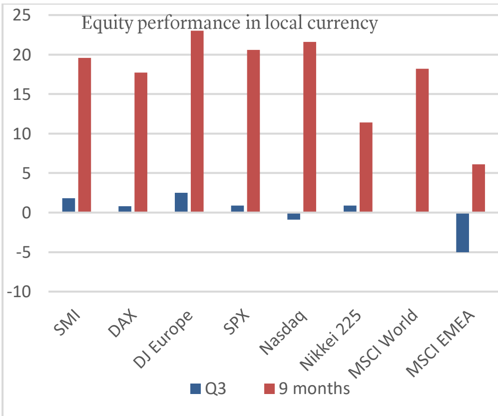
Q3 2019 interim report on investment policy

- The global economic picture showed increasing signs of industrial fragility and a (still) intact service industry – particularly in the case of Germany. The cyclical and structural crisis in the automobile industry on the one hand and the ongoing uncertainty stemming from the trade dispute between China and the US on the other led to restrained trade and investment activity on a global scale.
- The European Central Bank, which is set to be presided over by IMF chief Lagarde, made the controversial decision to resume securities purchases in the amount of 30 billion euros per month for an unlimited period while at the same time lowering the base rate by 0.1%.
- The US Federal Reserve turned rhetoric into action by lowering the base rate in two stages of 0.25% each. The easing of the US monetary policy is in response to the increase in global economic risks, caused in part by the US. Since inflation is currently hovering under target, the easing of the policy poses no threat to price stability, as confirmed by market indicators.
- The unsettled political situation has visibly deteriorated due to the unrest in Hong Kong, the strife between Korea and Japan and the drone attacks aimed at oil tankers and infrastructural facilities in Saudi Arabia. Boris Johnson's appointment as the new PM has done more harm than good in advancing Brexit negotiations. Proceedings have been initiated to oust Donald Trump from office.
- Investor uncertainty helped advance precious metals, with silver achieving double-digit growth. Despite the attacks in the Middle East, the price of oil trended sideways. Particularly notable was the jump in the price of nickel. The increased use of the metal in car batteries fuelled speculation.
- Given the defensive nature of investors, yields on government bonds continued to slide. The announced ECB operations levelled the gap between the yields in the eurozone.
- The US dollar appreciated slightly against all currencies. The Swiss National Bank left its interest rates unchanged and is relying on interventions on the currency markets to achieve monetary stability. Nevertheless, the Swiss franc still gained a good 2%.



- The third quarter saw the equity markets freeze or even slump. The MSCI World index remained unchanged throughout the quarter, while the emerging markets were down 5%. The Asian markets continued to weaken. For once, Europe fared slightly better than the US, with the Nasdaq even closing on a slightly negative note. In terms of sector performance, utilities and defensive consumer stocks were the winners. Energy and commodity stocks landed in the minus.

Outlook

Misgivings about the impact of the monetary policy are justified. It therefore comes as no surprise that fiscal policy is gaining interest as an instrument for reviving the economy and even Germany is discussing an injection of 50 billion euros. Experience shows that government programmes need time to take effect and that they normally do this when they are no longer required. The current economic uncertainty could continue for some time. A (successful) conclusion to the trade negotiations would ease the situation and potentially eliminate the investment deadlock. The US president is facing impeachment and, regardless of the outcome, it is difficult to predict how this will impact negotiations with China. For the equity markets, volatility rather than upswing seems to be the order of the day for the time being.

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Wyss & Partner
Vermögensverwaltung und
Anlageberatung AG

Bahnhofstrasse 17
7323 Wangs, Schweiz
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch