Press release

Outlook 2015: “Divergence”

Geneva, 19 November 2014

Contrary to expectations, Europe did not undergo a healing process in 2014; whilst long-dated bonds generated remarkable performances, European equities underperformed. “The United States wheeled its economy into intensive care but other developed countries didn’t follow suit, and their economies suffered relapses and found themselves back under observation,” says Patrice Gautry, UBP’s Chief Economist.

This being the case, the gap between these developed economies and the United States is becoming ever wider; the US is taking up the mantel of economic engine, which in turn is exacerbating this divergence. Whilst the US economy will continue to grow and will live up to its post-crisis growth potential, Europe will once again find itself almost stagnating. Furthermore, just as the US Federal Reserve is winding up its quantitative easing programme and beginning to think about gradually raising interest rates over the course of 2015, the ECB and the Bank of Japan are continuing to inject liquidity; this means that the US yield curve will continue to offer better returns than those in either Europe or Japan.

A sense of déjà vu

“There are similarities between the current financial and monetary regimes and those of 1994-2000,” explains Jean-Sylvain Perrig, UBP’s Chief Investment Officer (CIO). Even if the economic potential is significantly weaker today than it was twenty years ago – equity performance expectations are lower –, divergence is once again appearing: the United States had started to raise its rates in 1994, whereas Japan, bogged down by deflation, lowered its rates, as did the recently-reunited Germany. The period was marked by the wave of innovation that came with the beginnings of the Internet, falling commodity prices and the excess savings in Asia that were looking for returns and found themselves being invested in US assets.

Today, the German economy is struggling and Europe is suffering from overcapacity; confidence is not returning and the threat of deflation looms large. There is still a pressing need for structural reform and increased coordination between budgetary and monetary policies. The ECB may well continue to support banks and inject liquidity, but there is not much more it can do. “It could be that the OECD – except the US – is going to be stuck in a cycle of recovery, crisis and stagnation but without seeing any periods of stable growth,” adds Gautry.

Favour US equity markets

In 2015, the US dollar is likely to continue on its upward, secular trend. “Contrary to the belief that a rising dollar would be a bad thing for US equity markets, history shows us that there isn’t any correlation between the two,” Perrig continues.

US equity markets enjoy good visibility and should therefore continue to perform well, thanks, amongst other things, to sustainable growth, which is set to come in at around 3%, interest rates which continue to be very low, and generous share buy-backs. “It is these assets which should be favoured, especially those related to the health-care and technology sectors – this is where we are seeing the best earnings revisions and great growth potential, which should translate into an increase in premiums for these sectors over the rest of the market,” underlines Perrig.

In contrast, European equity markets are looking less attractive, as earnings' growth expectations are very high and will have to be revised downwards. Companies in emerging markets are generally set to suffer from falling profitability, the strength of the dollar and unattractive valuations. In parallel to this, and in light of excess debt and overcapacity in Europe and Japan, rates will remain very low; this means that carry will have to be sought in the high-yield space. "The period ahead of us should therefore be better but more volatile than the last eighteen months," concludes the CIO.

For any further information, please contact

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