

Life on the sidelines

Many investors remain on the sidelines, increasingly having to stress that a serious recession is coming to justify their failure to invest. Yet stock markets are now 15 to 30 percent higher than they were six months ago. Does standing on the sidelines pay off more than patiently staying invested?

A relief rally has been underway for several months. Some are having a hard time with it, as the outlook for the current year has certainly not been sunny. There was talk of geopolitical tensions and war, supply chain disruptions and a severe recession. So thriving stock markets seemed far away. While commodity prices fell along with the dollar and the looming scenario of energy rationing dissipated in the mild winter, European stocks recovered. Individual stocks such as Bern-based energy group BKW, which is considered to have rather flat dynamics, climbed steeply to historic highs. The post-pandemic return to air travel is apparently giving Zurich airport shares wings. And in construction-related groups (Holcim, Heidelberg Materials), earnings estimates per share for the current year have again been raised by double digits.

But what can investors expect when all the major investors claim that they have prepared for a serious recession and are therefore underweighted in equities? How does that fit in with prices that have been rising steadily for the past six months? Optimism is probably on the rise, and the media spectacle is left to the notorious pessimists. My first thought goes to those standing on the sidelines waiting for lower prices. Their patience is being sorely tried, as current levels are now 15 to 30 percent higher than they were six months ago. My second thought is for those who would like to invest in the stock markets based on facts out of a rational logic. But the markets act and react more and more quickly to the very first signals. By the time all the facts have been compiled completely and coherently, it is not uncommon for any trend to be over again. And the third thought is reminiscent of the human tendency to overestimate the probability of occurrence of events that we frequently hear about (a recession has been constantly predicted for the past twelve months).

Anyone who consults documents on financial products repeatedly comes across the statement that "past performance is not indicative of future returns. Nevertheless, many people consider it necessary to look back into the past. As if looking in the rear-view mirror could provide us with much certainty when driving into a winding future. But this is exactly how even reputable institutions are proceeding in the meantime. Both the Open Market Committee of the U.S. Federal Reserve (Fed) and the European Central Bank have now cancelled all forecasts, indicating that they would make their decisions dependent on data. However, data is always backward-looking and not forward-looking. Meanwhile, even the sober U.S. Treasury Secretary Janet Yellen exudes more confidence when she warns against "excessive negativism" and assesses the outlook for the global economy as "quite positive".

Before the banking stress, central bankers were not convinced that monetary tightening would be enough to ease inflation concerns. Yet it can. Perhaps regional banks are even having a greater impact than the Fed with their restrained lending policies. In the U.S., there was good news as the Fed's preferred inflation indicator, the personal consumption expenditures (PCE) price index, fell to 4.6 percent year-over-year. Consumer prices have stalled in key areas such as energy and food.

It may be too early to pass judgment, but the German Ifo business climate index for March as well as the U.S. consumer confidence index were above expectations. This indicates a stable level of confidence. In addition, China's Purchasing Managers' Indices (PMI) exceeded expectations, with the manufacturing PMI at 51.9 and that for the services sector rising to 58.2 in March - the highest level since May 2011. To me, these are not depressive signals to immediately hold up the investment freeze board. Rather, I recognize in them puzzle pieces that can be assembled into a satisfying spring story. Some on the sidelines will certainly be listening. I look forward to seeing when they return to the equity markets.

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