

Discernment above all

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This year too, only the best quality stocks will be good enough.



The year-end rally that did not take place at the end of the year took place at the beginning of the year. The reasons for the start to the year with a bang are certainly inflationary concerns that have subsided for the moment, the drop in energy prices in Europe and the somewhat surprising complete opening up in China. The latter has contributed to the improvement of the climate, as it should also have a positive effect on economic growth worldwide.

HIGHER GROWTH THANKS TO CHINA?

In this context, the current forecasts of the World Bank - which is counting on global economic growth of only 1.7% for 2023 - could prove to be too pessimistic. Much, however, will depend on how Covid continues to develop in China. Barring any nasty surprises, it should boost consumption and economic growth in China and around the world.

When China restarts globally, energy consumption will also increase.

The fact that restrictions on Chinese property developers have been lifted should also have a positive effect. In this context, it is understandable that the forecasts for economic growth in China - the figures must always be taken with the necessary caution - have recently been revised in part significantly upwards.

PERSISTENT INFLATION

However, the opening of China does not only have positive aspects. In this context, it seems premature to hope that global inflation will remain high, but that it has already peaked. When China recovers globally, energy consumption will also increase - which, in a fragile global context, will not be without influence on the prices of oil and other raw materials. After the opening, the economic recovery will first be slowed down, then it will come with some delay and be marked. This is shown by the experience of other countries after the end of the Corona measures.

Higher prices, however, mean higher inflation, which could also make the situation tense on the interest rate front. From this perspective, the hope that the Fed will raise interest rates only cautiously and in small steps of 25 basis points is perhaps a little too optimistic. Errors of judgment on the part of central banks cannot be ruled out, if we consider that the Fed's key rate forecast at the end of 21 for the end of 22 was 0.9%. Everything leads us to believe that inflation will be significantly higher in the years to come than over the past decade. But a real reversal of interest rates, which would bring them back to the level or above the level of inflation, is not realistic. The rate of real interest will therefore remain below zero for a long time to come. And key rates are only part of monetary policy. In recent years, central banks have bought a gigantic mountain of bonds in order to drive down yields, including over the long term. It is now a question of reducing these enormous stocks.

VOLATILITY REMAINS HIGH

Despite an impressive start to the year, this outlook is not particularly positive for equity markets. Significantly, the rally was driven by stocks that were previously among the biggest losers, suggesting that what had been sold before was bought back. On the bright side, US investors seem to be taking advantage of the strong dollar to source quality European stocks with good growth prospects and solid market power – which is fortunately not lacking in Europe.

Despite the multiple uncertainties, valuations on global equity markets are still high.

However, we are convinced that volatility will remain high. In addition to the geopolitical situation, the development of inflation and economic growth will continue to provide impetus.

EXERCISE DISCERNMENT

Despite the multiple uncertainties, valuations on global equity markets are still high. If some financial institutions whose growth is in decline are paying on average a price/earnings ratio of 23, this deserves to be underlined.

In the run-up to the Chinese opening discussed at the start of this article, stocks in the luxury sector as well as dividend stocks of companies in the energy sector and other commodities could outperform. Healthcare stocks should also remain in demand. Again, given the great uncertainties, however, only the best stocks are good enough. A solid balance sheet and a nice evolution of the cash flow are a must.

MERCEDES AND SIEMENS

If we had to recommend two stocks for purchase, it would currently be Mercedes Benz and Siemens. Mercedes wants to push vehicles at higher prices, which should improve earnings quality and bring the company closer to the luxury goods sector, which is not yet reflected in the low P/E of 6 and high performance more than 7%. Siemens should now reap the benefits of this strategy after years of structural changes and increased investment. In addition, Siemens could be among the winners of the energy transition and increasing automation.



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George Alevrofas has been dedicated for more than 20 years to the follow-up of private and institutional clients. First with one of the largest Swiss pension funds and a subsidiary of the Credit Suisse Group, he has worked since 2017 for VT Wealth Management. The symbiosis between traditional, modern and digital management, proximity to the client, investment quality and risk diversification are for him central elements of successful asset management.



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