CORUM AG Investment Policy – Special session of 27.03.2020

Land in sight

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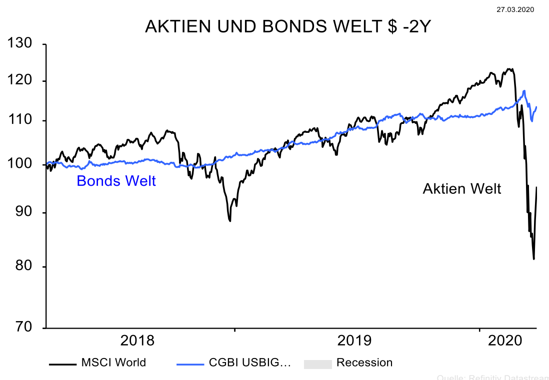
After the massive stock market collapse of the first half of March, on 17 March we repositioned our investment policy and took the basic decision to raise the market-conditioned underweighting of stocks to a neutral position.

This was done in the expectation that politicians would extensively nationalise the economic damage done by the corona pandemic. This has occurred over the last ten days to an extent scarcely expected. Worldwide, around six trillion dollars in stimulus has been discussed. In the next few weeks we expect a further two trillion in those countries whose infection rates are still lagging. In total, the rescue package comprises around 8 trillion dollars, or 10% of global GDP. This is more than five times any other stimulus programme has seen in the last 70 years. This clearly indicates that it is not employees and investors who should bear the economic brunt of the pandemic, but society as a whole, and not by way of taxes but through additional borrowing and the issuing of new bonds that can be bought extensively from central banks. In this way, it should be possible to avoid a deep recession with high bankruptcy rates and large-scale unemployment.



The capital markets have reacted euphorically to these announcements. The stock markets have put on 8% within a few days and regained around a quarter of their previous losses. Risk premiums on bond portfolios have also markedly reduced. This is welcomed.

Will the situation remain so? There remain some risks. A critical situation could still occur if the pandemic reaches its peak in the next few weeks and it reaches the point that those infected can no longer receive hospital treatment because of a lack of masks, ventilators, PPE, emergency beds and staff. The situation will be most acute in the USA, where the health system is completely insufficient for the wider population and whose insurance system since Obamacare has fallen into a desolate state. The horrific images to come will certainly be capable of causing panic and making people avoid work entirely. This would be comparable to a full lockdown of the economy. This is already the case in Italy and Ticino. But even in this case, politics must make an intervention, as per the motto “If you say A, you have also to say B”.

And there is also hope. Researchers could soon develop vaccines capable of consigning the pandemic to history, at least over the medium term. Even without vaccines, the successful limitation of the spread of the virus in China justifies hope that the worst could be over in four months. In any case, the West will have to pay a heavy toll of human lives for its very delayed reaction.

In terms of economic development, however, we remain much more optimistic than is possible for the global community, which remains paralysed in a collective depression.

For this reason, we are sticking by our neutral, well-diversified investment policy.