

A glance at the equity markets

The turnaround in interest rates is likely to make markets somewhat bumpier for investors. But history shows that the positive upwards trend continues after the first rate hike, although setbacks become more likely. Equities are still among the most favored asset classes in this environment. After all, the reason for a rate hike is economic recovery – and the corporate sector should benefit from this.

The forthcoming monetary tightening cycle could, however, follow another pattern. This time, the Fed is likely to hike rates at an even gentler pace than in previous cycles. Because the total rate increase is likely to be small, the downside price risks to bonds should be limited. The winners from a continuing low level of rates are equities, which may offer attractive dividend yields.

Given the recent severe market correction developed markets should offer double-digit return upside over the next 12 months from here, driven by all levers, i.e. earnings growth, multiple expansion and dividends. However, we acknowledge that in the near term growth concerns will dominate and it might take time for the market to share our constructive conclusions.

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