New facts create space for new possibilities

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The coronavirus crisis is rich in surprises. Two additional new facts have arisen in the last two weeks:

1. Poor future prospects for the real economy, and
2. The breakdown of the political consensus that everything must be done to keep mortality rates from Covid-19 as low as possible to prevent the collapse of existing health resources.

Let us begin with the economic outlook. The IMF recently published drastically lowered growth rates for the world economy this year, as can be seen in the following table. These suggest the worst recession since the thirties.

GDP REAL %YOY	2018	2019F	2020F	2021F
World	3.58	2.90	-3.03	5.80
G7 Countries	2.05	1.63	-6.25	4.46
USA	2.93	2.33	-5.91	4.74
European Union	2.32	1.66	-7.11	4.77
Japan	0.32	0.65	-5.16	3.01
Switzerland	2.74	0.92	-5.97	3.78
Latin America	1.10	0.13	-5.21	3.38
Asia ex Japan	6.34	5.47	1.04	8.50
Eastern Europe	3.21	2.06	-5.21	4.15

Interestingly, these shock announcements have barely had any effect on the stock market; on the contrary, it has achieved robust growth. A global stock portfolio will thus have recovered about half the losses accrued in the second half of the quarter. Evidently, investors are assuming that the losses from the coronavirus crisis will be borne to a large extent by the public purse. Clearly, the populace should not have to deal with an additional economic crisis after the virus. The investors also assume that recovery in the third and fourth quarters will be strong, apparently counting on a great need to make up for lost time. These assumptions could turn out to be problematic, above all because current projections of the course of the virus may not be upheld.

Here we come to the second problem area. The west has surprised onlookers by announcing the end of the lockdown earlier than previously planned. Grave risks are associated with this course of action. Above all because personal protective equipment, tests and tracking capacity are still lacking. In contrast to the Asian countries, which waited to loosen restrictions extensively until the case rates had fallen to single figures, the Western states want to open up much earlier. The danger of a second wave in July/August has thus risen dramatically, as it must be expected that the reproduction number could rise above 1 again, leading to an exponential growth in cases. As the starting point here is much higher than in Asia, tracking capacities still only in their infancy could be overloaded with relative speed.

It must also be noted that there is scarcely any political will left to even consider a second, broader lockdown. It has even been announced in the USA that the specialist Covid-19 task force is to be wound down, in order that all efforts may be directed towards the economic recovery – and, reading between the lines, the election campaign.

This constellation makes it likely that we will have to deal with markedly higher mortality rates in Western states over the coming months. This could be very economically expensive, as the latent presence of the virus could have a very negative effect on consumer behaviour, making people willingly avoid all activities connected with a risk of infection. The term “bounce-back” could hardly be applied to such a situation. Rather the opposite: Many consumer-facing operations would be under-utilised; marginal companies would disappear. Bankruptcies and further unemployment would be the result. Exactly what we wanted to avoid at all costs during the first wave.

It must not be allowed to come to this. But the risks of such a turn have increased. We are no longer basing our calculations on a U-shaped recession. This scenario is not built into the share prices. For this reason, we have decided to reposition the proportion of stocks from neutral to slightly underweighted. Bonds remain underweighted, as before. You can find the details in the following table. The other currencies can be supplied on request.

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

	Reference Currency CHF			Reference Currency EUR		
	Investment strategy Balanced			Investment strategy Balanced		
	SA	IC	C	SA	IC	C
Investment categories						
Money market	**5**	**13**	**+3**	**5**	**16**	**+3**
Bonds	**40**	**35**		**40**	**35**	
Home Country	24	22		23	22	
Rest of Europe	8	7		5	3	
USA	4	3		8	7	
Rest of World	4	3		4	3	
Stocks and shares	**45**	**41**	**-4**	**45**	**38**	**-3**
Home Country	9	7	-2	15	10	-2
Rest of Europe	11	11		6	4	
USA	12	12		15	12	
Rest of World	13	13	-2	9	12	-1
Alternative investments	**10**	**11**	**+1**	**10**	**11**	
Commodities	4	4		4	4	
Various	6	7	+1	6	7	
Gesamt	**100**	**100**		**100**	**100**	

SA = Strategic Asset Allocation IC= Investment Committee C = Change