LimmatWealth

Investment Strategy – June 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	-5.3	0.4	-0.5	12'457	→	↑	-0.39	-0.55	-0.45	-	-	-
Germany	0.6	-6.2	1.4	0.8	12'303	→	↑	-0.40	-0.45	-0.30	-	-	-
Eurozone	1.2	-7.6	1.2	0.4	3'220	→	↑	-	-	-	1.08	1.06	1.08
United Kingdom	1.3	-7.8	1.8	0.9	6'292	→	↑	0.24	0.35	0.60	1.21	1.20	1.24
United States	2.3	-5.7	1.8	0.8	3'081	→	↑	0.70	0.70	1.00	0.96	0.96	0.96
Japan	1.0	-4.9	0.5	0.0	22'614	→	↑	0.02	-0.05	-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	-3.8	-3.8	4.4	4.4	624	→	↑	-	-	-	-	-	-
China	6.1	1.7	2.9	3.1	2'923	→	↑	2.79	2.45	2.45	7.11	7.05	7.00

Review – Recovery continues

Market participants are currently weighing the hopes of a sustainable recovery and the fear of a second wave of COVID-19 infections, high valuations and trade tensions between the United States and China. After the global lockdowns in recent months, the economy has cooled in many places and will lead to a deep recession in the second half of the year. Now that measures to contain the pandemic have been partially relaxed in various countries in Europe and also in the United States, market participants seem to be more confident and the recovery in equity markets continued in May.

Most major equity markets worldwide continued to recover in May. The markets in Japan (+8.3%), Germany (+6.7%), and the United States (+4.5%) performed best, while markets in Asia (-1.4%) and China (-0.3%) were down slightly. The Swiss equity market finished last month with positive returns as well (+2.9%).

Yields on ten-year government bonds worldwide barely moved last month. While interest rates increased slightly in China (+0.18% to 2.69%), Germany (+0.14% to -0.45%), and Switzerland (+0.06% to -0.46%), they fell marginally in the United Kingdom (-0.05% to 0.15%).

Currency markets barely moved as well in May. The Swiss Franc strengthened against the US Dollar (+0.4% to CHF 0.96) and the British Pound (+2.4% to CHF 1.19) but weakened slightly against the Euro (-0.9% to CHF 1.07). The Euro strengthened slightly against the US dollar (+1.3% to USD 1.11).

Alternative investments gained as well last month. Gold (+2.6% to USD 1,730 per ounce) and hedge funds (+1.4%) appreciated. The price of oil has skyrocketed over the past month and almost doubled (WTI, +88.4% to USD 35.49 per barrel). As widely expected, the price reacted to the exaggerated decline of the previous months and certainly benefited from the increasing mobility in connection with the relaxed measures.

Outlook – Consolidation or will the rally continue?

Since the relaxation of the containment measures, the mood among market participants has changed noticeably. The current economic situation may be weak, but markets are future-oriented and it currently looks as if investors are confident that there will not be a second wave of infections or at least it will not lead to renewed lockdowns. Reports of medical advances related to COVID-19 are well received by investors, even if they are often only a small step in the right direction. This positive news is offset by high valuations in certain markets, trade tensions between the United States and China, and recent violent protests in the United States. After a police operation in which the African-American George Floyd was killed, riots broke out in various American cities. So far curfews and appeals have yielded little. In the meantime, US President Donald Trump was even taken to a bunker for safety.

We believe that the resurgent trade dispute between the United States and China has the greatest potential to negatively impact markets in the medium-term. Relations between the two largest economies in the world are worse than ever and there are no signs of improvement. The list of disputes is growing steadily: the ongoing trade war, US sanctions against China's technology giants, the escalating conflict over Hong Kong, China's pressure on liberal Taiwan, the persecution of unwanted people (civil rights activists, Uighurs and Tibetans), and mutual expulsions by journalists, China's controversial territorial claims in the South China Sea, and the modernization of the Chinese armed forces, which the United States sees as a growing threat to its security interests. The confrontation could escalate in the upcoming US election campaign, as China has become an enemy of Republicans and Democrats in the United States.

Based on the above, we are rather cautious with regards to equity markets. We recently sold our US healthcare sector ETF, reducing our equity exposure slightly. Over the summer months, we expect global equity markets to trend sideways before picking up speed again and trending higher towards the end of the year. Some markets seem somewhat expensive to us and are also not well positioned for the coming recession. We are selectively investing these days and we focus on three sectors which we believe are the relative winners of this pandemic. These are the healthcare sector, technology and consumer staples:

- Healthcare: Pharmaceutical companies play a major role in this crisis. Thanks to the search for efficient test solutions, treatment options and vaccines for/against COVID-19, companies such as Gilead (treatment with the drug Remdesivir), Eli Lilly (treatment with an antibody drug), Moderna (possible vaccine), and Roche (provider of test kits) are in the news.

- Technology: Subsectors such as e-commerce, video conferencing, streaming and gaming have benefited from the shift in consumption and entertainment from offline to online. For example, people have become accustomed to the simplicity and convenience of online shopping and working from home. Companies such as Amazon (online marketplace), JD.com (online marketplace), Deliveroo (meal delivery), and Zoom (video conferencing) are benefiting from this trend and are significantly expanding their capacities.

- Consumer staples: Consumer staples are everyday goods, such as food and beverages. These are often products that one cannot live without. Therefore, when people have to limit their spending, they do it in the consumer staples sector last and accordingly this sector tends to be more resilient. Companies like Procter & Gamble (brands like Gillette, Pampers, Oral-B, or Charmin), Walmart (supermarkets), and Coca-Cola (the world's largest beverage company) should weather the recession relatively well.

Market participants do not expect any further rate cuts in the United States this year but they expect a rate cut in Europe by the end of the 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 and global macro funds). We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.