LimmatWealth

MEMO

Financial Market Update

Developed Markets	2020 YTD	Since Feb 20th	Maximum Drawdown	Return since 2020 Low
Switzerland	-1.2%	-6.4%	-26.3%	27.0%
Germany	-4.2%	-7.9%	-38.8%	50.4%
Eurozone	-11.4%	-14.1%	-38.3%	39.2%
United Kingdom	-18.5%	-17.1%	-33.0%	23.7%
United States	-0.7%	-5.6%	-33.9%	42.9%
Japan	-4.5%	-3.5%	-29.3%	36.5%

Emerging Markets	2020 YTD	Since Feb 20th	Maximum Drawdown	Return since 2020 Low
Asia ex Japan	0.2%	0.7%	-27.2%	38.3%
China	12.3%	14.8%	-10.6%	28.4%

Source: Limmat Wealth, Bloomberg as of July 14, 2020

The rally in equity markets continues and the S&P 500 Index in the United States and the Swiss SMI Index, for example, are back at the levels at which they started this year. However, looking at these two indices is somewhat misleading and does not show the full development of the equities in these markets. The returns of these indices this year are the result of their composition and by no means reflect the average development of the companies in these indices.

The S&P 500 index including dividends is at the same level as at the beginning of the year (+0.0%) even though 67% of its components posted negative returns. As mentioned above, the composition of the index is responsible for this, as the five largest index components are the large technology companies Microsoft, Apple, Amazon, Facebook, and Alphabet (Google). Together these five companies make up around 23% of the index and have achieved an average return of 32.3% this year. If you look at all the other index components, you will see a completely different result. The average return without the five largest index components is -10.7%.

	Index Weight	Average Return This Year
Top 5	23%	32.3%
Top 10	29%	12.0%
All Components	100%	-10.2%
All Components without Top 5	77%	-10.7%

Source: Limmat Wealth, Bloomberg as of July 14, 2020

The SMI index shows a similar picture. While the index has remained unchanged since the beginning of the year (-0.3%), 65% of the components have performed negatively this year.

The index is dominated by the food and drink processing conglomerate Nestlé and the two large pharmaceutical companies Roche and Novartis. These three companies make up around 54% of the index and have achieved an average return of 1.7% this year. However, all other index components only achieved an average return of -5.2% this year.

	Index Weight	Average Return This Year
Top 3	54%	1.7%
Top 10	85%	-8.2%
All Components	100%	-4.2%
All Components without Top 3	46%	-5.2%

Source: Limmat Wealth, Bloomberg as of July 14, 2020

The healthcare, technology, and consumer staples sectors have been the most profitable so far this year. We have had a large portion of our equity exposure in these sectors throughout the year. We expect companies in these sectors to suffer less from the crisis or to recover quickly after the crisis ends. However, we are still cautious after the rapid recovery in the markets.

There are now more than 13 million reported COVID-19 cases and nearly 580,000 deaths worldwide. The number of cured patients is now almost 7.4 million. After the easing of measures in large parts of Europe and the United States, the number of cases is rising again in many places.

Europe is preparing itself for a second wave of infections and parts of Spain and Switzerland, for example, have already reintroduced restrictions. While this primarily affects users of public transport (compulsory wearing of face masks) and nightclub visitors (restrictions on the number of visitors) in Switzerland, the new outbreaks in some regions of Spain have led to particularly strict rules.

The United States is still busy with the first wave as the measures were relaxed before it was under control. Instead of dealing with the rapidly increasing number of infections in many US states, US President Donald Trump is campaigning and pointing out how he built the best economy ever. Then the Coronavirus came, or as Trump calls it: "The plague from China". According to him, he and his administration again did everything right. However, the reality is different in large parts of the country. The number of new infections with COVID-19 is higher in Florida than in all of Europe. In California, Governor Gavin Newsom announced that restaurants, bars, wine shops, cinemas, zoos, and museums will have to close again. Governments in various states have their hands full to reverse the easing that Donald Trump has requested.

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

July 15, 2020
Limmat Wealth Ltd