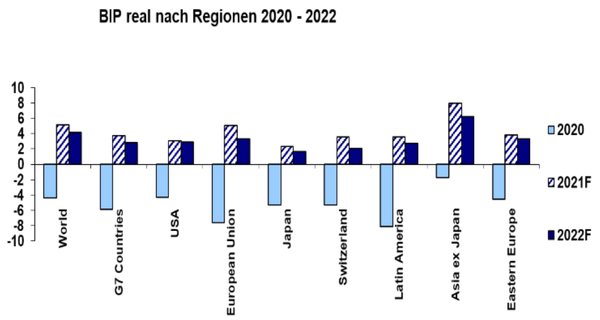
CORUM AG Investment Policy for Q2 2021

Light shows at the end of the tunnel

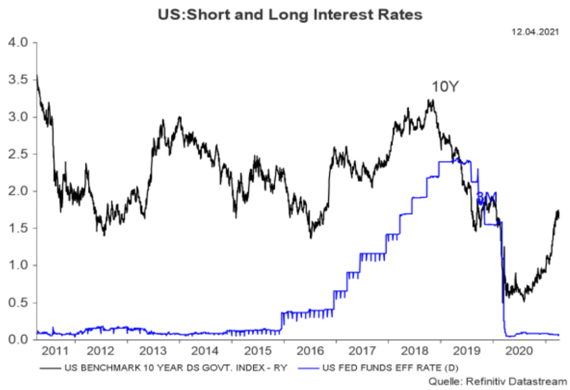
Prof. Dr. Josef Marbacher
Chief Economist

The worst economic collapse since the thirties is nearing its end. The West has come out very badly from this crisis. It not only grieves the greatest number of dead, it also took the severest economic hit. The mismanagement, with half-hearted lockdowns and chaotic reopenings, has now lasted over a year, causing serious human and economic damage. In the West, economic output in 2020 has fallen by over 5%. Excluding India and Japan, Asia has achieved a moderate rise over the same period. This means there is much to do in the West to ensure the population is protected and the economy secure in the next pandemic.



Despite this, the scientific breakthrough in the field of vaccines now puts some of our fears to bed. We assume that lockdown measures will be able to be extensively loosened in most Western countries within the next two months. In Europe, where – in contrast to the USA and UK – only half the vulnerable population has been inoculated, there remains the risk of a further wave if reopening comes too soon. But even if this is the case, we assume that there will be no political will left to consider enforcing another lockdown. The human costs will probably be accepted; it will be a matter of personal responsibility. At any rate, there are no prizes to be gained in this field any more.

By contrast, nearly every state remains ready to help its economy forward through large-scale stimulus programmes. The IMF estimates these to be at around 14 % of global GDP. This is around five times the level of classical stimulus packages. More than half of these payments, however, go to cover lost wages and revenue caused by the pandemic. Particular attention must be paid to the 1.9 trillion American stimulus programme. Put together with rapid vaccinations and consumers' desire to make up on lost time, production bottlenecks cannot be ruled out in some sectors. Added to this, many supply chains are not yet fully reestablished or may have to be reorganised in their entirety. This could swiftly lead to price increases and raise fears of inflation. For this reason it is unsurprising that the American interest rate curve sloped significantly upwards in the 1st quarter. The 10-year interest rate has more than doubled within a few months from 0.7% to 1.8%.

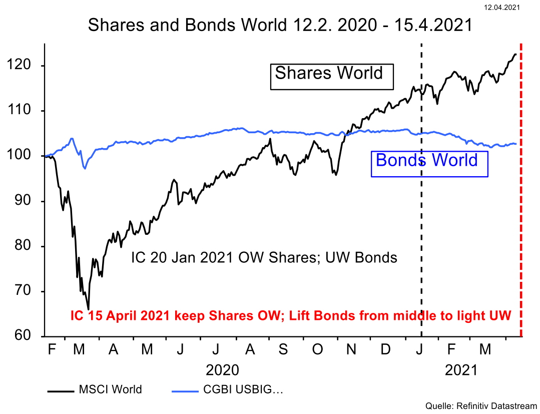


If this development continues, this would sound an alarm for share prices. At the moment, this is still difficult to assess, not least because the Federal Reserve has explicitly already declared that it will certainly let the inflation rate rise above 2%. We therefore assume at present that the inflation risk could only develop into a temporary problem, as the defining factors for low inflation remain in effect – above all the savings rate, which has only increased during the pandemic.

Capital market players share these optimistic assessments of the situation. Global share indices rose again in the 1st quarter. They are now markedly above their pre-coronavirus levels. At the same time, global bond portfolios have lost value. We exploited both of these situations in our January positioning.

We want to retain this asset allocation in the 2nd quarter. We are thus leaving stocks slightly overweighted. After the clear interest rate increase in the USA, we have changed the underweighting of bonds from «moderate» to «slightly underweighted».

You can find the details of asset allocation in the following table.



Strategic and tactical Asset Allocation for the 2nd Quarter 2021

	Reference currency CHF			Reference currency EUR			Reference currency USD		
	Investment strategy Balanced			Investment strategy Balanced			Investment strategy Balanced		
Investment categories	SA	IC	C	SA	IC	C	SA	IC	C
Money market	**5**	**6**	**-2**	**5**	**6**	**-2**	**5**	**6**	**-2**
Bonds	**40**	**34**	**+2**	**40**	**37**	**+2**	**40**	**34**	**+2**
Home Country	24	22	+1	23	22	+1	3	5	
Rest of Europe	8	6	+1	5	3	+1	5	2	
USA	4	3		8	8		28	23	+1
Rest of World	4	3		4	4		4	4	+1
Stocks and shares	**45**	**50**		**45**	**46**		**45**	**50**	
Home Country	9	10		15	13		7	10	
Rest of Europe	11	13		6	6		7	8	
USA	12	12		15	12		23	23	
Rest of World	13	15		9	15		8	9	
Alternative investments	**10**	**10**		**10**	**11**		**10**	**10**	
Commodities	4	5		4	5		4	5	
Various	6	5		6	6		6	5	
Total	**100**	**100**		**100**	**100**				

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