DISRUPTED GLOBAL SUPPLY CHAINS

Our view
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Economy

The history books and experience show that the global economy recovers quickly from one-off events such as a flu virus or a geopolitical conflict. Nevertheless, the economic impact of the virus outbreak in China should not be completely ignored. As a result of the imposed curfews and quarantine measures, production in China and other Asian countries is currently limited or even non-existent.

The data available for China shows the following picture compared to previous years: the volume of coal consumed by energy companies has not even reached half of the prior-year level, the number of containers to be unloaded in the country's ports has more than doubled, the number of daily domestic flights has plummeted by 90% and cinema visits have even completely collapsed.

These figures alone are no reason for global panic. Initially, many of these factors will affect China's domestic economy as well as its companies and workforce. However, it is important to bear in mind that, as a result of strong globalisation, China has in recent years become the world's most important production location and the third largest consumer economy after the US and the eurozone.

Countless European and US firms have now completely relocated their production activities to Asia and supply their regional markets directly from China. Furthermore, many multinational companies have preliminary work performed in Asia for downstream production steps carried out in Europe or in Asia itself.

Numerous production and supply chains have been restricted for several weeks and the longer that this event drags on, the greater the impact of this bottleneck will be on global economic growth.

Outlook

The flat economic and inflationary cycles observed around the world are being further dampened by the current situation.

Products and services that cannot be provided will temporarily no longer be purchased. Purchases of products and services that are either postponed or not made at all will thus be lacking from economic growth as a contribution to consumption or investment expenditure by companies.

While we still do not expect a severe global recession, we cannot rule out weaker economic figures in Asia and Europe.

Conclusion for our investment policy

As a result of the positive equity markets in recent months, the equity overweight position in our client portfolios has increased further. We are taking this pleasing situation as an opportunity to slightly reduce our overweight in equities in favour of liquidity through disciplined profit-taking.

On the financial markets, budding fears relating to one-off events time and again lead to fluctuations. For long-term and well-diversified investors, these are of a temporary nature.

A long-term focus, quality and diversification are always at the heart of our investment policy and one thing will not change: there will be no escaping equity investments over the long term. The equities of first-class companies represent the most attractive investment opportunity.

The increased liquidity will allow us to increase our positions in our preferred companies in the event of market exaggerations. The more significant the setback on the equity markets and the longer it lasts, the greater the catch-up potential for the future.