

Negative yielding government debt

Low interest rates should boost appetite for dividends

In Switzerland, even government bonds with a 50-year maturity bear a negative yield now, while in Denmark one is paid to take out a mortgage. The extremes in today's interest rate landscape no longer know any limits, and it seems foreseeable that the Fed will struggle to escape this global trend going forward. This is particularly the case as the inversion of the yield curve in the short-term maturity range controlled by the Fed has continued to increase. Although large parts of the U.S. domestic economy are still developing surprisingly positive, the economic risks (downturn in the manufacturing sector, trade war and also declining consumer confidence) have increased in the U.S., which is why the Fed is likely to come under pressure from an additional angle.

Sound Capital Investment Navigator

Valuation Bonds: --											
		low Yields				high Spreads					
		--	-	0	+	++	--	-	0	+	++
New		X						X			
Old			X					X			
Valuation Equities: +											
		expensive Shiller PE				low Risk Premium				high	
		--	-	0	+	++	--	-	0	+	++
New		X									X
Old		X									X
		Contraction Macro Leading Indicators				Euphoria Risk-Index				Panic	
		--	-	0	+	++	--	-	0	+	++
New				X						X	
Old				X						X	

August 2019

- Fed lags behind the development of capital markets
- Downturn in manufacturing industry continues
- Fixed income reduced to slightly underweight
- Alternative investments (favoring gold) upgraded to slightly overweight

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Assessment of the asset categories derived from our Navigator:

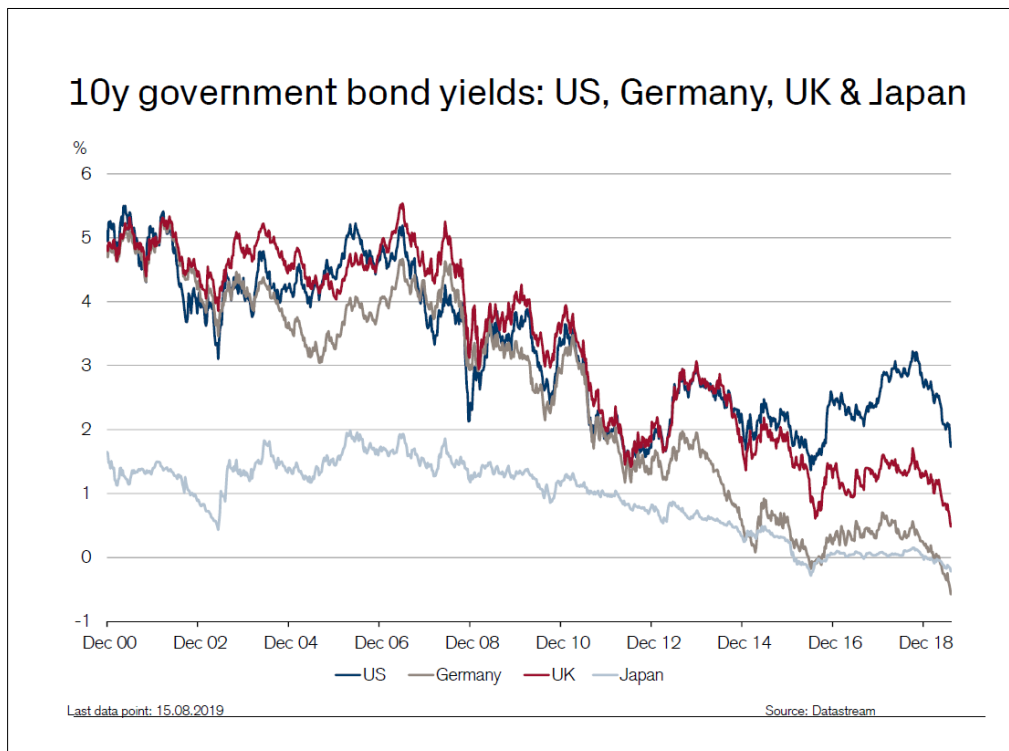
Fixed income is reduced from neutral to slightly underweight, while alternative investments (favoring gold) are increased from neutral to slightly overweight. Liquidity remains slightly underweight and equities slightly overweight.

