LimmatWealth

MEMO

Coronavirus Update

The coronavirus led investors to panic last week, leading to a sell-off in European and US stock markets.

Developed Markets	2020 YTD	Since Feb 20th
Switzerland	-3.9%	-9.0%
Germany	-6.7%	-10.3%
Eurozone	-7.8%	-10.6%
United Kingdom	-10.4%	-8.9%
United States	-7.5%	-12.0%
Japan	-7.2%	-6.2%

Emerging Markets	2020 YTD	Since Feb 20th
Asia ex Japan	-5.4%	-5.0%
China	-1.6%	0.5%

Source: Limmat Wealth, Bloomberg as of February 27, 2020

We made two major changes to our positioning since the beginning of the year:

- We took risk out of our portfolios by selling our long-only biotech positions (January 17)
- We sold our liquid investments in China (February 26)

Cancelled trips, supply chain problems, cost-cutting, and profit warnings: The coronavirus is increasingly spreading outside of China, especially within Europe, and is infecting more and more companies and causing investor sentiment to plummet. Fears of a pandemic are spreading among market participants and equities continue to fall. Until Friday before last (February 21), the potential economic damage and the risk of a global pandemic were underestimated and most investors remained calm. This changed at the beginning of last week and the rampant virus could become a real growth inhibitor this year. As the uncertainties about the effects of the virus are significant, we believe that it would be wrong to throw in the towel and further reduce equity exposure. We do not know how the virus will develop in the future, but there are several reasons not to panic now:

- 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. A recent example is the fourth quarter of 2018 (global equity index -13.4%) and the following year 2019

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(+27.7%). Panic sales after a major drop in price usually mean that the possibility of a subsequent price jump is left out. Getting back into the market after a panic sale is much more difficult.

- 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. From this perspective, defensive stocks once again look reasonably attractive. For example, Nestlé has lost more than 7% since February 20^{th} (as of February 27, 2020).

- Despite this week's slump, many equity indices are still trading at the same price level as at the end of the third quarter of 2019. Since the beginning of 2019, for example, the price gain of the Swiss Performance Index is still over 25% (as of February 27, 2020). The price slump this week is unpleasant, but it only costs market participants a small portion of their accumulated profits.

We assume that the current correction will not develop into a bear market and for the reasons laid out above, we recommend not selling any securities into falling markets.

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

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Limmat Wealth AG