



LimmatWealth

MEMO

Coronavirus Update

The Coronavirus led investors to panic in late February, leading to a sell-off in European and US stock markets.

| Developed Markets | 2020 YTD | Since Feb 20th |
|-------------------|----------|----------------|
| Switzerland | -20.3% | -24.6% |
| Germany | -30.3% | -33.0% |
| Eurozone | -31.0% | -33.1% |
| United Kingdom | -29.3% | -28.0% |
| United States | -15.8% | -19.9% |
| Japan | -26.3% | -25.5% |

| Emerging Markets | 2020 YTD | Since Feb 20th |
|------------------|----------|----------------|
| Asia ex Japan | -15.7% | -15.4% |
| China | -5.0% | -3.0% |

Source: Limmat Wealth, Bloomberg as of March 13, 2020

The spread of the Coronavirus and its economic consequences have led to falling share prices worldwide since the end of February. Fixed income markets have also been affected, which is why the US central bank FED felt obligated to cut rates for the second time this month and restart its quantitative easing program. The FED is citing risks to the economy as the reason for these steps. This announcement by the FED is part of a broader escalation of the global response to the Coronavirus pandemic, involving both fiscal and monetary policy measures. The escalating response from governments comes as the spread of the virus continues. Meanwhile, there are about 170'000 reported cases and 6'500 fatalities worldwide, along with mounting evidence of economic disruption. More than 77'000 patients recovered so far. Several countries across Europe and the United States moved to partially close borders, with Spain, France, and the Netherlands even imposing restrictions on movement in their own countries.

The sharp rally in stocks on Friday demonstrates that the market is willing to reward targeted policy action designed at mitigating the virus' spread and limit its economic impact. It also demonstrates the importance for investors of not making rash decisions during periods of elevated market volatility. Many of the markets' best days in recent history have come in periods which have also brought the worst days.

Meanwhile, the downturn turned into bear markets in many places. There is great uncertainty about the impact of the virus, but we continue to believe that it would be the wrong decision to further reduce equity exposure. We maintain our long-term asset allocation and look to buy

selectively when interesting opportunities arise. We still stand by the reasons mentioned, why one should not panic:

- Selling after a major loss has historically been a poor decision. There are numerous examples of strong rebounds in the days following a stock market sell-off. A reduction of the equity commitment now means risking missing the rebound.
- Fluctuations in equity markets are not a new phenomenon. Investors should not lose sight of their long-term goals based on short-term volatility.
- Large price corrections offer a good opportunity to buy securities at lower prices.
- The price slump over the past few weeks is unpleasant, but it only costs market participants a small portion of their accumulated profits.

We expect the markets in Europe and the United States to end the year at much higher levels than today. But investing while volatility remains so high is clearly challenging. In this environment we recommend investors willing to buy to use cost-averaging to deploy capital, focus on companies with strong balance sheets and high dividend yields, and buy into long-term themes.

- Cost-averaging: Cost-averaging is a strategy in which an investor invests a fixed amount in a security over several steps. As a result, when the price of a given investment rises, the investor will be able to purchase fewer shares. When the price of a particular security declines, the investor will be able to purchase more shares. Like this, investors achieve a better average cost price.
- Strong balance sheets and high dividend yields: Such companies offer good fundamental data and can afford to continuously pay high dividends.
- Long-term themes: For example, new technologies in the healthcare sector or digital transformation.

Limmat Wealth takes the situation around the Coronavirus seriously. We have introduced organizational measures to ensure a seamless operation for our customers and employees. In addition, our employees have the opportunity to work from home using remote access technology, consequently ensuring that our relationship managers can assist you with everything you need.

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