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PORTFOLIO UPDATE

MARCH 2020

- UNPRECEDENTED PACE OF REVERSAL
- DIVERSIFICATION IS PAYING OFF
- EQUITY EXPOSURE MAINTAINED

REVIEW

Correction from highs at record speed

Concerns about the economic fallout from the spread of COVID-19 triggered a rapid sell-off on the financial markets in the last trading week of the month. For a long time, the outbreak of the virus was not considered a risk to the markets. The international stock markets were therefore unperturbed by the first reports that the disease was spreading in Wuhan, with share price corrections initially limited to the local markets.

However, the sudden rise in the number of confirmed cases in northern Italy and on other continents triggered a change of sentiment. Attention swiftly turned to cancellations of major events, travel bans and expected slumps in consumer spending, prompting international companies to revise down their earnings and revenue forecasts. The US benchmark index, the S&P 500, has never witnessed such a rapid correction from its historical highs. The 12% correction within six days shows just how quickly sentiment changed on the markets. At the same time, the spread of the virus and heightened media interest led to a sharp surge in demand for safe havens. Government bonds in particular benefited from the flight to safety, with yields plunging deeper into negative territory in some cases (2-year government bond yields sank to -0.8% in the euro area and -0.9% in Switzerland). Meanwhile, the Swiss franc and the Japanese yen soared, as is typical in an environment of rising uncertainty. Gold was the only asset that failed to benefit from the panic on the markets. One explanation for the lack of demand for gold was the fact that it had already posted substantial gains. In addition, when share prices plummet investors require additional liquidity to cover their margin calls on futures positions, which was also a reason for the sudden sell-off in gold according to the interpretation of some analysts.

Economic growth is already fragile in many regions and is at risk of being completely crippled by declining consumer spending and production constraints. This is the situation facing the Italian economy and there are fears that it will slide into recession if these exceptional circumstances continue for a prolonged period. Moreover, the equity markets were at record-high levels, with valuations far exceeding their long-term averages in some cases. Price/earnings ratios well above 100, as in the case of Tesla stocks, for example, showed that some valuations had reached levels akin to those in a stock market bubble.

Unlike in 2018, the heightened risk aversion amongst investors has not affected all asset classes to the same extent. Accordingly, it was still possible to earn money from bonds and alternative investments, with diversification likely to have boosted the performance of some portfolios.

Financial markets 2020 Total return

America	February	2020
S&P 500 (US)	-8.2%	-8.3%
Dow Jones Industrial Average (US)	-9.8%	-10.6%
EURO STOXX 600 (EU)	-8.3%	-9.4%
DAX (DE)	-8.4%	-10.3%
SMI (CH)	-7.5%	-7.4%
MSCI Emerging Markets (EM) in USD	-5.3%	-9.7%
Europe	**February**	**2020**
US Corporate Bonds Inv. Grade	1.3%	3.7%
US Corporate Bonds High Yield	-1.4%	-1.4%
Pan-Europe Corporate Bonds Inv. Grade	-0.8%	0.8%
Pan-Europe Corporate Bonds High Yield	-2.0%	-1.7%
Alternative Investments	**February**	**2020**
Gold	-0.2%	4.1%
Oil (brent)	-11.2%	-24.7%

Sources: Bloomberg, swisspartners

MANDATE RETURNS GROSS

	Euro			Swiss Franc			US Dollar			British Pound		
	CONS	BAL	DYN	CONS	BAL	DYN	CONS	BAL	DYN	CONS	BAL	DYN
2012	6.6%	7.4%	10.5%	4.3%	6.5%	10.9%	5.9%	8.4%	11.8%			
2013	1.5%	6.5%	13.5%	1.9%	8.3%	16.7%	2.8%	9.4%	18.5%			
2014	6.1%	8.0%	10.2%	4.9%	6.5%	9.2%	1.6%	2.2%	3.1%			
2015	2.7%	6.3%	9.9%	-0.8%	0.0%	1.8%	-0.3%	0.0%	1.0%			
2016	2.3%	5.3%	7.1%	1.3%	3.9%	5.7%	2.8%	6.2%	7.2%	4.6%	9.5%	12.1%
2017	3.5%	7.3%	10.8%	4.3%	8.9%	15.0%	7.1%	12.7%	18.1%	4.7%	8.7%	14.2%
2018	-4.3%	-9.0%	-10.5%	-5.6%	-10.1%	-12.1%	-2.5%	-7.9%	-9.8%	-3.3%	-8.6%	-10.4%
2019	9.2%	15.7%	21.6%	8.3%	14.8%	19.6%	11.5%	17.5%	22.0%	9.4%	15.3%	19.8%
Jan 20	0.4%	-0.3%	-0.1%	0.0%	-0.7%	-0.7%	0.3%	-0.5%	-0.5%	0.3%	-0.4%	-0.3%
Feb 20	-2.0%	-3.3%	-5.3%	-2.1%	-3.5%	-5.5%	-1.9%	-3.3%	-5.4%	-1.6%	-2.8%	-4.7%
2020	-1.7%	-3.6%	-5.5%	-2.1%	-4.1%	-6.1%	-1.6%	-3.8%	-5.8%	-1.3%	-3.2%	-5.0%

Actual portfolio returns may vary from the results shown above due to limitations in implementing the strategies.

