Uncertainty on the markets – we are not on the cusp of a global recession!

Equity indices have lost between 8 and 14% since the beginning of the year. In China, where the collapse started, share prices dropped by 19% (Shenzen). The oil price continued its nosedive and lost another 25%. Uncertainty is fuelled by increasingly pessimistic analyses and comments. Some analysts are comparing events to the situation in 2007/8, which everybody knows ended with the biggest recession of the post-war period. Based on all the information at our disposal, we absolutely do not agree with this horror scenario.

1. The size of the current correction is hardly out of the ordinary and still smaller than the correction seen in late summer last year. As always, the equity market is not a good early indicator of economic weakness.
2. The continued contraction of the oil price has many consequences. Producing countries are losing income, they have to release reserves and are seeing their domestic budgets developing a deficit, and the risk of recession in these countries is on the rise. On the other hand, consumer countries have more purchasing power, which due to deflationary trends is not "used up" immediately. The effects on the US, which is both the biggest producer and consumer, are unclear. The situation clearly has a negative impact on its shale oil industry and outstanding debts. There are fears that an increase in defaults could cause instability in the US financial system. Tabs should definitely be kept on this development, which will mainly depend on the future trend of the oil price.

Wyss & Partner
Asset Management and
Investment Counseling AG

Bahnhofstrasse 17
7323 Wangs, Switzerland
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch

3. The crude oil market is driven by excessive supply rather than a lack of demand. The US is decreasing its production, as costs are no longer covered. Saudi Arabia, however, has relinquished its traditional role as swing producer and is refusing to curb production, for reasons that are not quite clear. The lifting of sanctions against Iran will only change the supply situation slowly. The oil price has been prone to exaggerated movements for many years. We believe that the speculative bearish forces will wane gradually and that stabilisation at a higher level is possible.
4. China is the world's second largest economy and is growing by 6.9%. The natural process of shrinking relative growth rates has been ongoing for years and hardly comes as a surprise. Fears are nevertheless widespread that China could slide into an economic crisis. No other big country has so much scope for using monetary and fiscal instruments to counter negative trends, but China does and will make use of it.

We believe that the current market situation is not due to material changes to the economic parameters, but is simply a technical correction driven by multi-faceted fears. From a fundamental viewpoint, the prices of many shares have dropped to a very attractive level that offers good buying opportunities for long-term investors. The broad indices are likely to recover bit by bit, but the extent of the recovery and whether it will be sustainable will depend on a more confident assessment of the economy and the stabilisation of the oil price.

Wangs, January 2016