LimmatWealth

Investment Strategy – October 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	-5.1	0.4	-0.7	12'805	→	↗	-0.49	-0.50	-0.40	-	-	-
Germany	0.6	-6.0	1.4	0.5	13'006	→	↗	-0.51	-0.40	-0.20	-	-	-
Eurozone	1.2	-8.0	1.2	0.3	3'249	→	↗	-	-	-	1.08	1.08	1.10
United Kingdom	1.3	-10.0	1.8	0.9	5'967	→	↗	0.30	0.30	0.40	1.19	1.18	1.22
United States	2.3	-4.3	1.8	1.2	3'419	→	↗	0.77	0.80	1.00	0.92	0.91	0.90
Japan	1.0	-5.7	0.5	0.0	23'647	→	↗	0.04	0.00	0.00	115	116	117

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	-2.8	-2.8	2.6	2.6	733	→	↗	-	-	-	-	-	-
China	6.1	2.1	2.9	2.8	3'218	→	↗	3.15	2.80	3.00	6.79	6.90	6.80

Review – Negative returns at the end of the third quarter

Most equity markets around the world ended last month with negative returns. Markets in Switzerland (+0.5%) and Japan (+0.2%) appreciated slightly, while those in Europe (-2.4%), the United States (-3.9%), and China (-5.2%) declined.

Yields on ten-year government bonds decreased worldwide in September. Interest rates rose slightly in China (+0.12% to 3.15%), but decreased in the United Kingdom (-0.08% to 0.23%), Switzerland (-0.08% to -0.49%), and Germany (-0.13% to -0.52%).

Currency markets moved within reason in September. The Swiss Franc strengthened against the British Pound (+1.5% to CHF 1.19), weakened against the US Dollar (-1.9% to CHF 0.92), and remained unchanged against the Euro (CHF 1.08). The US Dollar strengthened against the Euro (+1.8% to USD 1.17).

Alternative investments performed negatively last month. Gold (-4.2% to USD 1,886 per ounce) as well as oil (WTI, -5.6% to USD 40.22 per barrel) and hedge funds (-1.2%) declined last month.

Outlook – Volatility remains high

The continuing search for a vaccine against Covid-19, the US presidential elections, and the discussions around further economic stimulus packages will drive markets in the coming weeks. Paired with the strong recovery in the equity markets in the past two quarters, we are still fairly cautious with regards to equity markets. Markets will remain volatile. We currently favor developed countries and China over emerging markets and focus on equities of high-quality companies with strong balance sheets in the healthcare, technology, and consumer staples sectors. An eventual election of Joe Biden could be positive for equities

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in green technology and alternative energy companies. We have already identified funds that meet these requirements.

Market participants do not expect any further rate hikes by the US central bank Fed this year. In Europe, on the other hand, further rate cuts by the European Central Bank ECB are expected in the next 12 months.

Trade disputes and geopolitical developments can lead to strong movements in currency markets. The Swiss franc serves as a safe haven in such cases.

Hedge funds continue to capitalize on the increased volatility and the recent turbulences in the markets should provide for good opportunities over a longer period of time (in particular distressed, structured credit and global macro funds). We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.