LimmatWealth

Investment Strategy – May 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	-3.3	0.4	-0.3	11'707	→	↑	-0.50	-0.50	-0.40	-	-	-
Germany	0.6	-5.5	1.4	0.9	10'494	→	↑	-0.55	-0.50	-0.30	-	-	-
Eurozone	1.2	-5.6	1.2	0.5	2'826	→	↑	-	-	-	1.05	1.06	1.08
United Kingdom	1.3	-5.2	1.8	1.0	5'748	→	↑	0.24	0.40	0.60	1.20	1.20	1.24
United States	2.3	-4.0	1.8	1.1	2'831	→	↑	0.60	0.70	1.10	0.96	0.97	0.95
Japan	1.0	-3.5	0.5	0.0	19'619	→	↑	-0.02	-0.10	-0.05	111	109	113

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	-5.7	-5.7	4.4	4.4	606	→	↑	-	-	-	-	-	-
China	6.1	1.8	2.9	3.2	2'860	→	↑	2.52	2.40	2.40	7.06	7.05	7.00

Review – Equities recover after the crash

The spread of COVID-19 (Coronavirus) has led to worldwide turmoil since the end of February. Not surprisingly, the equity market crash in March was followed by a rally in April. This happened despite the fact that the economic consequences of the crisis are still largely unknown and will only become apparent in the next few months. Companies' published earnings should therefore be treated with caution. The recovery in equity markets is driven by falling numbers of confirmed COVID-19 cases, the relaxation of lockdown measures, and the hope of finding a drug and vaccine against the virus. The extensive measures taken by central banks and governments to support the economy also ensure a positive mood. In this environment, it is almost forgotten that the oil market has almost collapsed due to the slump in demand.

All major equity markets worldwide recovered significantly in April. The markets in the United States (+12.7%), Germany (+9.3%), and Asia (+8.9%) performed best last month. The Swiss equity market finished last month with positive returns as well (+5.2%).

Yields on ten-year government bonds worldwide decreased slightly last month. Interest rates decreased the most in Switzerland (-0.20% to -0.52%), the United Kingdom (-0.13% to 0.23%), and Germany (-0.12% to -0.59%).

Currency markets barely moved in April despite the strong moves in equity markets. The Swiss franc remained unchanged against the Euro (CHF 1.06) but weakened against the British pound (-1.9% to CHF 1.22) and the US dollar (-0.5% to CHF 0.97). The Euro remained unchanged against the US dollar (USD 1.10).

Alternative investments performed differently last month. Gold (+6.9% to USD 1,687 per ounce) and hedge funds (+2.9%) appreciated significantly, while the oil price fell further (WTI, -8.0% to USD 18.84 per barrel). Due to the collapsing demand and the increased supply, the price for West Texas Intermediate

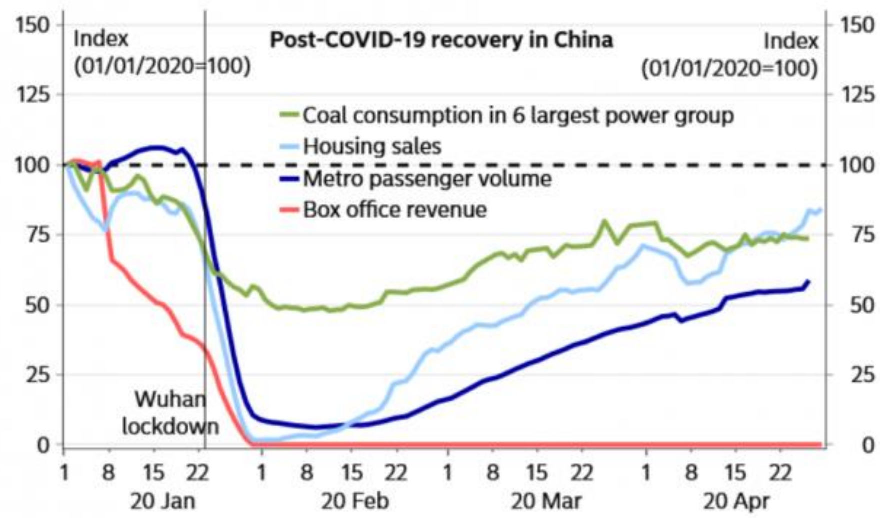
Limmat Wealth AG Gartenstrasse 32 Postfach 1882 CH-8027 Zürich

T +41 44 208 24 50 F +41 44 208 24 51 info@limmatwealth.com www.limmatwealth.com

crude oil (WTI) slipped into negative territory for the first time in its history in late April. WTI for May delivery closed at USD -37.63 per barrel. That means traders were willing to offer buyers money to take them out of their positions. In addition to the COVID-19 pandemic, May forward contracts expired, but the oil inventories were filled to the brim. That is why there are currently almost no buyers. The WTI oil price had already slipped in March due to COVID-19 (-54.2%).

