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Treffpunkt der Finanzwelt

Martin Jetzer: “We’ve been favoring the US for some time now.”

The US Federal Reserve’s quantitative easing program has expired. What consequences will that have for investors? *Martin Jetzer,* Chief Economist and Chief Investment Strategist of Zurich asset management firm Bellecapital, provides some answers.

Mr. Jetzer, all eyes are on Greece at the moment. Yet the end has also come for the US Federal Reserve’s (Fed) second stimulus package. Other comparable campaigns are not being planned and US interest rates are actually more likely to rise. What is your forecast?
The end of Quantitative Easing 2 (QE2) doesn’t mean that interest rates are going to start rising right away. Nevertheless for the global economy and the world’s stock exchanges alike, the end of QE2 presents a hard-to-calculate risk that outweighs the debt crisis in Southern Europe.

Why is that?
The USA is still the leading economic power and its financial market is the world’s largest and most liquid. American economic policy is also managed more competently and generally in a more goal-oriented, resolute manner than the economic policy of other regions of the world. In other words: The USA triggers key monetary and economic momentum – the end of QE2 should concern us.

When will America’s central bankers tighten interest rates?
Probably not before the end of the year, more likely the first quarter of 2012. The first interest rate hike probably won’t be a surprise, instead it will be a soft measure announced in good time.

“Investors’ interest would shift”

How did you reach that conclusion?
Here, too, Americans’ pragmatism comes into play. Under no circumstances does the Fed want to scare off investors or provoke sudden reactions. Add to that the fact that 2012 is an election year. Experience tells us that the US Federal Reserve is much more likely to show its more pleasant side or, in other words, use clever tactics. Stimulating too long is better than tightening up monetary policy too early and risking an economic downturn.

What consequences would an interest rate hike have on financial markets?
Several: The yield curve would flatten; the dollar would probably strengthen, stock markets could potentially cool down for a while, prices for commodities - including gold - would decline. Investors’ interests would probably then shift from the USA to Europe –

whereby this development would depend strongly on what happens in the Eurozone as it struggles to contain its sovereign crisis.

What is your economic forecast for the year to come?
The economic upswing will continue, fears of inflation will remain even if price increases should happen to stabilize at acceptably low levels. QE2 has prevented deflation, yet some risk remains. The profit cycle is probably more at risk than the economic cycle which is why corporate profits could disappoint in the coming quarters.

"Profit estimates high"

Are bad times in store for investors?
Profit estimates are too high in general. In spite of this, 2012 could still become an acceptable year on the stock markets in light of the diverse range of serious developments that the stock exchanges have to stomach this year – that means that there is potential for a recovery. I expect to see greater downward pressure following US elections in the fall of 2012.

How should investors position themselves against this backdrop?
We've been favoring the US for some time now. As long as yields for ten-year Treasury bonds don't exceed the 4.5 percent mark and the dollar increases considerably in value, we'll stick to this strategy.

"An interest rate hike would be bad for everybody"

Since interest rates are likely to rise over the longer term and economic growth in both America and Europe will converge toward the potential growth trend more slowly than usual, we're warning against investments in extremely interest rate-sensitive sectors like banking.

Which securities will benefit from an increase in interest rates?
The critical issue isn't the interest cycle itself but rather the speed of a potential increase in interest rates. An interest rate hike would be bad for everybody. In an environment of economically-justified interest rate increases we would give preference to cyclical stocks. Those would include the securities of commodity, chemical, industrial and technology companies as well as a wide range of energy and infrastructure providers.

"We no longer recommend emerging market stocks"

Investors are well advised to realize gains in the event that share prices jump because abrupt drops are never out of the question in an environment such as this.

What are you staying away from?
We haven't been recommending emerging market stocks for some time now. We rely on healthy, western companies like **BASF** or **Holcim** that generate a significant portion of their revenue in emerging countries. And for the time being, I'm also advising against investments in small caps.

"Many investors are forgoing the filet mignon"

In light of the various changes on the horizon, investments in large, leading corporations such as **Qualcomm**, **EMC**, **Weyerhaeuser**, **ABB** , **Schneider**, **Transocean**, **ConocoPhillips** or **Novartis** are characterized by a better earnings and risk profile than smaller companies.

Do you sense greater insecurity among investors now than in the past?
Without a doubt! However according to a saying coined by US journalist *J. Kenfield Morley* during the rocky 1930s, every investor should always keep in mind that when investing money, the amount of interest he wants should depend on whether he wants to eat well or sleep well. Many of the investors who were severely burned twice during the last decade now forgo the filet mignon in favor of a good night’s sleep.

Martin Jetzer *was Chief Economist of HSBC Guyerzeller Bank for 25 years and was responsible for their investment strategy as their Chief Investment Officer; in addition, he spent several years on the Executive Committee.*

He was also a co-founder and editor of Switzerland’s leading financial journal “Financial Markets and Portfolio Management” and a member of various European and American organizations for business economists. In his capacity as Chief Investment Strategist, Martin Jetzer is responsible for the investment process within Bellecapital*.*