



# LimmatWealth

## Investment Strategy – August 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        | -5.9   | 0.4           | -0.7   | 12'602   | →      | ↗       | -0.50            | -0.45  | -0.40   | -                   | -      | -       |
| Germany           | 0.6        | -6.3   | 1.4           | 0.6    | 12'694   | →      | ↗       | -0.52            | -0.45  | -0.25   | -                   | -      | -       |
| Eurozone          | 1.2        | -8.2   | 1.2           | 0.4    | 3'277    | →      | ↗       | -                | -      | -       | 1.08                | 1.07   | 1.10    |
| United Kingdom    | 1.3        | -9.0   | 1.8           | 0.8    | 6'095    | →      | ↗       | 0.10             | 0.30   | 0.45    | 1.19                | 1.20   | 1.24    |
| United States     | 2.3        | -5.5   | 1.8           | 0.9    | 3'307    | →      | ↗       | 0.53             | 0.80   | 1.10    | 0.91                | 0.94   | 0.92    |
| Japan             | 1.0        | -4.9   | 0.5           | -0.1   | 22'515   | →      | ↗       | 0.01             | 0.00   | 0.00    | 116                 | 114    | 113     |

  

| 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    | 1.5        | 1.5    | 2.7           | 2.7    | 712      | →      | ↗       | -                | -      | -       | -                   | -      | -       |
| China            | 6.1        | 2.0    | 2.9           | 2.7    | 3'378    | →      | ↗       | 2.98             | 2.70   | 2.90    | 6.94                | 7.05   | 7.00    |

### Review – Equity markets in Asia are rallying

COVID-19 continues to impact equity markets in Europe and the United States, and it is likely to remain that way for quite a while. Last month's rising infection numbers and the slump in the global economy in the second quarter dampened investor sentiment. The measures taken to fight the pandemic caused economic output worldwide to drop as sharply as never before and have substantially increased unemployment. On the Asian equity markets, the prospect of an economic recovery substantially improves investor sentiment. Industry data from China provided a tailwind, indicating that the second largest economy in the world is recovering faster than expected after the Coronavirus has been contained.

Equity markets around the world performed differently last month. Markets in China (+10.9%), Asia (+8.0%), and the United States (+5.5%) appreciated significantly. Equity markets in Europe (-1.8%), Japan (-2.6%), and the United Kingdom (-4.4%) lagged while the Swiss equity market finished last month unchanged (-0.2%).

Yields on ten-year government bonds mostly decreased worldwide in July. While interest rates increased slightly in China (+0.13% to 2.98%), they went down slightly in Switzerland (-0.10% to -0.54%) and the United States (-0.13% to 0.53%).

Currency markets saw heightened volatility in July, mainly driven by US Dollar weakness. In the middle of the worst global recession since the 1930s, the US dollar - the number one reserve currency and thus the safe haven for financial investors - is on its knees. Within a few months, the US currency lost more than 8% of its value against major trading partner currencies and is therefore at its lowest level in two years. Whether against the Japanese Yen, Brazilian Real, Mexican Peso or Swedish Krona - the US Dollar has lost between 2-6% against all currencies since the beginning of July. The Swiss Franc strengthened against the US Dollar (+3.7% to CHF 0.91) but weakened against the British Pound (-1.7% to CHF 1.19) and the Euro (-1.0% to CHF 1.08). The Euro strengthened against the US dollar as well (+4.8% to USD 1.18).

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Alternative investments performed positively last month. Gold continued its upward trend (+10.9% to USD 1,976 per ounce), while oil (WTI, +2.5% to USD 40.27 per barrel) and hedge funds (+1.4%) appreciated as well.

#### Outlook – What's next with the pandemic?

In the United States, nearly 160,000 people have died so far from COVID-19, more than in any other country. Observers believe that US President Donald Trump has now realized that containing the pandemic could increase his chances of winning the presidential election in November. There is hope for countermeasures. The crucial question is how new infections will develop, especially in the particularly affected US states in the south (California, Arizona, Texas, and Florida). If new large-scale lockdowns become necessary, the economic recovery is at risk.

So far, equity markets have assumed a quick and strong economic recovery. The prices have recently been driven by the massive stimulus packages from governments and central banks. In addition, a remarkably large number of inexperienced private investors (so-called Robinhood investors) are rediscovering the equity markets for themselves. In the past, this has almost always led to undesirable developments. This explains why at many professional market participants are skeptical and why we believe that we are therefore far from a dangerous euphoria.

We continue to be cautious with regards to the equity markets. We expect equity markets to trend sideways over the summer months, but there is also a possibility of a second correction in the near future. Our focus remains on the healthcare, technology and consumer staples sectors.

Market participants do not expect any further rate cuts in the United States and Europe this year.

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

The current market environment is characterized by higher volatilities, lower correlations and greater dispersion of returns. Hedge funds typically flourish when diversification is high and correlations are low because they can take full advantage of their trading techniques. Due to the ongoing pandemic, the market environment is unlikely to change significantly in the coming months and therefore hedge funds should continue to benefit. The turmoil in the markets and the issues in the real economy (rising number of defaults, rising unemployment...) will provide hedge funds with 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.