Our strategies have also suffered losses due to the decline in share prices. The level of loss varies depending on the individual equity weights and degree of diversification in each risk profile. The largely stable performance of investments in the bond segment and gains on alternative investments have helped to mitigate any adverse effects from equities. The only way of achieving a significantly better monthly performance would have been to underweight equities or opt for a substantially higher share of government bonds in the portfolio.

However, a positive effect came from the underweighting of equities in the energy sector, which was additionally hit by tumbling oil prices and posted the sharpest decline in share prices as a result.

TRANSACTIONS

BlueOrchard Microfinance Fund		Subscription		
CHF	LU1399444378	17 February 2020		The BlueOrchard Microfinance Fund was founded in 1998 as the first private and fully commercial microfinance investment fund in the world. Since its inception, it has been managed strategically as a pure fixed-income fund, investing in microfinance institutions in emerging and frontier markets, with systematic currency hedging. This allows investors to obtain stable and attractive financial returns while fostering financial inclusion.
USD	LU1399444022	Conservative	+4%	
EUR	LU1399444295	Balanced	+4%	
GBP	LU1399444709	Dynamic	0%	

POSITIONING

Equities (overweight)	Thanks to stabilising soft indicators, improving economic fundamentals and the current ceasefire in the Sino-US trade dispute, our outlook for the equity markets is positive. Moreover, the central banks are ready to stimulate global economic growth using all of the instruments at their disposal. As we expect a continued pick-up in economic activity in this attractive environment for the stock markets, we have increased the equity allocation to the detriment of liquidity.
Bonds (underweight)	Focus on global flexible strategies in combination with high-yield bonds, senior loans and floating-rate investment products with low interest rate sensitivity, while underweighting direct investments in government and European corporate bonds that offer too little compensation for risk.
Alternative Investments (overweight)	Combination of insurance securitizations, market-neutral or option-based volatility strategies, which exhibit low correlations, unlike traditional asset classes.
Liquidity (overweight)	Outside of the US dollar investment universe, there are few opportunities to avoid the negative interest rates applied by the central banks. If necessary, we are parking excess liquidity in cash and accepting a negative return, which is partially passed on to customers, especially as there are no other risk-free alternatives. Trustee investments offer opportunities in US dollars.
Foreign currencies (underweight)	The foreign currency allocation is reduced in the portfolio by deploying foreign exchange futures transactions. A higher share in the reference currency is favoured at present on the basis of risk considerations.

OUTLOOK

Equity allocation maintained

Coronavirus has attracted huge media interest and the current circumstances are extremely complex. At present, medics and economists alike are wary of issuing any detailed forecasts of how far COVID-19 is likely to spread and what the implications may be. However, we will attempt to assess the situation on the basis of the information currently available. We will also outline our conclusions as to why we are sticking with our current asset allocation and have decided against reducing the equity weightings.

- The **infection rate in China** is declining. If the data from mainland China are to be believed, the number of people with the virus is dropping on a daily basis. The peak number of infections was in the first week of February. The majority of companies have confirmed that they are recommencing production. Consumer spending is also expected to pick up. While it will be difficult for restaurants to make up for the loss of footfall, large purchases that have not already been made online are unlikely to be avoided.
- It is only a matter of time before the virus spreads in Europe and the US at a rate of infection similar to that seen at the beginning of the outbreak in China. Accordingly, it is worth taking a closer look at the **threat posed by the virus**. With a mortality rate of slightly more than 3%, the virus is more dangerous than a typical flu, but the death rate is relatively low. Those at risk are the elderly or those with pre-existing medical conditions. However, people of working age should not be overly concerned.
- The speed at which sentiment reversed on the financial markets was unprecedented. The market correction in excess of 10% took place within just six trading days. Sentiment deteriorated so rapidly that some **indicators have reached the levels seen in the financial crisis**. At the moment, we think this is too pessimistic and anticipate a counter-reaction.
- Exaggerated fluctuations of +/- 5% on a daily basis are not foreseeable. Past experience has shown that portfolio additions or disposals in order to generate an excess return are not recommended in this type of environment (**timing**). Identifying the right time to dispose of an asset is one thing, but missing out on the subsequent recovery rally will erase any chance of generating an excess return. It is advisable **to adhere to long-term return targets** and bide time until any exaggerated market movements subside.
- The **daily reports in the media and statements from politicians** are creating panic amongst the general public. This is leading to empty shelves in the supermarkets and the challenge of people stocking up on face masks. Interest is likely to recede at some point and the focus will return to hard facts. COVID-19 will be remembered as a particularly stubborn type of virus, but will cease to dominate the news on a daily basis.
- At present, the **central banks** probably provide the best justification for sticking with the current positioning. While some countries (including China, Hong Kong and Japan) have already opted for **rate cuts** and cash handouts to the public, others have signalled that they are ready to intervene. Coordinated support measures combined with fiscal policy action cannot be ruled out and would provide the economy with the necessary safeguards to overcome any prolonged squeeze on growth.

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This portfolio update was written by:

Nick M. Jenni, Partner
Head Investment Management & Solutions (CH)