Successful investors ignore politicians

Economy

Daniel Zulauf

Rising inflation rates accompanied by high national debt: this cocktail can scare even the unshakeable optimist and asset manager Pirmin Hotz.

Pirmin Hotz is a stock market professional who says things like: "Annual forecasts are hocus pocus", "betting on individual shares is pure luck" or "performance is only no coincidence in the long term". Holder of a PhD in economics, the asset manager believes in a systematic and consistent approach to investing money. Nevertheless, the 65-year-old from central Switzerland remains spellbound by the ups and downs in prices.

What kind of stock market year can we expect in 2026?

Pirmin Hotz: The past is more interesting and instructive than forecasts. Donald Trump caught us all by surprise with his first draconian tariffs in early April, causing a sharp drop in exchange prices. Millions of investors wondered: is now the time to buy equities at lower prices? Banking legend Oswald Grübel dismissed the idea, saying that patient people would get the shares even cheaper.

Those were his words in our newspaper …

Yes, and he was wrong, like many professionals who know a lot about markets but are unable to make accurate predictions about when they will rise and when they will fall. 2025 was a good year on the equities market from a Swiss or Swiss franc perspective. I would have said yes if this result had been offered in the summer. After all – quite aside from the tariff shock – two terrible wars were raging with no end of potential for escalation.

Are you expecting a crash?

It will definitely come eventually. I just don't know when.

Is the hype around artificial intelligence just a bubble?

Difficult question. There are signs that it might be one. Nvidia, Microsoft, Apple, Alphabet/Google, Amazon, the Facebook group Meta and Tesla have increased their market cap by a factor of approximately seven since 2015. The accumulated value of these seven high-flyers accounts for around a third of the US stock market. They have been feeding off each other since 2015 and, as customers and suppliers, exist in an almost unprecedented state of mutual dependency. The sheer scale of their valuation is breathtaking. And the risks are considerable.

So is it just another tech bubble?

I don't think much of comparisons with the dotcom boom of 2001, which did indeed turn out to be a bubble. Today's technology companies are generating immense profits. This is in stark contrast to the companies that fell over each other to go public 25 years ago. They were often unable to show any revenue, let alone profit. Much of it was built entirely on hope.

Are you betting on AI shares?

We are not entirely averse. We have invested in stocks such as Apple, ASML, Microsoft and Alphabet, but we don't have any Nvidia shares, as one example. If we had completely abandoned highly valued technology stocks for fear of an AI crash, we would have missed out on the entire evolution of this market segment. That would be too big of a risk for any professional asset manager.

You missed the boat with Nvidia?

Yes, unfortunately we did. Looking back, we would of course have loved to have held equities, but the big profits were simply not there when we shunned Nvidia about three years ago. Now that revenue and profits are hitting the roof, there has even been a dip in the valuation of these shares based on the price/earnings ratio. From a pure valuation perspective, the equities would even be more favourable now than they were back then. But buying equities that are trading at an all-time high or just below after a breathtaking rally goes against my intuition.

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> "Unruly markets and rising interest rates are the only things that can bring politicians like Donald Trump to their senses."

Would it be fair to say that intuition is so subjective that it should have no place in your systematic investment process?
True. But I'm not a robot. Recognising our emotions, we take great care to ensure our investment process remains guided by a systematic approach. My intuition has often deceived me. So I would not completely rule out the possibility of us buying Nvidia equities at some point.

Aren't we all waiting for the right moment?
Yes, but many fail to act when that moment arrives.

Is that more intuition?
No, this is knowledge that builds on experience. Before the great stock market crash of 2001, Microsoft equities were valued on the stock market at 70 times the annual profit. But then the prices of tech equities went into a tailspin. Microsoft too – although the company continued to increase its profits on a massive scale each year after the crash. But investors had simply lost interest in these equities. In response, Microsoft's market capitalisation plummeted to 10 times the annual profit.

Over the past 30 years, central banks have flooded the markets with endless liquidity to ease recovery after every minor stock market quake. Will they stick to this path?
That hinges largely on the development of inflation. A potential AI crash could put central banks in a serious dilemma. Despite their clear mandate to ensure price stability, they might feel compelled once again to safeguard financial stability. However, the central banks would have to raise interest rates quickly in response to an uptick in inflation. A recession and a sharp stock market correction would be possible in this scenario.

The stakes for the central banks are getting higher and higher. Does this also increase the risks?
Yes. And let's not forget how heavily indebted many traditionally industrialised countries actually are. New debt is rising in the United States even now, despite the favourable economic conditions. The situation is no better in some large European countries. Political pressure on central banks to keep interest rates low – which eases the interest burden on governments – is steadily increasing.

Donald Trump behaves as if politics rules the financial markets as well. How do you deal with this?
I believe that political stock markets have short legs. Just take a look at the political posturing around the tariffs issue. It did not lead to any prolonged imbalance on the markets. Successful investors ignore politicians who come up with crazy ideas for economic policies, as the markets do not follow a political script in a free world.

You mentioned the growing political pressure on central banks. Does Trump want a US Federal Reserve that is beholden to him?
I think he has set his sights on precisely that. Trump wants to cut taxes and distribute money, as he clearly stated in his Big Beautiful Bill. It is only a matter of time before investors on the bond market rebel. I hope that it happens soon, as unruly markets and rising interest rates are the only things that can bring politicians like Donald Trump to their senses. They get nervous when risk premiums rise. They have to get nervous, because the solvency of their countries is at stake in these scenarios.

Does America want lower interest rates to keep its debt sustainable?
Yes, but not just America. There will be a global race to lower interest rates, which will also lead to a race to devalue currencies. Countries will then be able to service their high debts even if inflation rates rise. But all of this merely leads to the financial repression of citizens. It is a kind of creeping expropriation. Earnings on their savings capital are less than inflation and quickly evaporate.

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Which is more dangerous: the AI bubble or Trump's debt budget?

While the question of the AI bubble is important, if you ask around the financial world, you quickly realise that almost everyone will first mention the rampant debt of the global community. A major crisis can be triggered from anywhere in this fraught situation – as we saw in Greece. That's what I'm most afraid of.

You don't believe that the central banks will be able to jump start the economy again?

No, in the medium term, central banks will be forced to raise key interest rates once more. Be that as it may, I think that inflation in America and in Europe is stubbornly remaining above the tolerable level. What is more, the many highly indebted countries will have to make savings, which will also decelerate growth. So while I am not a pessimist who believes in the inevitability of a deep recession, the assumption that we will see lower returns across all asset classes is nevertheless realistic.

Many politicians believe that saving has become an end in itself in Switzerland. Are they right?

Definitely not. Fortunately, the debt brake is firmly enshrined in the Swiss constitution. It is a blessing for the country. I find it alarming when even mainstream voices speak in favour of exceptions for the army. It's as if they want to open Pandora's box. Markets might not respond favourably if we abandon the path of virtue. And the consequences would be felt very quickly, because Switzerland does not belong to a large bloc and has to take care of its own currency. I think it's good that Switzerland remains independent and is not part of a union of states. But independence compels us to maintain rigorous discipline.

Is UBS a threat to Switzerland's independence?

Let me put it like this: it is highly questionable whether the country would manage to avoid a catastrophe if UBS were to collapse given its current structure and size. After two major bank failures, we must do what we can to prevent this kind of disaster from happening again.

Distance creates clarity: Pirmin Hotz does not believe in short-term trading on the equity markets. *Picture: Pius Amrein (Baar, 5.12.24)*

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