LimmatWealth

Investment Strategy – March 2020

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	0.8	1.2	0.4	0.4	12'307	→	→	-0.81	-0.60	-0.55	-	-	-
Germany	0.6	0.6	1.4	1.4	11'964	→	→	-0.64	-0.30	-0.30	-	-	-
Eurozone	1.2	1.0	1.2	1.2	3'359	→	→	-	-	-	1.07	1.09	1.10
United Kingdom	1.3	1.0	1.8	1.6	6'718	→	→	0.35	0.70	0.80	1.22	1.29	1.31
United States	2.3	1.8	1.8	2.0	3'003	→	→	0.95	1.80	1.90	0.95	0.97	0.96
Japan	1.0	0.3	0.5	0.7	21'100	→	→	-0.13	-0.10	-0.05	113	110	110

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	5.1	5.1	3.8	3.8	648	→	→	-	-	-	-	-	-
China	6.1	5.5	2.9	3.3	3'012	→	→	2.68	3.00	3.00	6.93	7.00	6.95

Review – The Coronavirus continues to impact investor sentiment

The re-established upward trend in equity markets of the first half of February was suddenly stopped in its tracks as the Coronavirus spreading to and across Europe led to panic among investors. Markets in Europe and the US sold off. Cancelled trips, supply chain problems, cost-cutting, and profit warnings: The Coronavirus is increasingly spreading outside of China, especially within Europe, and is infecting more and more companies and causing investor sentiment to plummet. Fears of a pandemic are spreading among market participants and equities fell more than ten percent within a week. Until recently, the potential economic damage and the risk of a global pandemic were underestimated but most investors remained calm. This has now changed and the rampant virus could become a real growth inhibitor this year.

Developed Markets	2020 YTD	Feb 20th - 27th
Switzerland	-7.3%	-12.3%
Germany	-10.3%	-13.8%
Eurozone	-11.2%	-13.9%
United Kingdom	-13.3%	-11.8%
United States	-8.3%	-12.8%
Japan	-10.6%	-9.6%

Emerging Markets	2020 YTD	Feb 20th - 27th
Asia ex Japan	-7.6%	-7.2%
China	-5.3%	-3.2%

Source: Bloomberg, Limmat Wealth

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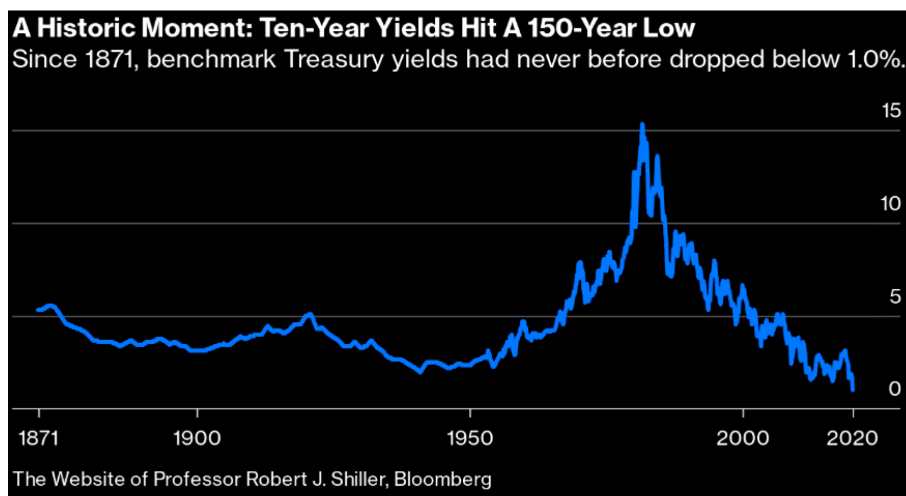
All major equity markets worldwide decreased in February, especially in developed countries. Markets in Great Britain (-9.7%), Japan (-8.9%), and Europe (-8.6%) suffered the most, while those in Asia (-2.9%), and China (-3.2%) the least. The losses happened in the last seven trading days of the month and the last calendar week of February will go down in history as the worst week since the financial crisis in 2008.

Yields on ten-year government bonds around the globe decreased further last month. Yields decreased the most in the United States (-0.36% to 1.15%), China (-0.27% to 2.73%), and Germany (-0.17% to -0.61%). Yields fell further in Switzerland as well (-0.09% to -0.82%). Due to recession fears, the US central bank FED decided to cut rates as a pre-emptive move to protect the economy from the Coronavirus. Interest rates are now set in the 1.00% to 1.25% range, and the FED signaled that further moves were possible. Such an emergency cut last happened during the financial of 2008. In the aftermath of this cut, yields on ten-year US treasuries fell below 1.00% for the first time ever.



Source: Bloomberg, econ.yale.edu/~shiller/data.htm

Currency markets barely moved last month despite the turbulences in the equity markets. The Swiss Franc strengthened against the British Pound (+2.8% to CHF 1.24) and the Euro (+0.4% to CHF 1.06), but remained unchanged against the US Dollar (CHF 0.96). The Euro weakened against the US Dollar (-0.6% to USD 1.10).

Alternative investments performed negatively as well in February. Gold remained unchanged (-0.2% to USD 1,586 per ounce), while hedge funds (-1.4%) and the oil price went down (WTI, -13.2% to USD 44.76 per barrel). Oil lost almost -30.0% of its value in the first two months of 2020.

Outlook – Spreading Coronavirus will continue to lead to more volatility

Due to the Coronavirus outbreak, other geopolitical issues faded from the spotlight for the time being (i.e. US presidential primaries, trade disputes). The Coronavirus will likely lead to more volatility in security prices in the short- to mid-term from which we want to take advantage. We will selectively buy and sell securities at interesting price levels. Last week, we sold our liquid investments in China because we did not (and still do not) understand the performance of equity prices in China. The Coronavirus has China in its grip with 80’400 confirmed cases and 2’900 deaths (worldwide 96’000 cases and 3’300 deaths). Even though the epicenter of this pandemic is in China, its equity market only corrected briefly in mid-January but has since fully recovered (more or less flat year-to-date). Considering the negative impact that this

pandemic has on everyday Chinese life, we believe that market participants are misinterpreting the situation in, and data out of China. We do not expect that the Chinese economy will normalize that quickly and we do not anticipate a V-shape recovery (as opposed to a U-shape recovery). Therefore, we currently do not want to be invested in China. We acknowledge that this can change quickly should there be a correction in the Chinese equity market.

We assume that the current correction will not develop into a bear market and therefore do not recommend selling any securities into falling markets. We continue to expect sideways trending markets over the coming months and we focus on equities of companies with strong balance sheets and high dividend yields.

Even after this week's emergency rate cut in the United States, market participants expect further cuts (current bandwidth 1.00-1.25%). The market currently prices in three more cuts of 0.25% each this year. The situation looks similar in Europe (currently -0.50%) where the market prices in two rate cuts by the end of the year.

Ongoing trade discussions and geopolitical tensions in general continue to quickly lead to strong moves in currency markets. The Swiss Franc has historically acted as a safe haven in times of trouble.

Hedge funds performed well last year and will continue to benefit from the increased volatility. We maintain our gold position for diversification reasons.

March 5, 2020
Limmat Wealth Ltd.