ARVEST

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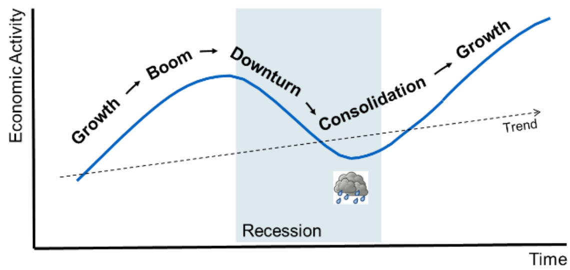
Investor Info

Investment Commentary

# Briefing from the ARVEST Investment Committee

In the second quarter of 2020, the financial markets recovered significantly from the corona shock. Bonds benefited directly from the massive purchasing programs of central banks. Stock markets rose sharply, especially in April and May. Since the end of May, important countries such as the USA have been reporting better economic data again. Has the stock market upswing thus only anticipate the rapid recovery of the economy from the recession, which has already been officially[1] confirmed? Or have share prices decoupled completely from the real economy?

The ARVEST Investment Committee decided in mid-June that the economies in the USA, Europe and China entered a consolidation phase. In our economic model the consolidation phase follows the downturn, but it is still part of the recession. The economic crisis is confirmed in the consolidation phase. High unemployment causes many people to fear for the future. Financial worries and unsustainable debts dampen consumption and can lead the economy into a downward spiral. Therefore, the political institutions take measures to stabilze the economy. Often, it is not immediately apparent from the economic data when these measures will take effect. The duration of the consolidation phase depends on the effectiveness of these measures and varies accordingly.




The current recession is not a disruption of demand to the same extent as in previous recessions. In various economic sectors, such as the food or film industry, tourism or certain medical services, it is at the same time a supply crisis triggered by the political decisions to curb Covid-19. It is generelly difficult to distinguish between supply and demand disruptions, especially in globalised value chains. Nor is the current situation stable today, as the effects of the corona virus and the political measures adopted are constantly changing. The monetary stimuli of the central banks, but also

[1] NBER https://www.nber.org/cycles.html

broad-based support measures provided by governments, such as the payment of USD 1,200 to each registered US taxpayer, cannot technically target individual economic sectors. In the event of supply bottlenecks, these instruments lead to undesired price increases instead of the desired expansion of volumes. The methods used to collect economic data were not designed for today's exceptional circumstances. Survey analyses such as the Purchasing Managers' Index, for example, are more meaningful in terms of the direction of change than their strength. Therefore, we must interpret the reported economic data with appropriate caution.

**Future Prospects**

The ARVEST Investment Committee expects an increasingly sluggish recovery from the recession. After all, we must not only overcome the pandemic that is continuing to spread worldwide, but also find solutions for pre-existing growth brakes such as the trade and dominance conflict between China and the USA or for the unsustainable structural debts, without neglecting environmental protection or fairness of social opportunity.

The markets currently seem to expect a recession, which is deep but also short. For many reasons, many investors are focusing on the present or the immediate past. The broader perspective seems to be lost somewhat. Recently, the day trader and former pizza tester Dave Portnoy made headlines by telling his 1.6 million followers on Twitter that there are two investment rules: "First, stocks always go up; and second, if you have problems, see rule number one". This must be understood against the background that most American online brokers have reduced trading fees for US stocks to zero. Millions of new accounts have now been opened in recent months. Young men in particular seem to be using the easy-to-use smartphone apps to bridge the time without sports betting during the corona lockdown. Fortunately, the decision to pay out the corona check was only taken after the market collapse in March. In earlier stock market cycles, small investors only behaved as euphorically during the preceding boom phase.

Of course, small investors have recently been more of a tip in the balance. The large institutional investors remained the main drivers of share price performance. They did not want to miss out on the rally either. Hardly any new shares were placed, either through IPOs or by raising capital from listed companies, which is why the supply of equities remained tight. The liquidity created and demand generated led to rising prices.

We expect stock markets to remain very volatile, as the high valuations leave little room for dissapointing corporate earnings for stocks that have led the equity market in recent years. Since, unlike bonds, the supply of equities remains scarce, we remain convinced of good quality equities in the long term. In the current consolidation phase, we will build up the equity allocation with great discipline and continue to prefer to be guided by Warren Buffett's rule no. 1: never lose money. And his rule no. 2: Never forget rule no. 1.

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On behalf of the Investment Committee
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