sector. Companies are shifting computing power to the cloud, automating processes and invest heavily in new software. The trend towards *technologization* means that every company must at least partially become a technology company if it wants to be well-positioned in the long term. It does not come as a surprise that the technology sector has enjoyed the strongest growth rates for some time.

We believe there is still a lot of pessimism and the majority of investors are in constant expectation of a correction. The political risks continue to attract a great deal of attention, in particular due to the Trump administration, which adds to the cautious stance. In contrast, we see robust economic growth with rising corporate profits and a positive sentiment among consumers and entrepreneurs. In addition, real interest rates (nominal interest rates minus inflation) are negative or very low and thus there is still inexpensive capital available to support the economic development. These factors are more in favor of a continuation of a positive economic trend as opposed to a negative turn for now.

### Valuation

Considering the valuation of the equity market on the cash flow premium (operating cash flow yield minus the interest on government bonds), the market is neither overvalued nor undervalued by historical comparison.




A fair valuation gives no immediate reason for a correction. With the current growth rates of corporate earnings, the relative price of equity decreases on a quarterly basis assuming the stock markets remain at the current levels. Contrary to an undervaluation, a fair valuation however also means that the risk buffer has narrowed, and that bad news is less easily absorbed. Though scarcely, we continue to find good quality companies that are undervalued with a sufficiently large risk buffer.

Due to continued negative real interest rates and higher inflation, we continue to expect interest rates to rise slightly. Based on this notion, equities continue to enjoy an appealing excess return over bonds, which is why we still view equities as relatively attractive.

Zurich, October 2018