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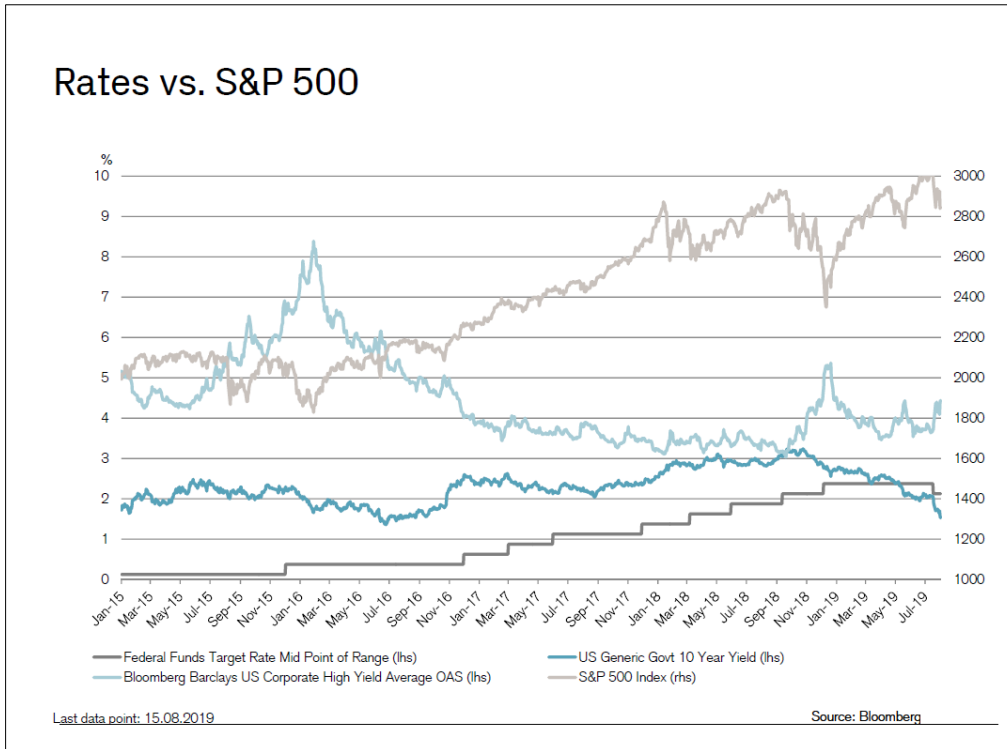
Interest rate level (assessment indicator --) / **Spreads** (assessment indicator -)

