



# 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	-18.0%	-22.4%
Germany	-32.6%	-35.2%
Eurozone	-32.0%	-34.1%
United Kingdom	-31.6%	-30.4%
United States	-28.4%	-31.9%
Japan	-30.0%	-29.3%

Emerging Markets	2020 YTD	Since Feb 20th
Asia ex Japan	-23.2%	-22.8%
China	-9.7%	-7.7%

Source: Limmat Wealth, Bloomberg as of March 20, 2020

The spread of the Coronavirus and its economic consequences have led to falling share prices worldwide since the end of February. Initially, only equity markets were affected but the stress has since spread to fixed income markets as well. Among other things, there is the risk of a domino-like spread of corporate defaults. Market participants have priced in this risk in a short period of time and credit risk premiums have tripled since the end of February. Risk premiums are trading at about 2.5% for high quality bonds and 8-9% for high yield bonds, similar levels to 2012 but still only half as high as in 2009. In contrast to 2008, central banks and governments are not afraid to implement drastic and unconventional measures. In the next few weeks, it will be a matter of specifying these measures. If governments and central bank are successful in doing this, a recovery in the markets is likely.

Meanwhile, there are about 340'000 reported cases and 14'700 fatalities worldwide, along with mounting evidence of economic disruption. Almost 100'000 patients recovered so far. Various countries in Europe and the United States are adopting ever stricter measures to slow the spread of the virus in order not to overburden the healthcare system. Public transport has now been reduced to a minimum. For example, the airline Swiss is only flying with six aircrafts starting today (one long-haul and five short-haul planes) and has reduced its passenger capacity by 95% since the pandemic broke out.

The volatility, especially in equity markets, remains high. There is still great uncertainty about the impact of the virus on the global economy and certain sectors and therefore no predictions can be made. It is important not to get carried away by irrational emotions. Even if a recession

is almost certain, chances are intact that the economy will experience an even stronger burst of growth in the second half of the year. We therefore expect markets in Europe and the United States to end the year at significantly higher levels than today.

We continue to believe that it would be the wrong decision to further reduce equity exposure. Timing entry and exit points is nearly impossible. That is why panic selling rarely pays off. Investors who lose their composure will miss rebounds and therefore a large portion of the performance. This can be demonstrated by analyzing the S&P 500 index, which comprises of the 500 largest listed companies in the United States. If one invested in this index in 1930, one would have gained almost 15000% to date. However, if one missed the ten best trading days of each decade, the performance shrinks to just 91%:

<b>Decade</b>	<b>Performance</b>	<b>Performance without ten best trading days</b>
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
Total seit 1930	14992%	91%

Source: Limmat Wealth, Bank of America

We maintain our long-term asset allocation and we will bring this allocation back up to target levels. We will selectively add to our exposure and we will initially focus on the healthcare sector. Unlike other sectors, companies in the healthcare sector are not or only marginally negatively affected by the Coronavirus. Patients need treatments and drugs whether the economy is doing well or not. Therefore, this industry tends to be more crisis-resistant than others. Today these companies can be bought on average around 20% cheaper than at the beginning of the year.

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.

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Limmat Wealth AG