

New priorities in the West regarding health care and the economy

Two days ago, the US government made an important decision: it is prepared to accept 100,000 corona deaths. This is a strategic decision. Previously, the principle was that everything was to be done to keep the number of virus deaths as low as possible. To this end, part of the economy was shut down and people were sent home. Around 80% of the economy is not subject to any restrictions. However, there is a risk that if deaths in the USA rise markedly, a full shutdown may be considered, similar to the one that was implemented with considerable success in Wuhan (China). Such total freezes on economic activity were also implemented in Italy and Ticino, but rather late, making their usefulness appear questionable.

The USA must also have reached the conclusion that it is probably too late for a full shutdown. Too many have already been infected. Over the coming days, they will need emergency beds and care that are not available. Shocking figures will probably be published.

In Europe too, the situation is being rethought. Up to this point, only doctors have had a say, while economists remained without a voice. Now they are becoming increasingly vocal. They emphasise in particular that the current strategy of flattening the curve of new infections has been bought at an excessive economic price. They make the case for a strategy in which the economic costs of fighting the pandemic are more heavily weighted against health-policy goals. They believe that a general quarantine is no longer acceptable but advocate targeted protective measures. These measures require large-scale testing capacities that are becoming increasingly available. Additionally, large quantities of masks and protective equipment are now ready to be flown in everyday from Asia. For this reason, there is justified hope that the general quarantine measures in the West may be relaxed earlier than expected. We expect such steps to be taken as early as in June. Naturally there is also a risk that a second wave of infections may follow. This could be much better controlled, however, as the West would have more resources and greater testing capacities in autumn. Also, more people would be immune by this point.

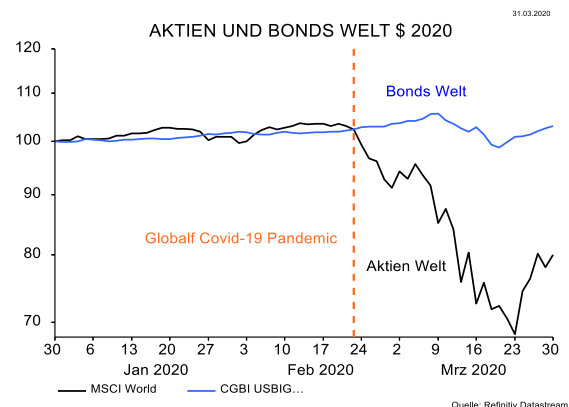
With the foreseeable change of priorities among western politicians in the economy's favour, we have decided to adjust our investment policy a second time: we are moving towards a position in which stocks are markedly overweighted globally and bonds are moderately underweighted.

Of course this entails a certain risk, considering that in the next few days and weeks we may be confronted with shocking numbers of virus deaths, keeping people in the collective depression that the global society has been in since this spring.

Nevertheless: we are sure that we can see the path back to a new normality. If this forecast is accurate, we will not, however, be able to sit back and relax: next year at the latest we will have to deal with the dramatic side-effects of an extremely expansive monetary policy and unprecedented economic stimulus programmes initiated by the global community. This sequence of events does not look overwhelmingly positive.



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