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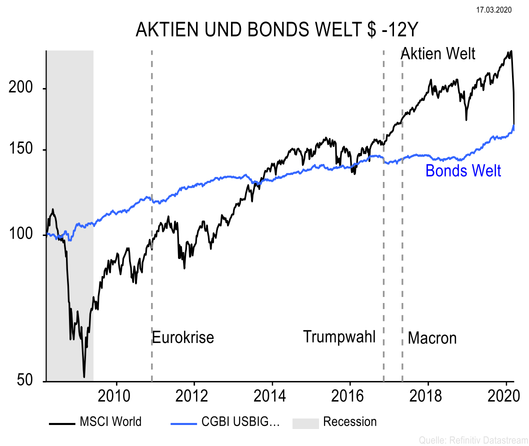
The western world in the grip of coronavirus

Prof. Dr. Josef Marbacher
Chief Economist

There is no doubt: the coronavirus COVID-19 is taking the western world by storm. The number of infections is rising exponentially. For this reason, most states have announced the highest pandemic warning level. They have also decided the next steps to be taken. In the face of the conflicting aims of saving lives and reducing economic damage, continental Europe has decided for the former. The number of critical cases requiring intensive care is to be kept within the limits of hospital capacity. This is only possible if the exponential infection rate curve can be flattened, and this is only possible with radically restricted social mobility. In turn, this means a large proportion of the mobility sector will be shut down. This includes tourism, hospitality, luxury goods, events, sport and culture. The economic effects of this decision will be wide-ranging. The growth rate of these sectors, making up 5 to 10 % of overall economic performance, could fall to minus 80 % for at least one quarter.
This would mean that a global recession would be unavoidable.

The British and American governments have taken the opposite view. Their priorities favour the economy, with only minimal restriction of mobility, and thereby higher infection and death rates. Against this, the number of citizens with immunity will build up rapidly. This can markedly reduce the duration of the pandemic, effectively "getting it over and done with" whatever the cost. If both states continue in this vein, the peak of infections could already occur in May, while the turning point in Europe will not be reached until the summer months. In recent days, however, the capital markets have indicated doubt in the political feasibility of continuing the British and American strategy. As a consequence there have been clear falls on the Anglo-American stock exchanges.



With the adjustments of the last four weeks, global stock markets have experienced value losses of around 35%, which we have not seen since the previous great financial crisis.

We have taken this exceptional adjustment as a reason to use the opportunities that result from it to bring highly underweighted stocks up to a neutral level, and in a well-diversified manner. Because of the high level of uncertainty, no special positions in favour of particular countries or sectors should be taken here. This is simply a shift in level.

In positioning ourselves in this way, we are assuming that the viral pandemic will have passed by across the world by autumn and that people will feel a great urge to make up for what they have missed. In addition, we assume that the larger portion of the economic losses to both employers and employees caused by the virus will have been taken on by the state. There are sufficient financial means at hand for this and they are practically free. Certain critical moments still stand before us; however, the good medium-term prospects for stocks will soon lead to new valuations. We are working on the basis that stocks will gain by 20 % in the next two years. In this way, investors are in a good position: They can participate fundamentally and over the long term in economic growth through dividends and share price increases. To do so they must be prepared to withstand the usual volatility. The best way to do so is to pay it no attention.