AquilaFlash

A “Fire Sale“ in the Stock Markets

After the sharp losses in markets over the last 24 hours we urge our clients not to panic. At the same time we think it too early to increase our strategic allocation to equities. For the time being, therefore, we stick with our slight underweight policy stance but we are assessing the situation with a view to adding to equity positions at an appropriate time.

In the last few days the markets have sustained some significant losses. Tech shares in particular have been hit hard. The Tech-heavy Nasdaq index lost 4.1% on Wednesday.

An important factor behind recent stock market losses has been the rise in bond yields, especially in the US. Since mid-August the yield on 10 year US Treasuries has risen around 40 basis points to around 3.2%. As higher bond yields increase the attractiveness of bonds relative to equities it is not surprising that, faced with such moves in the bond markets, equities have taken a battering on a global basis. The trade war between America and China has exacerbated the situation.

We encourage our clients not to panic. Economic and corporate earnings growth rates remain very high, especially in the US. The IMF continues to forecast a growth rate for the world economy of 3.7% for both this year and next.

The current bull market in stocks has now lasted nearly 10 years in the US, which is a long time on any historical comparison (although equities have been less strong in Europe and in emerging markets). One should not be surprised at market corrections such as the current one, given that the cycle is now in a mature phase.

But we think it is still too early to increase our strategic allocation to the stock markets.

We recommend that equity investors keep a sharp eye on the credit worthiness and the balance sheets of companies in their portfolios. Also, it could make sense to transfer some funds from the average-to-expensively rated Tech sector in favor of defensive sectors such as pharma.

Contact:
Thomas Härter, CIO
Tel.: +41 (0) 58 680 60 44