

Exit strategies awaited with impatience

Never before in history has a story put global society in such a panic, indeed, into an actual collective depression, like that of the virologists' coronavirus forecasts. Apparently, images once commonplace in the Middle Ages have caught the popular imagination: Death lurks round every corner. The public has demand immediate action. It is a matter of life and death. Everything that might endanger life must be avoided or even forbidden, including economic activity. For the first time since the Second World War, entire sectors have had to be shuttered. Politicians who rule out these measures or try to equivocate about the danger have found themselves forced to bend to the social pressure. Anything else would be political suicide. There has also been consensus that the state should pick up the bill. Above all in the West, the state has simply failed to protect its population against a pandemic. The costs of this governmental failure are massive. We calculate costs on the order of magnitude of 10 trillion dollars, or around 10% of global GDP. The hardest hit are those countries which wanted to see the virus as more like a normal flu outbreak, delaying measures and then were forced to agree to a lockdown. They not only have to face extraordinary costs but also horrifying numbers of deaths, only confirming the comparison with a mediaeval plague.

Now, however, counterpressure is being applied by those drawing up utilitarian cost/benefit analyses. They are demanding the fastest possible end to this unprecedented experiment. They are demanding exit strategies. They have rational arguments for this exit. Whether these will be able to bring the collective psyche to reason is more than doubtful. The uncertainty is great, which can be seen in the above graph showing the volatility index on the American stock market. Now, as before, it is above average.

This uncertainty will continue to dog capital markets too. To be sure, political

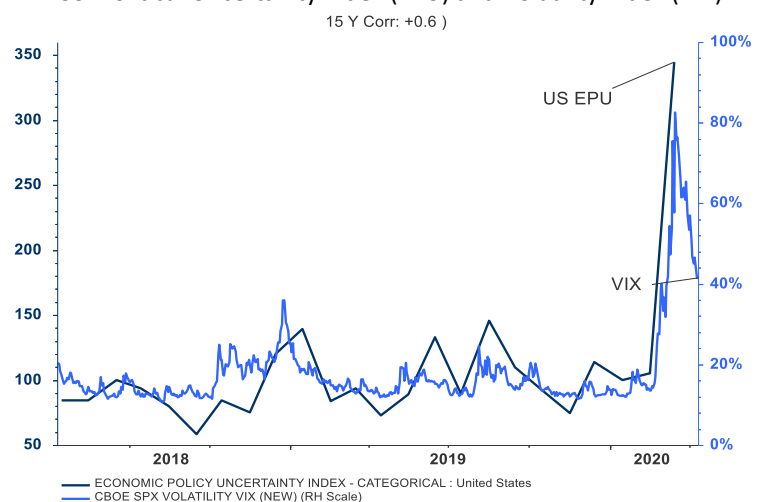
powers have made the case for an exit that accepts a greater number of deaths. This trade-off was indicated explicitly by the American government at the end of March. The markets reacted to this announcement – which many considered cynical – with notable gains. Other states will follow this example. However, there remains the risk of over-hasty action, potentially then causing further panic in the population when the mortality rates start to climb again. Then it could really get expensive.

In terms of our investment policy, we are accounting for these perspectives by returning stocks from the overweighted position taken at the end of March to a neutral one. In expectation of the fireworks that will come at the end of the lockdown, global stock markets have gained around 25–30% since mid-March and thus neutralised a significant portion of their coronavirus losses. We consider this correction to be appropriate, as the road to normalisation could still become tricky, and positive expectations could still be confronted by a number of disappointments. In any case, anyone who plans for the long term and takes volatility into account will be able to expect above-average yield on shares in the next three years. We are more pessimistic regarding bond investments. In the medium term, they will probably be barely able to yield returns. Additionally, the downside risk is significant. For this reason, we will keep bonds markedly underweighted.



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US: Political Uncertainty Index (EPU) and Volatility Index (VIX)



Quelle: Refinitiv Datastream

You can take the details of the asset allocation for the second quarter of the year from the following table.

Strategic and tactical Asset Allocation for the 2nd Quarter 2020

Investment categories	Referenzwährung CHF			Referenzwährung EUR		
	Anlagestrategie Ausgewogen			Anlagestrategie Ausgewogen		
	SA	IC	C	SA	IC	C
Money market	5	10	+4	5	10	+4
Bonds	40	35		40	38	
Home Country	24	22		23	22	
Rest of Europe	8	7		5	4	
USA	4	3		8	8	
Rest of World	4	3		4	4	
Stocks and shares	45	45	-4	45	41	-4
Home Country	9	9	-1	15	12	-1
Rest of Europe	11	11	-1	6	4	-1
USA	12	12	-1	15	12	-1
Rest of World	13	13	-1	9	13	-1
Alternative investments	10	10		10	11	
Commodities	4	4		4	4	
Various	6	6		6	7	
Gesamt	100	100		100	100	

SA = Strategic Asset Allocation

IC= Investment Committee

C = Change

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