Valvest

Investment View – 3rd Quarter 2020

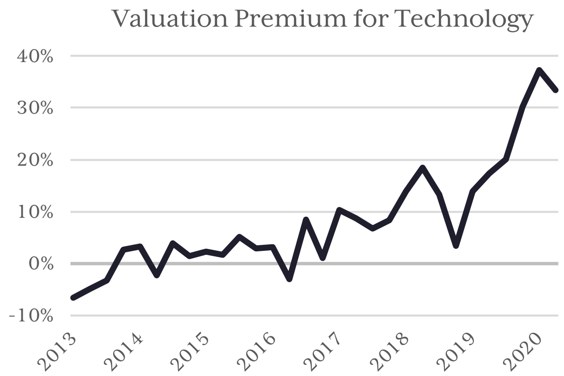
Review

This years' main focus has been Covid-19 and its far-reaching consequences of which many are still to come. It remains to be seen which changes are short-term in nature and which will accompany us in the long term. The discontent of the population is increasingly visible. The pent-up frustration is evident around the globe in various protest actions. To at least dampen the economic impact, governments around the world have taken various measures. From unsecured instant loans to businesses to direct payments to citizens. Indebted states finance measures to support the economy with additional debts, while the central banks buy up and thus finance these debts more or less directly.

While companies grow and shrink in line with the demand for their products, government influence increases steadily in both good and bad times. In combination with the measures taken to combat the spread of Covid-19, the states' sphere of influence seems to have reached the limits of what is tolerable. This can be seen most clearly in the two-party system in the USA, where by now only one's own party is accepted in power. The political climate is so toxic that regardless of the election outcome, further unrest can be expected.

Our task is to analyze as factually and objectively as possible what the consequences of the respective outcome are. In this regard, it can be stated that the difference between the two parties to choose from is limited on many economically important points. The budget deficit, which is growing every year, is preferably financed with additional debt instead of unpleasant and directly noticeable tax increases. Taxes are occasionally reduced or increased, but expenses are rising steadily and only the recipients of the expenses change a little bit depending on the outcome of the elections. If we remember the headlines with the predicted consequences for the markets due to the last presidential election and contrast them with the actual developments, this viewpoint is supported. This year, the stock market has so far remained largely unaffected by political developments. Valuations have become more expensive and the year 2020 is mostly seen as a one-time corona hiccup.

The overall market, however, masks the development of the individual companies. The American stock market, for example, showed a performance of plus 5.6% at the end of the quarter, while the market without the technology stocks fell by 3.7%. The impact of the large technology companies Apple, Amazon, Google, Facebook and Microsoft is particularly striking. These account for 23% of the total American stock market and 14% of the world stock market. Apple alone is as big as the Russell 2000, which comprises 2,000 of the largest 3,000 American companies. This shows the power of globalization for the world's leading companies. Recognizing such developments early on offers investors and companies attractive opportunities. The market has now recognized this, and technology stocks are trading at valuations that largely reflect these expectations.



Source: Valvest, Bloomberg

Investment policy

If many things change significantly at the same time, it means that the risks are elevated but also attractive opportunities arise. For us, this entails continuing to focus uncompromisingly on the best quality. This means investing in companies, which have good, long-term prospects irrespective of the temporary headwinds. More importantly, we avoid firms with weak fundamentals, with implied euphoric expectations and cyclical, capital-intensive companies in our clients' portfolios.

Zurich, end of September 2020