LimmatWealth

Investment Strategy – July 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	-5.6	0.4	-0.5	12'436	→	↗	-0.44	-0.50	-0.40	-	-	-
Germany	0.6	-6.3	1.4	0.6	12'311	→	↗	-0.45	-0.45	-0.25	-	-	-
Eurozone	1.2	-8.1	1.2	0.4	3'234	→	↗	-	-	-	1.06	1.07	1.10
United Kingdom	1.3	-8.1	1.8	0.9	6'170	→	↗	0.17	0.35	0.60	1.17	1.20	1.24
United States	2.3	-5.6	1.8	0.8	3'100	→	↗	0.67	0.80	1.10	0.95	0.96	0.96
Japan	1.0	-4.9	0.5	-0.1	22'100	→	↗	0.05	-0.05	0.00	114	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	-3.8	-3.8	4.4	4.4	649	→	↗	-	-	-	-	-	-
China	6.1	1.8	2.9	2.8	3'004	→	↗	2.84	2.70	2.90	7.07	7.10	7.05

Review – Equity markets ended the first half of the year with a positive month

Equity markets worldwide finished June with positive returns with Markets in Asia (+7.9%), Germany (+6.2%), and Europe (+6.0%) leading the way. The Swiss equity market finished last month with positive returns as well (+1.6%) and ended the first half of the year with a return of -3.1%. Hardly anyone would have thought that was possible back in March.

Yields on ten-year government bonds worldwide barely moved last month. While interest rates increased slightly in China (+0.16% to 2.85%), they remained unchanged in other major markets.

Currency markets barely moved as well in June. The Swiss Franc strengthened against the US Dollar (+1.5% to CHF 0.95), the Euro (+1.2% to CHF 1.06), and the British Pound (+1.1% to CHF 1.17). The Euro strengthened slightly against the US dollar (+1.3% to USD 1.12).

Alternative investments performed positively as well last month. Gold (+2.9% to USD 1,781 per ounce), oil (WTI, +10.7% to USD 39.27 per barrel), and hedge funds (+1.6%) all appreciated in June.

Outlook – The calm before another correction?

Despite the strong recovery in the second quarter and the pricing in of a quick normalization, markets are still far from normal. Market participants are still nervous, as evidenced by the elevated volatility, which is around twice the average of previous years. We assume that this will also be the case in the second half of the year as equity markets remain volatile. This is mainly due to the fear of a second wave of COVID-19 infections. At the moment it is not yet possible to predict exactly how quickly the global economy will recover from the slump in the first half of the year. We are at the beginning of a V-shaped recovery, but the development should not form a perfect V, i.e. not a quick return to pre-crisis mode. Experts think it is more likely that we will experience a square root shaped (√) recovery. In addition, there is still the possibility of a W-shaped course if a damper follows after a short recovery. For example, in the form of a

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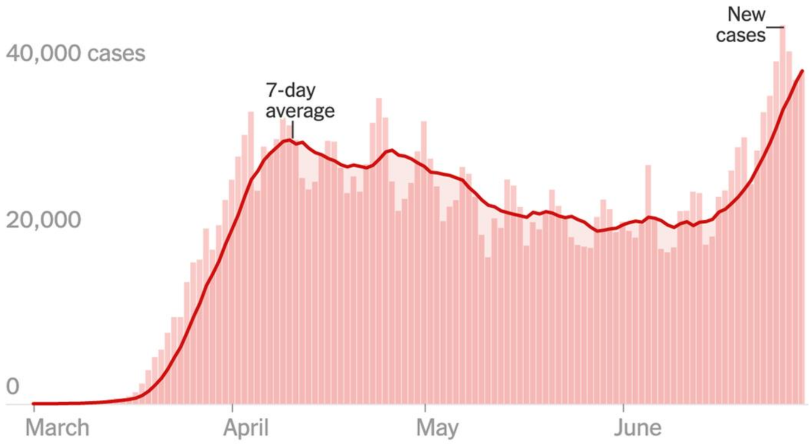
second COVID-19 wave in China and/or Europe. The risk of a second wave is currently increasing as social pressure increases to further normalize public life. These easing measures mean that measures to contain the pandemic are further relaxed despite warnings by experts.

While we fear a second wave in Europe, the United States is still busy with the first wave. Roughly four months after the outbreak of the pandemic, the US has seen massive increases in the number of cases. Texas, Florida, Arizona, and California reported new daily infection records this week, and overall, as many new cases are confirmed on a daily basis as at the peak of the pandemic two months ago. The number of cases in the United States is so high that the European Union extended the entry ban for Americans beyond July 1. The population is paying the price for the downplaying of the pandemic. So far, around 127,000 people have died as a result in the United States, but the US government still appears reluctant to adequately address the most dangerous pandemic in 100 years.



New reported cases by day in the United States (Source: New York Times)

This massive increase in the number of cases has overshadowed other potentially market-moving issues, such as the US presidential election or the US-China trade dispute.

Due to the rapid recovery and the ongoing pandemic, we are rather cautious with regards to the equity markets. We expect equity markets to trend sideways over the summer months, but there is also a possibility of a second correction in the near future. Some markets and sectors appear expensive to us after the strong recovery in recent months. We continue to focus on the healthcare, technology and consumer staples sectors.

Market participants do not expect any further rate cuts in the United States and Europe this year.

Trade disputes and geopolitical developments can lead to strong movements in the currency markets. The Swiss franc serves as a safe haven in such cases.

Hedge funds repositioned themselves and try to continue to capitalize on the increased volatility. We expect the current turmoil in the markets to provide good opportunities for hedge funds over a longer period of time (particularly distressed, structured credit, and global macro funds). We maintain our gold position for diversification reasons.

July 2, 2020 - Limmat Wealth Ltd.