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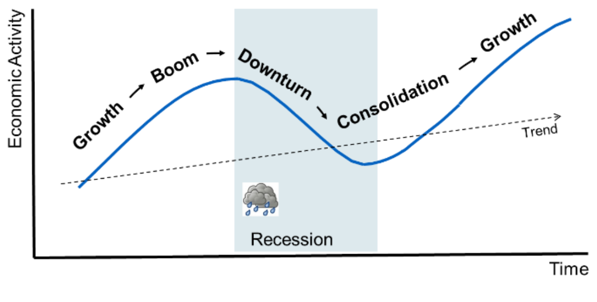
Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

A turbulent financial quarter lies behind us. On January 10th, the ARVEST Investment Committee was still expecting a prolonged boom phase in the US economy. However, in our investment commentary we also explained the dangerous imbalances between the financial markets and the real economy. We kept the liquidity in the client portfolios high and the equity allocation at the lowest bandwidth in the economic cycle, just as the ARVEST Cycle investment strategy for boom phases provides.



On March 9th we noticed that the U.S. economy and thus the global economy was entering a downturn phase. The trigger for our immediate recession warning was the start of an oil price war between Russia and Saudi Arabia. Previously, we had already identified a very low oil price as a relevant risk scenario for the global economy, as this would substantially endanger the US oil sector. However, our decision was also based on the increasingly global spread of the corona virus and the foreseeable reactions of governments to dramatically restrict the economic and personal freedoms of their citizens. A partial economic standstill was going to be imposed by the state for medical reasons.

Recessions are broad, deep and prolonged declines in economic activity. This recession is not based on underlying exaggerations in the real economy. Moreover, economic data is only available with a certain delay, as it must first be recorded and collected. For this reason, the recession models we followed did not show high recession probabilities. For us, however, recession models are only one tool for implementing our investment strategy. Even without corresponding confirmation, we decided that we had entered into a sudden, global and deep recession.

We immediately reviewed all portfolios to ensure that the asset structure was appropriate. Our strategy of building up liquidity already during the boom phase had paid off. The bubble in the stock markets burst much faster than before past recessions. When the

World Health Organization declared the Covid-19 outbreak a pandemic four days later on March 12th, the virus had already affected investors' heads more than their lungs. The global equity index in Swiss francs had already lost 29% since its peak on February 19th and was only 7% above its most recent low on March 23th. One of the sharpest global stock market crashes in economic history became a fact.

Future Prospects

The stock markets remain very volatile. Prices fluctuate daily in both directions, the range of which is typical for entire years. The rapid switch between hope and fear reflects the uncertainty and is typical for the current downturn phase. How does the ARVEST Investment Committee position itself in this downturn phase? We keep the equity allocation stable by means of rebalancing and thus benefit from lower prices when buying shares. At the moment it is still too early to increase the equity quota and the risk.

The crucial open question from an economic perspective is how long the recession will last. Those states that have the means are trying to cushion the damage with massive liquidity injections from their central banks and social spending through their fiscal policy. However, these measures cannot shorten the recession. The medical successes in combating the corona virus, political measures and the conduct of the population will determine the duration of this crisis. For this reason, we have been studying the various Covid-19 models closely in recent weeks, on the basis of which the experts have advised the politicians. Unfortunately, the insufficient quality of data does not allow the experts to make reliable estimates of epidemiological developments over the next few quarters. However, it is clear, albeit of little consolation, that the pandemic, and thus the partial economic standstill, is limited in time; whether this is due to the widespread availability of a vaccine or to the sufficient infestation of the working population.

The markets currently seem to be expecting a deep but relatively short recession. This would be encouraging. In view of the record-breaking slump following an external shock, an unusually rapid recovery of the economy is entirely conceivable. In our opinion, however, it is still too early to declare the transition to the consolidation phase and to strategically increase the equity allocation. Economic and corporate news will continue to deteriorate significantly. The more persistent and the more drastic the behavioural changes in the public will be, the more attention will be paid to the longer-term consequences. Lessons will be learned from crises, but not the same ones everywhere. It is still completely open how, for example, the phasing out of public financial aid will succeed, how global value chains can be armed against future bottlenecks, whether consumers will increase their savings rate and companies their equity independently, or whether trust in central banks and the price stability of their currencies will be maintained. These and other questions will be central to the composition of a successful portfolio in the 2020s. The consolidation phase will provide better answers than the current downturn phase.

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On behalf of the Investment Committee
Stefan Kimmel
Chief Investment Officer ARVEST Funds AG