LimmatWealth

MEMO

Financial Market Update

The Coronavirus led investors to panic in late February, leading to a sell-off in European and US stock markets.

Developed Markets	2020 YTD	Since Feb 20th
Switzerland	-14.8%	-19.4%
Germany	-27.3%	-30.1%
Eurozone	-27.2%	-29.4%
United Kingdom	-27.4%	-26.1%
United States	-21.1%	-24.9%
Japan	-18.0%	-17.1%

Emerging Markets	2020 YTD	Since Feb 20th
Asia ex Japan	-19.3%	-19.0%
China	-8.8%	-6.8%

Source: Limmat Wealth, Bloomberg as of March 27, 2020

The spread of the Coronavirus and its economic consequences have led to falling share prices worldwide since the end of February. The missing liquidity in fixed income markets has added another dimension to the current crisis. These markets are still in the midst of the crisis, nonetheless there are first signs of improving liquidity after monetary authorities have increased their intervention. According to Goldman Sachs, central banks will have to expand their balance sheets much more in order to stabilize fixed income markets. Fiscal policy will also have to play a larger role. The liquidity situation in these markets remains difficult as fixed income instruments as well as stocks are sold on a massive scale. These sales are caused by portfolio changes and by investors who need liquidity. Due to regulatory changes in the aftermath of the financial crisis of 2008/2009, banks are no longer able to conduct proprietary trading and therefore the natural buyer for these securities is often missing. Additionally, broker-dealer balance sheets are crammed with fixed income securities and they are no longer able to mediate between buyers and sellers in these markets.

There are currently about 720’000 reported Coronavirus cases and 34’000 fatalities worldwide. Almost 152’000 patients have recovered so far. The United States now has by far the largest number of reported cases (143’000) and New York will become the next epicenter of the crisis (34’000). US President Trump expects at least 100’000 deaths in the United States, where the pandemic is expected to peak during Easter and he has extended the current guidelines and measures on social distancing until April 30th. Various countries in Europe are using similar measures to slow the spread of the virus in order not to overburden their healthcare system. Public transport continues to decrease and travel activity continues to decline worldwide.

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According to the research company Intervista, travel activity in Switzerland decreased by more than 50% compared to the previous month (measured in kilometers driven). The measures seem to be working.

Equity markets around the world have finally finished a week with positive results after weeks of negative returns. For example, equity markets in the United States (+10.3%), Germany (+7.9%), Europe (+7.1%), and the United Kingdom (+6.2%) have recovered significantly. The Swiss equity market increased as well last week (+3.8%). We do not believe that the past week already marked the end of the downturn. Volatility remains high. There is still great uncertainty about the impact of the pandemic. Even if a recession is considered almost certain in many regions of the world, the chances are intact that the economy will experience a strong rebound in the second half of the year. The stimulus packages worth billions in Europe and the United States are also expected to provide a boost. The willingness to support the economy by all means in the face of this crisis seems enormous. Of course, there are doubts whether all aid programs worldwide can be funded at all. Regardless of the affordability, it also became clear how much this stimulus is needed. For example, weekly initial jobless claims in the United States exploded to just under 3.3 million after 281’000 applications the previous week. The previous all-time high in initial jobless claims, for which data has been collected since 1967, was previously recorded in the 2008/2009 financial crisis (665’000 applications). However, given the hire-and-fire practice in the United States, this data is only considered a short-term indicator. Partly because of these economic stimulus packages, we expect markets in Europe and the Unites States to end the year at significantly higher levels than today.

Last week shows why timing entry and exit points is nearly impossible when building or reducing equity exposure. Driven by the unprecedented economic stimulus package and statements from the US monetary authorities, equity indices in the United States last Tuesday recorded the best day since 1933 and ended the week with the best result in ten years. Just to remind you how important it is to participate in the best trading days: If one invested in the S&P 500 index in 1930, one would have gained almost 15000% to date. However, if one missed the ten best trading days of each decade, the performance shrinks to just 91%.

We maintain our long-term asset allocation and we have started to bring this allocation back up to target levels. We will selectively add to our exposure and will initially focus on the healthcare sector. Unlike other sectors, companies in the healthcare sector are only marginally negatively affected by this pandemic. Patients need treatments and drugs whether the economy is doing well or not. Therefore, this industry tends to be more crisis-resistant than others. Today these companies can be bought on average around 15-20% cheaper than at the beginning of the year.

Limmat Wealth has prepared for the pandemic. We have introduced organizational measures to ensure a seamless operation for our customers and employees. In addition, our employees have the opportunity to work from home using remote access technology, consequently ensuring that our relationship managers can assist you with everything you need.

Please do not hesitate to contact us if you have any questions.

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Limmat Wealth AG