

## Things are looking up: socially, economically and politically But first, there are still a few hurdles to be overcome

There's no doubt that the world has just been through an unparalleled six months. A virus is discovered in China at the start of the year and spreads around the world within a few days by business travellers and tourists. China, which has wide experience with viruses and is correspondingly well equipped, gets the virus rapidly under control through drastic lockdown measures. The West, however, massively underestimates the virus, reacting late and hesitantly. And this despite the fact that it lacks everything required for pandemic response: masks, testing, hospital beds, respirators. Tracing capacity is also stretched to its limits within a few days. All that can now be done is to massively curtail individual and social freedoms. Politicians decide to shut down all activities involving physical contact. This affects not just companies but schools, culture and sports institutions. People's mobility is to be reduced to a minimum. However, there is great unanimity across all countries and political parties that the costs must be nationalised. It is not for the individual person or company to bear the costs, but the state.



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After three months, we determine that those states that have chosen this concept and were able to pay for it have been able to demonstrate significant successes. The rates of new infections and deaths have reduced greatly both in Asia and Europe. This applies for these two regions, but less so to the USA and Sweden, which never wished to pay the price of the lockdown. They have unfortunately been confronted with rising infections, rising mortality.

The effects of monetary and fiscal policy can also be considered positive. Globally, Keynesian economic programmes of unprecedented size, around \$ 8 trillion, or 10% of global GDP, have been presented. The effects of these programmes have been more than able to compensate for the corona supply-and-demand shock. Central banks have also ensured that investing companies now no longer have to generate the risk premiums for their equity capital. Loan capital is practically free.

This means the economic perspectives look good over the medium term. This is also expressed by the stock markets, which have practically regained the position they had at the start of the year.

Over the short term, however, certain risks must be considered which are not sufficiently considered in current company assessments. These include the possibility of a second wave. Various states are already showing a further rise in infections. This could rapidly reach proportions where it overwhelms manual and digital tracing capacity. However, the political desire proclaimed in the West of never allowing a second lockdown is ineffective of itself. The lack of political readiness to create the conditions for public safety could rapidly lead to reactions of panic. The economic damage of such behaviour cannot be estimated as lower than that of a state-coordinated process.

But even if there is to be no second wave, the risks cannot be overlooked. The rebound could take place at a markedly slower rate than previously assumed. Then, we would have to deal with a wave of bankruptcies, rising unemployment figures and downward profit revisions.

In investment policy terms, the most sensible course seems to be to pay a risk premium in the form of a slight underweighting of stocks over the summer months, which in any case are usually characterised by lower liquidity and thus higher volatility. This will only last until more clarity is gained regarding the suspected risks. Then, the opportunities that undoubtedly exist over the medium term can be seized.

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

### Strategic and tactical Asset Allocation for the 3<sup>rd</sup> Quarter 2020

	Referenzwährung CHF			Referenzwährung EUR		
	Anlagestrategie Ausgewogen			Anlagestrategie Ausgewogen		
	SA	IC	C	SA	IC	C
<b>Investment categories</b>						
<b>Money market</b>	5	14	+4	5	14	+4
<b>Bonds</b>	40	35		40	38	
Home Country	24	23	+1	23	23	+1
Rest of Europe	8	6	-1	5	3	-1
USA	4	3		8	8	
Rest of World	4	3		4	4	
<b>Stocks and shares</b>	45	41	-4	45	37	-4
Home Country	9	8	-1	15	11	-1
Rest of Europe	11	10	-1	6	3	-1
USA	12	11	-1	15	11	-1
Rest of World	13	12	-1	9	12	-1
<b>Alternative investments</b>	10	10		10	11	
Commodities	4	4		4	4	
Various	6	6		6	7	
<b>Gesamt</b>	<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>	

SA = Strategic Asset Allocation

IC= Investment Committee

C = Change

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