Assessment from - to -- / Assessment unchanged

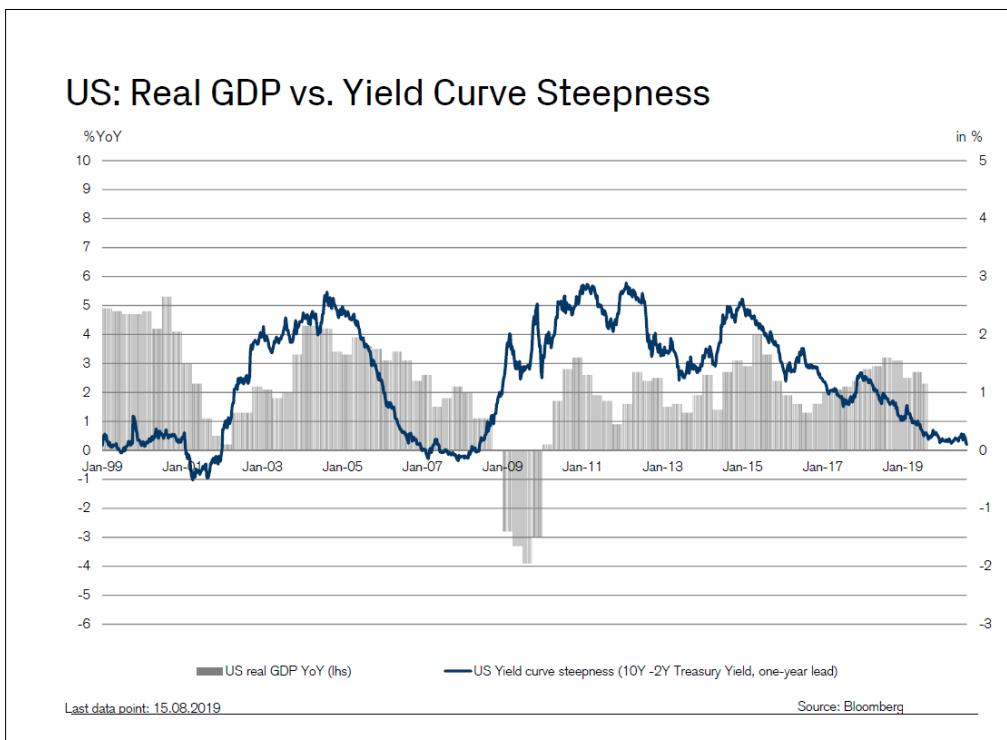
Things never turn out the way one would expect: When yields on 10-year U.S. government bonds rose above 3% not too long ago, many ‘Star’ investors proclaimed the end of an already extremely long bull market. In fact, the exact opposite happened (yields are now in the range of historical lows) and things have come to a standstill in this camp.



While the yield on 10-year government bonds fell well below the Federal Funds Rate, the risk premiums on high-yield corporate bonds rose. However, this increase has so far been rather modest.



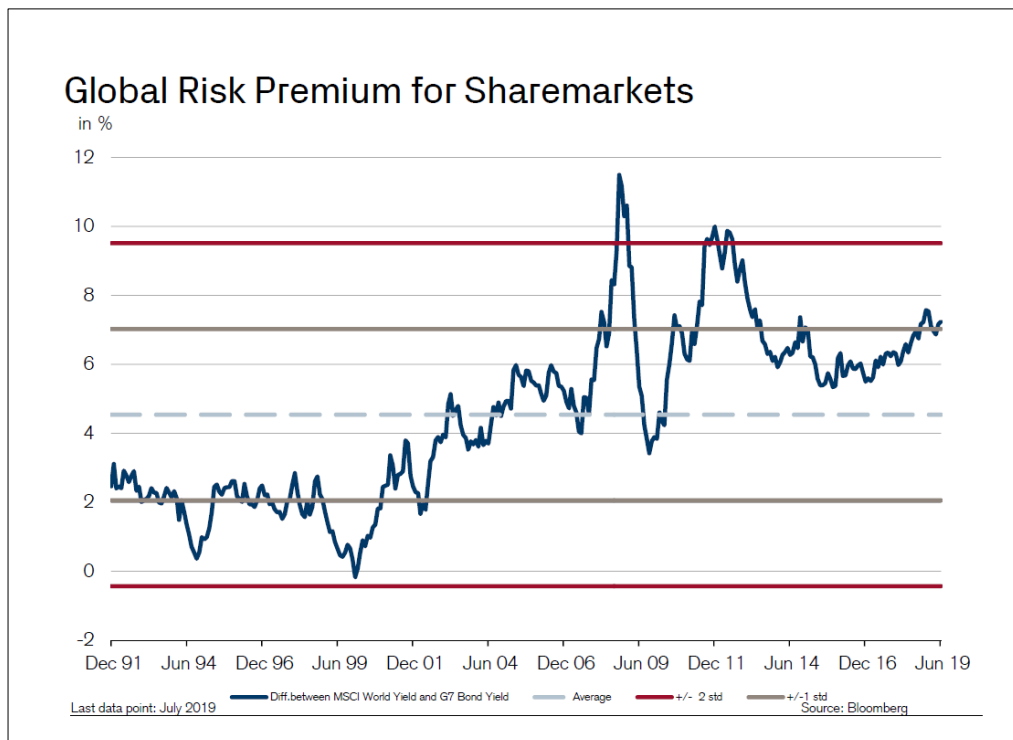
The obviously increased recession risks have so far not been confirmed by either the level of the risk premiums or the flat slope of the yield curve.



