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Investment policy report for Q3 2020

- The economic slump, measured by GDP growth for the 2nd quarter, was not quite as bad as feared. Among the major economic areas, the euro zone lost the most ground, while China was already able to make strong gains again. It is noticeable that the services sector is showing more difficulties, which is not surprising given the various restrictions (travel, events, etc.).
- The easing of the shutdown and the massive government support and aid packages have led to an improvement in the economic forecasts for the second half of the year, so that the "corona damage" is likely to be less than feared. The European community decided on an aid package totalling 750 billion euros, which will be financed by EU debt on the capital market - a novelty and a step towards debt union.
- In the USA, the parties are arguing about a follow-up program to provide further support for the economy on a massive scale (between one and 3.5 trillion USD). Since both parties will lose votes in the event of a blockade, a compromise is foreseeable before the elections.
- The US Federal Reserve has made its change of course in monetary policy official. At the heart of this is the new orientation towards an average inflation target instead of the permanent target of 2%. This means that the Federal Reserve now has the option of not raising interest rates if the inflation rate exceeds 2%. Accordingly, the central bankers see no change in the key interest rate for the next two years.
- The chances for a re-election of Donald Trump have improved, although the survey results still put Biden ahead. Improved economic conditions and lower infection figures played into the hands of the incumbent president.
- The interest rate level remained around zero, which was to be expected in view of the monetary policy thrust. The spreads for debtors with reduced creditworthiness continued to narrow, although the differences were still higher than before the start of the "corona crisis".
- The interest rate differentials between the most important currencies, which were "frozen" for an indefinite period, led to a weakening of the USD by 3.5%. The euro and the pound even gained slightly more, while the CHF lost value against the euro.
- Commodities experienced an increase in prices across the board. This was most pronounced for precious metals, where gold broke through the USD 2000 level for the first time. The star performer, however, was silver, which gained around 30% in value.
- The stock markets continued the recovery that began at the end of March at a slower pace. The MSCI World Index, the S&P 500 and the Nasdaq reached new historical records. The Euro Stoxx stagnated, while the DAX was able to increase slightly. Sector wise, cyclical consumer stocks performed best while energy stocks fell into the red.

Outlook for the end of the year

The US elections will dominate the headlines in the coming months and will have a more or less strong impact on the markets. According to current indicators, the most likely outcome would be a complete victory for the Democrats, i.e. entry into the White House and control of both houses of parliament. However, the lead is so small that a wafer-thin decision must be expected, which could be challenged by the loser. Trump has already announced that he will not simply accept defeat. There are many indications that an unusual ballot will take place, which could put a strain on political uncertainty.

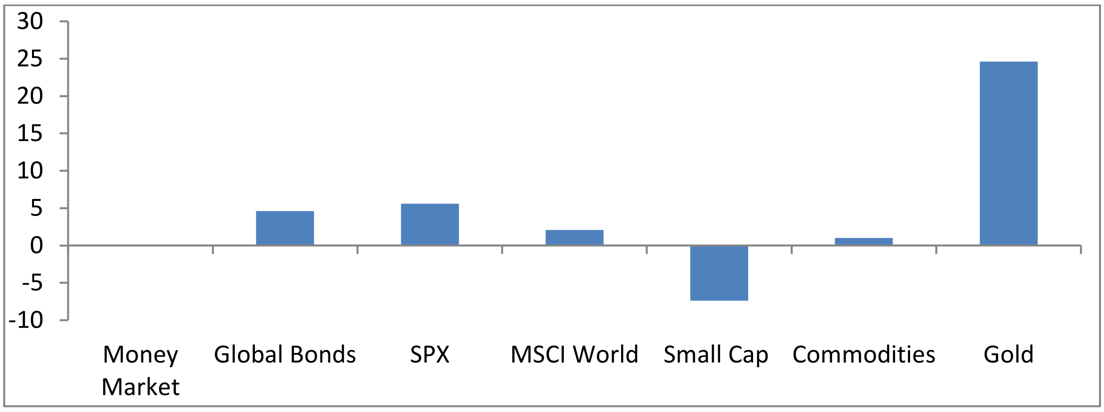
In addition, the focus remains on economic recovery, especially whether major countries will be able to continue on a steep path. In this regard, a further aid program is needed in the United States, which could possibly be passed by parliament in the amount of about $2 trillion at the beginning of October. The earnings figures for the third quarter are also likely to cause some surprises, as expectations in the markets are quite high following the good figures for the second quarter.

Since a safe medical answer to COVID will take more time than desired and demanded by certain politicians, the current health policy is probably appropriate: partial domestic restrictions and rigorous international travel restrictions. This could help to prevent a second wave and keep interference in the economic process to a minimum, even if certain sectors remain hard hit.

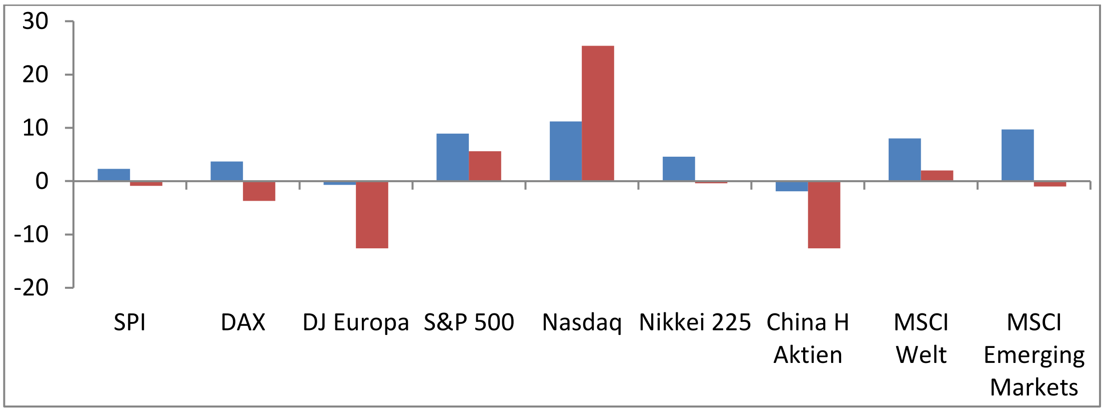
The last quarter offers some uncertainties for the stock markets, so that the indexes could well turn out to be erratic. In the underlying trend, the bull market that has been in place since 2008 remains intact, as the global economy has never been fuelled to such an extent by monetary and fiscal policy since the last world war.

Wangs, 2.10.2020

Gross gains/losses for various asset classes as of 30.9.2020 (in USD)



Performance of selected equity indices in Q3 and as of 30.9.2020 (in local currencies)



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