LimmatWealth

MEMO

Financial Market Update

Developed Markets	2020 YTD	Since Feb 20th	Maximum Drawdown	Return since 2020 Low
Switzerland	-2.1%	-7.4%	-26.3%	25.8%
Germany	-3.0%	-6.8%	-38.8%	52.2%
Eurozone	-9.7%	-12.4%	-38.3%	41.9%
United Kingdom	-14.5%	-13.0%	-33.0%	29.8%
United States	-0.8%	-5.7%	-33.9%	42.8%
Japan	-3.4%	-2.3%	-29.3%	38.1%

Emerging Markets	2020 YTD	Since Feb 20th	Maximum Drawdown	Return since 2020 Low
Asia ex Japan	-6.5%	-6.1%	-27.2%	29.0%
China	-3.6%	-1.5%	-10.6%	10.2%

Source: Limmat Wealth, Bloomberg as of June 5, 2020

Anyone who thinks that the hope of a quick economic recovery after the crisis cannot go on forever seems to be quite wrong at the moment. Equity markets around the world currently know only one direction: upwards, despite all the risks.

Better-than-expected economic figures, the announcement of further relaxation of measures, and the continued low numbers of COVID-19 cases are pushing equity markets upwards worldwide. Risks are completely ignored. There is a lot of skepticism about the current upturn, but investors are buying to not stand on the sidelines and possibly miss further gains. The terms FOMO (fear of missing out) and TINA (there is no alternative) are currently the arguments for stocks. Many market participants are currently counting on governments and central banks to take additional measures to mitigate the consequences of the pandemic. For example, the European Central Bank (ECB) decided last week to significantly expand the EUR 750 billion bond purchase program PEPP (Pandemic Emergency Purchase Programme). It will be increased by EUR 600 billion and is expected to continue until at least June 2021.

There were also encouraging economic signals last week, from Europe as well as from the United States. The extremely bad sentiment in the eurozone economy brightened more than expected in May. As the market research institute IHS Markit announced last week, the Purchasing Managers' Index (PMI) it compiled for the overall economy rose by 18.3 points to 31.9 points. On average, experts had only expected confirmation of the initial estimate of 30.5 points. In the United States, the unemployment rate dropped to 13.3% in May, down from a record high of 14.7% in April, indicating the nation's economy is recovering faster than expected from the lockdown. Analysts had on average expected 19.8%. Although the worst losses on the job market are likely to be a thing of the past with the reopening of many shops, offices and factories, experts still fear for the future. They estimate that around one in four workers who have been laid off or given leave since the lockdown in mid-March will not be reinstated. One reason for this is the expected wave of bankruptcies of companies.

There are now more than 7 million reported COVID-19 cases and 403,000 deaths worldwide. The number of cured patients is now almost 3.2 million. The curves continue to flatten in Europe and the situation in the United States is improving as well. The situation in Brazil still seems to be out of control. Another hotspot is South Africa, where more and more cases are confirmed. Three months after the first COVID-19 case was reported, the daily reported cases in South Africa have now soared to around 3,000. Two thirds of all infections are reported from the Western Cape Province with its capital Cape Town. According to detailed analyses, the virus spreads particularly quickly in the densely populated slums and townships of the black population. The country has officially reported around 50,000 confirmed cases and 1,000 deaths so far. The healthcare system is already overloaded and it is likely to get worse.

Despite positive news from many countries, the pandemic is not over yet. We are rather cautious with regards to equity markets. We recently sold our US healthcare sector ETF, reducing our equity exposure slightly. Over the summer months, we expect global equity markets to trend sideways before picking up speed again and trending higher towards the end of the year. Some markets seem somewhat expensive to us and are also not well positioned for the coming recession. We are selectively investing these days and we focus on three sectors which we believe are the relative winners of this pandemic. These are the healthcare sector, technology and consumer staples.

The measures that Limmat Wealth took early in this crisis were target-aimed and effective. The safety and health of our customers and employees was guaranteed at all times and Limmat will therefore continue to operate this security system until further notice. We were able to keep our services for our customers fully functional at all times.

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

June 8, 2020
Limmat Wealth Ltd