TEMPORARY SHOCK

Our view
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Economy

Hopes that the regional virus outbreak would not develop into a global pandemic have been dashed. We will leave the task of assessing the chances of success of vaccines and treatment methods to the experts. Instead, we would prefer to focus on the economic impact:

While the ban on going out enforced in China has proven to be an effective measure for containing the virus, it gave rise to a temporary economic shock: consumption collapsed during February and production came to a standstill before the economy started to recover in March. Many countries will experience similar economic developments and temporarily fall into recession. We will not speculate about the duration and extent of this decline, but rather base our analysis on the following factors, which also point to a subsequent recovery in Europe and the US:

1. The economic production factors, namely capital, machinery, people and knowledge, have not been reduced or destroyed, but are instead not being utilised for the time being. This is resulting in a temporary rather than permanent and structural economic shock.

2. The massive immediate monetary policy measures have prevented a severe crisis of confidence and a resulting liquidity bottleneck. The decisions taken by the central banks have been historically unique in their scale and are creating confidence.

3. The bold fiscal policy measures and emergency aid packages are helping economic players to bridge the temporary phase characterised by reduced production and a lack of sales revenues.

4. The corporate world has responded to the crisis in a calmer and more systematic manner than the financial markets: pandemic plans have been put into effect, short-term working has been introduced and the necessary liquidity reserves have been built up by means of supporting loans.

Outlook

Every new crisis and economic shock takes a different course to anything experienced before. However, all previous economic downturns and stock market corrections have one thing in common: both the economy and the stock markets have recovered again. Prophecies of doom have always been proven wrong in the long run.

The global economy will also recover from this temporary shock and the resulting recession. Nevertheless, the duration and strength of the cycle will vary for each country, economic sector and company.

But one thing is clear: the radical interventions that have been decided upon in order to support the economy will lead to a further increase in government debt. The abandoning of expansive monetary policy with lower interest rates will likewise not be happening any time soon and is now even further off.

Conclusion for our investment policy

The fluctuations on the financial markets will persist until it is foreseeable how the major countries will get the virus under control in the long term.

We are convinced that the stock market correction has brought the valuations of many first-class companies down to an attractive level and that further interesting buying opportunities will emerge in the months ahead. As global interest rates have fallen, no other investment option offers greater long-term potential than equities.

A rigorous focus on quality and targeted diversification across several sectors in order to avoid cluster risks remain decisive for long-term success. We focus on companies that are market leaders and which boast solid financing, strong management and predictable earnings.