Valvest

Investment View – 1st Quarter 2020

Review

History rhymes but does not repeat. If you rely too much on how it used to be or on what has worked in the past, you run the risk of missing fundamental changes. The coronavirus is one of these examples. Initially dismissed as flu-like by many, this has led to an underestimation of the explosive combination of rapid contagious transmission, increased mortality rates and the need for hospitalization.

It is always more comfortable not to expose yourself against prevailing views. Due to fear of fuelling a potential panic, most governments waited too long to take decisive measures to slow the spread of the coronavirus. Of course, this can be easily said in hindsight. However, it is in the essence of the activity of all economic participants to make decisions based on incomplete information. It is therefore often advisable to make less decisions and to pursue a long-term strategy. The interaction of countless factors means that outcome is never exactly predictable. If the potential damage of an omission in relation to a precautionary measure appears to be too great, it is more rational to make a precautionary decision.

The stock market was expensively valued in January and for a long time paid no attention to the virus and the possible far-reaching implications. From our perspective, the valuations of the companies did not reflect the changing probabilities of the economic development. As a consequence, we reduced our equity allocation by selling some cyclical companies before the markets crashed.

Outlook

While the coronavirus is a temporary phenomenon, the economic consequences will not be. After the US-China trade war, the virus once again exposed the fragility of globalization. As a result, decision-makers will subject the global supply chains to an in-depth review and make adjustments accordingly. This will have long-term growth-dampening effects for China.

Governments and central banks will face the current standstill of the economy with determination and will make every effort to compensate for the loss of economic activity. Given the total standstill, this can quickly get very expensive. Financed with debt at extremely low to negative interest rates, this should actually be feasible without any problems. However, someone has to be willing to finance all of this new, interest-free debt. This is where the central banks come in. They will again intervene strongly in the market and buy bonds on a large scale. This keeps supply and demand for debt securities in balance as long as inflation expectations are low and additional government debt does not trigger a crisis of confidence. With its structural problems, the Euro should again become the center of attention.

Investment policy

In the long term, given the central bank activities, liquidity is not an attractive storage of value in all currencies. It is therefore not surprising that the price of gold has reacted positively to current developments. We had already increased our customers' gold quota at the expense of liquidity.

High-quality companies will survive this temporary downturn and emerge stronger from the crisis. It shows once again that an uncompromising focus on the **best quality** is indispensable in the long term. It makes it possible to keep a cool head in the event of market turmoil, to stick to the long-term strategy and to take advantage of additional opportunities.

The revenue development of companies will generally be negative this year, but this is largely reflected in the assessment of many companies. However, there are clear differences between the different economic sectors. Thanks to the exclusive use of **direct investments**, we can take into account the current economic conditions not only in terms of quality, but also in the selection of economic sectors. As soon as the situation will somewhat stabilize and the spread of the virus decreases, the best companies offer an excellent long-term investment opportunity. In particular, the relative attractiveness to other asset classes has increased significantly.

Zurich, April 2020