

# Economic environment

**In 2016 political and economic uncertainties prompted an intensified need for safety on the part of investors and led to a noticeable restraint in their stock market transactions. Negative interest and volatile financial markets continued to challenge the banking industry.**

## International perspectives

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Since the financial crisis of 2008, the global economy has grown sluggishly. In Autumn 2016, the developed nations were in a moderate recovery phase. The turbulence on the international financial markets at the start of the year and the unexpected vote in favour of a Brexit in the United Kingdom in June 2016 did indeed lead to an increase in uncertainty on the stock markets, nevertheless the real economic effects have so far remained constrained. The International Monetary Fund (IMF) has forecast a growth rate of 3.4 percent for the global economy in 2017.

In the emerging markets the incipient stabilisation process triggered by the recovery of commodities prices continued and growth accelerated slightly. In spite of the turbulence at the beginning of the year, the transformation of the Chinese economy has continued without any major interruptions of growth.

### USA

Forecasts foresee the US economy shifting up a gear under the new president thanks to tax cuts and investments in infrastructure. Since the election of Donald Trump, the markets have factored in higher growth, rising inflation and a more restrictive monetary policy. The economic measures planned by the new US administration probably will not yet have a major influence on growth in 2017. However, there are indications that corporate investments are recovering and a GDP growth of 2.3 to 2.8 percent should be possible.

### Euro zone

Consumer sentiment and industrial confidence in the euro zone improved on a broad front during the last months of 2016. However, the growth differential within the currency union remains large and probably will not close any time soon. At the same time, besides the geopolitical risks, Europe is still faced with a whole range of potential sources of threat: the Greek crisis, the banking crisis in Italy, as well as the elections in Germany and France. Furthermore, new challenges have arisen as a result of the referendum decision in the United Kingdom in favour of leaving the European Union.

A continuation of the upswing but without any acceleration is to be expected in 2017. The problems in the Italian banking sector are acting as a brake on the granting of credit and the fall in the oil price together with the devaluation of the euro in 2016 provide no further support for growth. The moderate economic recovery in the euro zone is still being driven largely by the expansive monetary policy and for the time being is hiding unsolved structural problems.

### Switzerland / Liechtenstein

Following four clearly positive quarters, the Swiss economy almost stopped its expansion in the third quarter of 2016. The abrupt slowdown of GDP growth came as a surprise, on the whole, however, the recovery of the Swiss economy does not seem to be in question. The experts at the State Secretariat for Economic Affairs (SECO) therefore expect an unchanged GDP growth rate of 1.5 percent for the whole year 2016. The preliminary indicators point to a continuation of the moderate economic expansion. The stabilisation of the labour market following the lifting of the minimum exchange rate for the euro by the Swiss National Bank (SNB) on 15 January 2015 has led to an improvement in consumer sentiment. Growth of about 1.5 percent appears to be possible for the years 2017/2018.

The upward revaluation of the Swiss franc also affected Liechtenstein's economy in that economic activity moderated. However, over the course of the year Liechtenstein's economy returned to growth, as confirmed by the Department for Statistics in Autumn 2016.

## Interest rates and currencies

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Global economic growth is being driven above all by the very expansive monetary policy. In the developed countries and emerging markets interest rate levels are still at extremely low levels. Moreover, in recent years the large central banks in the developed countries have provided support for overall economic demand by implementing large-scale quantitative easing measures.

In mid-December 2016, the US Federal Reserve increased key base interest rates by 0.25 percent on the range from 0.5 to 0.75 percent and continued its course of normalising monetary policy. Three further interest rate rises are expected in 2017. Since the increase in the base rate, the US dollar exchange rate has reached new highs while the euro has lost in value.

As a result of the latest increase in interest rates in the USA, the interest differential with Europe has widened further. On 14 December 2016, the European Central Bank (ECB) announced that it would extend its bond purchasing programme beyond March 2017. Zero interest rates have now been in effect in the euro zone since March 2016. Moreover, banks must pay penalty interest on deposits; at the end of the year this so-called deposit facility rate stood at minus 0.4 percent.

In its currency deliberations, the Swiss National Bank is mainly looking to Frankfurt. It will probably continue to play a waiting game and hold interest rates in Switzerland in the negative range. In 2016, the target range for three-month LIBOR lay between minus 1.25 and minus 0.25 percent, the (penalty) interest on bank sight deposits stood at minus 0.75 percent.

## Equity markets

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On the whole, 2016 proved to be a good year for equities. However the Brexit referendum in mid-year and the US elections did trigger painful price falls. The worldwide equities barometer, the MSCI World (in CHF), achieved a performance of almost 10 percent, largely thanks to the US equities market. The Swiss Performance Index (SPI) lost almost 1.5 percent in 2016. The overall European market developed positively, posting a plus of 2 percent (in CHF).

The DAX in Frankfurt and the French CAC 40 rose by 4.9 percent, the Japanese Nikkei by 0.4 percent and the Nasdaq technology index in the USA by 5.9 percent. The British FTSE 100 in London stood at 14.4 percent and the Dow Jones Industrial Average at 13.4 percent.

The year 2017 has started very positively. The Dow Jones Index exceeded the historical threshold of 20'000 points for the first time. Current equity price movements are reflecting the expectation of improved economic and profit prospects. In an environment of rising interest trends, however, the potential for valuation gains is limited. In 2017, investors will have to tolerate volatile capital markets at times.