LimmatWealth

Investment Strategy – April 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	1.1	0.4	0.2	11'194	↑	↑	-0.31	-0.60	-0.60	-	-	-
Germany	0.6	-0.1	1.4	1.3	9'545	↑	↑	-0.44	-0.30	-0.30	-	-	-
Eurozone	1.2	-1.0	1.2	1.0	2'680	↑	↑	-	-	-	1.06	1.08	1.09
United Kingdom	1.3	-0.6	1.8	1.3	5'455	↑	↑	0.34	0.30	0.60	1.20	1.26	1.26
United States	2.3	1.1	1.8	1.7	2'471	↑	↑	0.60	0.80	1.30	0.97	0.97	0.96
Japan	1.0	-0.8	0.5	0.5	17'819	↑	↑	-0.01	-0.10	-0.05	111	111	110

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	5.1	5.1	3.8	3.8	547	↑	↑	-	-	-	-	-	-
China	6.1	3.9	2.9	3.3	2'771	↑	↑	2.58	2.75	2.80	7.10	6.95	6.95

Review – COVID-19

COVID-19 (Coronavirus) led investors to panic in late February. The spread of the disease and its economic consequences have led to falling share prices worldwide since the end of February.

All major equity markets fell significantly in March. The markets in Germany (-16.4%), Europe (-16.3%), and the UK (-13.8%) fell the most, while those in China (-4.5%) and Switzerland (-4.9%) dropped less. In many places, the month of March and the entire first quarter will go down in history as the worst month and worst quarter since the 2008 financial crisis.

Yields on ten-year government bonds have developed differently last month. While interest rates rose in Switzerland (+0.49% to -0.33%), Japan (+0.18 to 0.02%), and Germany (+0.14% to -0.47%), they decreased in the UK (-0.09% to 0.36%), China (-0.15% to 2.59%), and the United States (-0.48% to 0.67%). Due to recession fears, the US central bank FED lowered the key interest rate on March 15 for the second time in two weeks. The FED cut the key rate by one percent to the new range of 0% to 0.25% after having cut it by half a percent earlier in the month. Following the first rate cut, yields on ten-year US government bonds temporarily dropped to their lowest level ever (0.54%). The key interest rates of the Swiss National Bank (SNB, -0.75%), the European Central Bank (ECB, -0.50%), the Federal Reserve (FED, 0.25%), and the Bank of Japan (BoJ, 0.30%) are now back near zero or even below.

Currency markets barely moved last month despite the turbulences in the equity and fixed income markets. The Swiss franc strengthened against the British pound (+3.7% to CHF 1.19), but remained unchanged against the Euro (CHF 1.06) and the US dollar (CHF 0.96). The Euro also remained unchanged against the US dollar (USD 1.10).

Alternative investments performed negatively as well in March. Gold remained unchanged (-0.5% to USD 1,577 per ounce), while hedge funds (-5.9%) and the oil price fell significantly (WTI, -54.2% to USD 20.48 per barrel). Failed negotiations within the Organization of Petroleum Exporting Countries (OPEC) sent the

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oil price down in early March. A power struggle between Saudi Arabia and Russia over the restriction of oil production has escalated. As a result, the oil price halved, losing two thirds of its value since the beginning of the year.

Outlook – Volatile in the short-term, interesting opportunities in the long-term

Equity markets worldwide finally showed signs of life in the last week of March after weeks of negative returns. For example, the world equity index temporarily fell up to -25% in March, but then recovered significantly and ended the month down 13%. We do not believe that the past week already marked the end of the downturn. Volatility remains high. There is still great uncertainty about the impact of the pandemic. Even if a recession is considered almost certain in many regions of the world, chances are intact that the economy will experience a strong rebound in the second half of the year. The stimulus packages worth billions in Europe and the United States are also expected to provide a boost. The willingness to support the economy by all means in the face of this crisis seems enormous. As a result, we expect equity markets in Europe and the United States to trade significantly higher at the end of the year.

It is nearly impossible to time entry and exit points when building or reducing equity exposure. An example for this could be seen last month. Driven by the unprecedented economic stimulus package and statements from the US monetary authorities, equity indices in the United States last week recorded the best day since 1933 and ended the week with the best result in ten years. The S&P 500 Index shows how important it is to participate in the best trading days: If one invested in the S&P 500 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%.

We have started to bring our asset allocation back up to target levels. We except equity markets to perform positively over the next twelve months and will selectively add to our exposure. We will initially focus on the healthcare sector. Unlike other sectors, companies in the healthcare sector are only marginally negatively affected by COVID-19. 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 15-20% cheaper than at the beginning of the year. We also continue to focus on equities of companies with strong balance sheets and high dividend yields.

Market participants do not expect any further rate cuts in the United States this year after the surprising two interest rate cuts by the FED last month. Europe paints a similar picture with half a rate cut priced in 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 also corrected significantly in March and will now 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.

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Limmat Wealth Ltd.