Shiller P/E (assessment indicator --) / **risk premium** (assessment indicator ++)

Assessment unchanged / Assessment unchanged

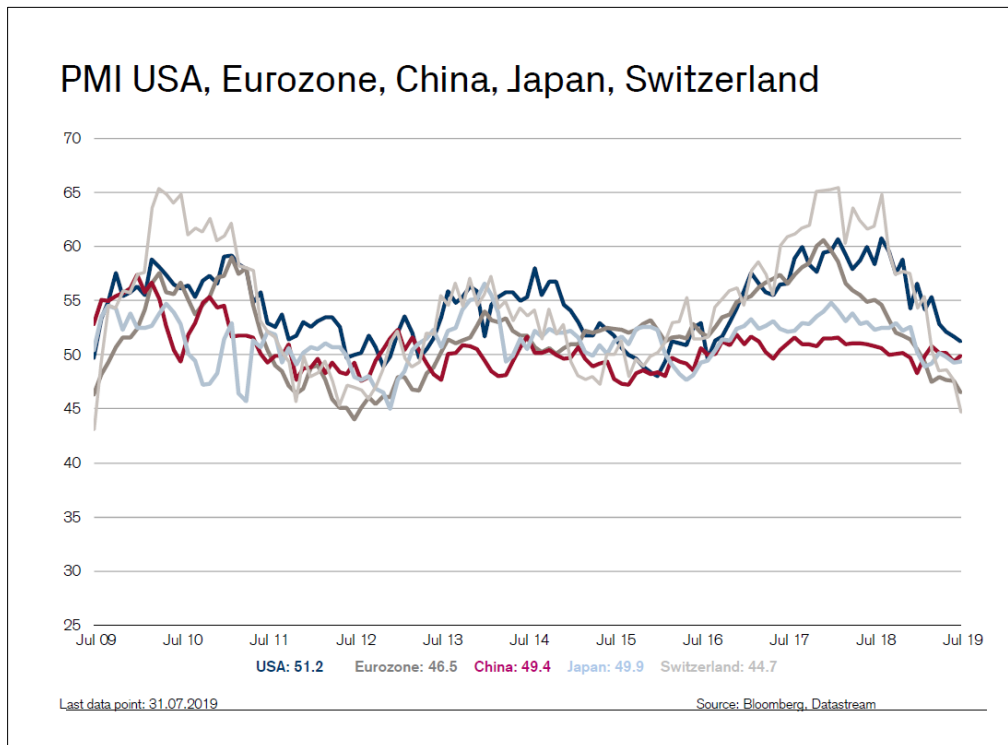
The absolute valuation of the U.S. stock market, measured by the Shiller P/E ratio, remains unattractive. The relative valuation of equities compared to government bonds, on the other hand, is attractive and also shows an upward trend (driven by falling yields on U.S. government bonds). This situation is increasingly likely to be used as an argument for the supposedly "alternative-less" purchase of shares. Low interest rates should increase the appetite for dividends accordingly.



Macro leading indicators (assessment indicator 0)

Assessment unchanged

The U.S remains the only economy with expanding macro leading indicators. However, we continue to believe that a judicious Fed and a U.S. president eager to be re-elected will (for the time being) make a global recession unlikely.



Risk index (assessment indicator +)

Assessment unchanged

This indicator continues to make a positive contribution to our overall assessment due to the continued negative sentiment regarding risky assets and the defensive positioning of investors. A study of cash flows shows that fixed-interest investments are probably in an exaggerated phase while, in the case of equities, the bad mood manifests itself in massive outflows.

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