Outlook – New phase with sideways trending equity markets

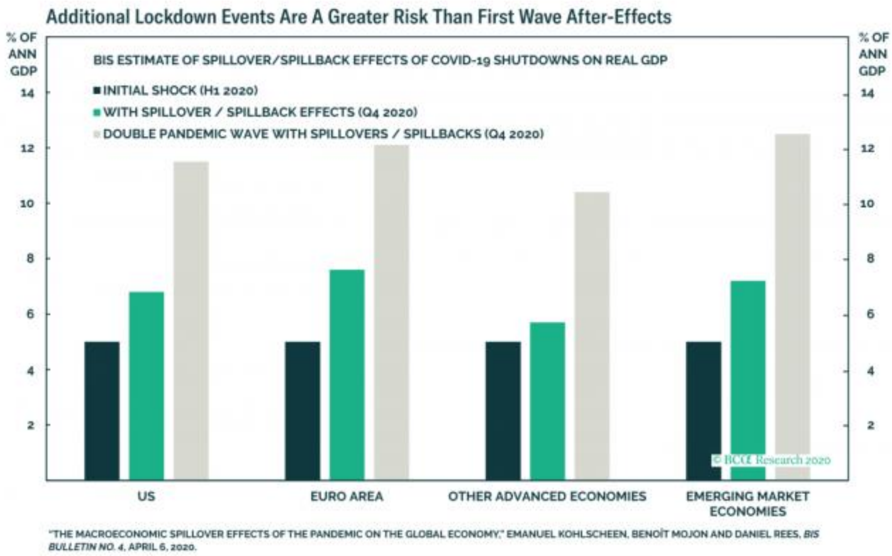
Equity markets worldwide recovered strongly in April. This recovery could have been expected, but it does not mark the end of the crisis, in our opinion. Volatility should remain high. The world economy is now entering a new phase. More and more countries are relaxing the measures and restrictions with which they tried to curb the spread of COVID-19. In Switzerland, garden centers, flower shops, and barber shops reopened last week, while restaurants, shops and markets have to wait until next Monday. Even in Italy machines have been running again since last week after manufacturing across the country was shut down for two months. Other countries are also about to relax their measures, such as the United States. However, hopes for the effects of phase two should not be overestimated. In China, the path to normalization started earlier. Nevertheless, the local economy is still a long way from normal. The graphic below shows the restart based on indicators of daily life. Coal production as an indicator of energy consumption by factories and households (green line) is still about a quarter below the level of the beginning of the year. Transport measured in passenger volume on local trains (dark blue line) has started again, but the volume is only about half of what it was before the crisis. Housing sales (light blue) recovered surprisingly quickly, but the cultural scene (red) is still standing still.



Source: Nordea, Macrobond, Wind and China Metro Association

The relaxation of the measures will sooner or later lead to a second wave of COVID-19 infections. For example, the Spanish Flu came in three waves in 1918, each three to six months apart from each other. Economists at the Bank for International Settlements (BIS) have simulated the devastating effect of such a second wave in the second half of 2020 on the global economy, even if only part of the measures had to be reintroduced. As the graph below shows, a second wave would hit the economy even more than the first wave. BCA Research estimates that the economy in the Eurozone for example will shrink by around 5% due to the pandemic. Should there be a second wave, the economy will suffer significantly more (around

-12%). Analysts are therefore much more concerned about the possibility of partially reintroducing restrictions during a second wave than the consequential damage of the first wave.



Source: BCA Research, Bank for International Settlements

Based on the above, we expect global equity markets to trend sideways in the next few months before picking up speed again and trending higher towards the end of the year. We have taken steps to bring our asset allocations back up to target levels. Portfolios should already be geared towards the post-crisis period, but we want to take it one step at a time. We are selective and cautious with purchases as some markets appear expensive to us after the strong recovery. It also makes sense to focus on the securities of companies whose businesses are not as badly affected by the crisis or which recover quickly after the crisis has ended. We currently find these companies primarily in the healthcare, consumption and technology sectors.

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 will try 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.

May 5, 2020
Limmat Wealth Ltd.