KEHRLI & ZEHNDER

INVESTMENT COMMENT

April 2017

- **Equities – hold with caution**

  Most U.S. confidence indicators are at extremely positive levels, which implies that much of the good news is already reflected equity prices: consumer sentiment levels are close to post-crisis highs, the small business optimism index is close to its 40-year peak, volatility is at record lows (complacency). Any selling pressure is met with buyers who are afraid of missing the rally. Having said that, data also shows that retail investors have not yet entered the market en masse (which would be a sign of toppish markets) and that the rally continues to be broad-based. Taking some profit now, especially in U.S. equities, may be wise.

- **Europe is picking up steam**

  On the other hand, European stocks look slightly undervalued. The Eurozone economy is developing nicely amidst political challenges: with the Dutch elections behind us and Brexit underway, all eyes are now focused on the French election and the possibility of an (albeit unlikely) Le Pen victory. 8 million jobs have been created in the eurozone since 2013, pushing the unemployment rate down to 9.6% (from 12.1%), confidence is up, and even job vacancies are close to an all-time high since 2011.

- **Sector focus: property-related consumer goods**

  In the U.S., there is a broad-based increase in pending home sales, which track contract signings rather than closings and lead actual sales by 30 to 60 days. They are an ideal indicator of where we expect a significant pick-up in sales: white goods, electronics, kitchen appliances, etc.

- **High yield – take profit**

  In our view, the upside is 5% and the downside is 20%. Spreads are still reasonable, but in an environment that is priced to perfection, a small negative surprise could tilt the balance. It is time to take some chips off the table before rising interest rates spoil the party.

- **Expect a weaker Swiss franc**

  The Swiss National Bank has a problem: since the financial crisis its balance sheet grew to the size of the country’s economy (roughly USD 700 billion). The biggest demand for the Swiss currency however, did not come from worried EUR holders but from Swiss corporates that sold their foreign currency holdings and repatriated their gains due to political and economic uncertainties. Over the last three years this amounted to more than CHF 200 billion (based on an annual trade surplus of CHF 60-70 billion). With rising business confidence in the Eurozone, this trend will likely reverse, which would allow the CHF to cool off and the SNB to reduce it balance sheet.

- **Be selective with Fintech and robotics**

  Similar to every new and hot theme over the last two decades, Fintech is being hyped up. History rhymes. Only early venture tech investors made money from “Rare Earths”, 3D-printing, nanotech and robotics. The true Fintech disrupters could have a promising future, but most of them will never make a profit.

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