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CHIEF ECONOMIST'S COMMENT

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Equity savings plans - a successful strategy for capital accumulation?

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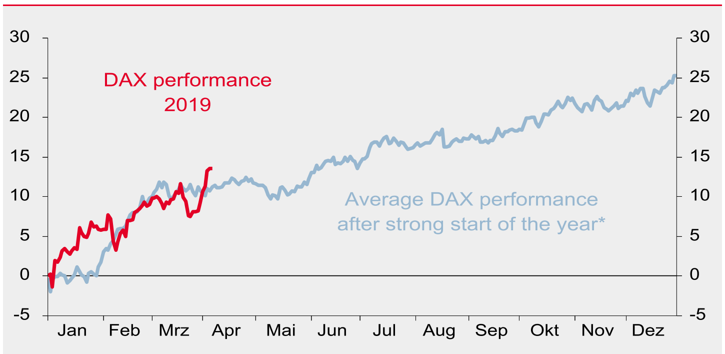
Having seen a spectacular rally in the first two months of the year, equities have taken a breather in March. After such strong recoveries, profit taking is by no means unusual. After all, in this short time investors have already been able to achieve a performance with equities that normally takes a whole year. So, what's next for equity markets? When looking back at the history of the DAX, we found six comparable price increases during the first two months of the year. If one takes the average performance of these years as an indicator for the further development of equity prices, a sideways movement could be expected for the coming weeks. After that, however, the upward trend would continue. By the end of the year, the overall performance would amount to around 25 %, which is in line with our DAX target of 13,200 points. However, such historical patterns can only provide an initial indication for a "normal" trajectory, which must be substantiated by fundamental and psychological market factors.

Past performance suggests further DAX gains

% compared with year-end



* median of years 1983, 1988, 1991, 1993, 1996, 2000

Sources: Datastream, Helaba Research

Various sentiment indicators point to a capitulation on the part of equity investors at year-end 2018/19 due to enormous political uncertainty and increasing anxiety about economic growth. In the meantime, equities anticipate an economic recovery. At the same time, many forecasters and central banks continue to revise their estimates for economic growth downwards. Even if ultra-loose monetary policy still favours equities in the medium-term, doubts over growth are unsettling market participants in the short-term.

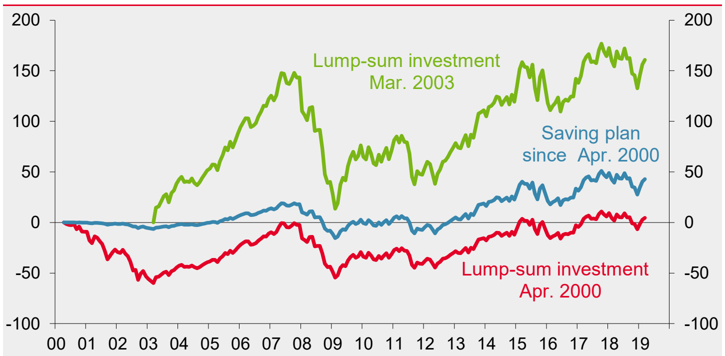
However, it is perfectly normal that uncertainty on the capital markets is greatest in the run-up to economic turning points. After all, equities act as a leading indicator of economic activity by around half a year. This pattern has also been observed in the current cycle: When the DAX reached its peak at the end of January 2018, the economy still seemed to be in good shape. It was not until mid-June that downward revisions of growth expectations for Germany began. The DAX reached its lowest point to date in this cycle at the end of December 2018. In order to fundamentally underpin the rise in equity prices, growth expectations would therefore have to pick up again around the middle of the year – which is what we expect. The number of negative economic surprises, at least, is already declining. During this phase, of course, risks are particularly high. On the other hand, equities also offer the highest returns in the period leading up to economic turnarounds.

Nevertheless, those who shun this risk are not doomed to inaction. After all, investing money is not an all-or-nothing decision. You can invest relatively low amounts in equities. If you invest a constant amount over a longer period of time, more shares are bought when prices fall and fewer when prices rise. In contrast to a lump-sum investment, this results in hybrid pricing and reduces the risk of entering the market at a particularly unfavourable time. However, you naturally also forfeit the opportunities that arise from timing your entry and exit points right.

The following example is intended to illustrate the differences between these strategies: The EURO STOXX 50 reached an interim high in April 2000, including dividends and based on month-end prices. If an investor had entered the market with a lump-sum investment at that time, s/he would have achieved a meagre return to end of March of around 5 % before transaction costs and taxes. On the other hand, if an investor had invested the same amount in the EURO STOXX 50 each month, s/he would have managed a return of around 43 % by now. The best strategy, though, would have been to wait and see and to not have entered the market until the trough in March 2003. This would have resulted in a total return of 161 %.

The right timing pays off

EURO STOXX 50, cumulative total return, %



Sources: Datastream, Helaba Research

There is no doubt that making regular investments in equities is only the second-best solution. The ability to enter and exit the market at the perfect moment, however, is likely to prove illusory. In fact, human nature induces us into acting in a procyclical way. In extreme cases, the old adage of the stock market - buy low, sell high - is even turned on its head: you jump on the bandwagon too late, miss the chance to get off in time and lose your nerve just before the market bottoms out and sell. In our example, this would have resulted in a loss of 60 %. Equity savings plans are a good way to minimise such timing mistakes - no more but no less, either! Anyone who wants to maximise their return opportunities should supplement this strategy with carefully selected share purchases and sales. You can find regular recommendations for tactical asset allocation in our research publications. ■