LimmatWealth

# Investment Strategy – February 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 | 0.3 | 13'281 | → | → | -0.70 | -0.55 | -0.75 | - | - | - |
| Germany | 0.6 | 0.7 | 1.4 | 1.4 | 13'452 | → | → | -0.41 | -0.40 | -0.30 | - | - | - |
| Eurozone | 1.2 | 1.0 | 1.2 | 1.3 | 3'780 | → | → | - | - | - | 1.07 | 1.10 | 1.12 |
| United Kingdom | 1.3 | 1.1 | 1.8 | 1.7 | 7'436 | → | → | 0.55 | 0.80 | 1.00 | 1.26 | 1.29 | 1.31 |
| United States | 2.3 | 1.8 | 1.8 | 2.1 | 3'328 | → | → | 1.55 | 1.90 | 1.95 | 0.98 | 0.98 | 0.97 |
| Japan | 1.0 | 0.5 | 0.5 | 0.7 | 23'686 | → | → | -0.06 | -0.10 | -0.05 | 112 | 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 | 5.3 | 5.3 | 3.8 | 3.8 | 680 | → | → | - | - | - | - | - | - |
| China | 6.1 | 5.8 | 2.9 | 3.1 | 2'890 | → | → | 2.79 | 3.10 | 2.90 | 6.99 | 7.00 | 6.95 |

## Review – The Coronavirus as a black swan

Equity markets worldwide finished January with negative returns. The upward trend of last year seemed to continue after a good start to the year but was suddenly stopped by the Coronavirus outbreak in China. The number of confirmed Coronavirus cases increases daily and equity indices worldwide experienced a high level of volatility in the short-term. The virus outbreak comes at a bad time for China's slowing economy. Closing down cities and restricting travel further dampened the mood. On a global basis, sectors like transport, tourism, and luxury goods were affected the most.

Markets in Switzerland (+0.3%) and the United States (-0.2%) remained unchanged last month, while those in Asia (-4.5%), Great Britain (-3.4%), Europe (-2.8%), and China (-2.4%) declined. As the Shanghai Stock Exchange was closed from January 24th to 31st due to the Coronavirus, the actual performance of the Chinese equity market was even worse. The onshore market was down -7.7% on February 3rd when the Shanghai Stock Exchange resumed normal trading.

Yields on ten-year government bonds around the globe decreased significantly last month. Yields decreased the most in the United States (-0.41% to 1.51%), Great Britain (-0.30% to 0.52%), and Switzerland (-0.26% to -0.73%).

Currency markets barely moved last month. The Swiss Franc strengthened slightly against the British Pound (+0.8% to CHF 1.27), the Euro (+1.5% to CHF 1.07), and the US Dollar (+0.5% to CHF 0.96). The Euro weakened against the US Dollar (-1.1% to USD 1.11).

Alternative investments performed differently in January. Gold (+4.7% to USD 1,589 per ounce) and hedge funds (+0.7%) appreciated, while the oil price went down significantly (WTI, -15.6% to USD 51.56 per barrel).

## Outlook – The Coronavirus will continue to impact markets

The volatility caused by the Coronavirus outbreak offers good opportunities to buy equities, especially of Chinese companies. Similar outbreaks in the past (SARS, swine flu, Ebola, and Zika) did not derail local equity markets. SARS for example broke out in November 2002 and was finally under control in July 2003. Over this period, the Chinese equity market was down up to -15% (measured by the Hang Seng Index) but advanced more than 50% from the lows in April 2003 and finished the year with a gain of 41.2%.

Due to the Coronavirus outbreak, other geopolitical issues faded from the spotlight for the time being. Fundamentally nothing has changed for us. We still expect that markets over the next months will be mainly driven by the upcoming US presidential election and trade tensions. The conflict in the Middle East has eased for the time being but the Coronavirus will likely lead to more volatility in security prices in the short- to mid-term. This should offer good entry points to selectively buy or sell securities at attractive prices (i.e. Chinese equities).

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.

Market participants expect another rate cut in the United States in the third quarter (73% probability) but no changes in Europe (62%).

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.

February 12, 2020
Limmat Wealth Ltd.