

State rescue of the financial markets

April 2020

- Shocking economic data
- Gold cannot be printed
- Winners and losers of the crisis
- Flattening trend of the pandemic
- Change in asset allocation
- Change in assessment of asset classes

Maximum monetary and fiscal support

In the meantime, the central banks have fired all their guns. The FED, for example, has announced an expansion of its buyback program to include “junk” bonds (sub-investment grade), which lead to an immediate decline of all risk premiums. A particularly meaningful move in this regard is the cooperation with Blackrock, the world's largest asset manager of ETFs. With the support of this institution, the interventions of the central bank should also reach the illiquid niches of the capital market. Fiscal measures are no less impressive with US unemployment rising to 15%, the US government announced support in the amount of USD 2 trillion. Given the weakness of the social security system in the US this is hardly enough. Therefore, further aid packages are already being discussed. In view of the disastrous economic situation, it seems like the necessary is being done to avoid a depression through this measures. However, the need for coordinated action and thus newly formed partnership between the government and the central bank reached a new extreme, which could mark a point of no return. This probably does not bode well for the future value of money. In this context, a positive development of the gold price should not surprise anyone.

As the financial markets could be mostly stabilised, fundamental economic factors are coming into focus again. From this perspective it is astonishing, that crisis bolsters the already established trends, which leads to a widening of the gap between economic winners and losers at a high pace. Typical losers are probably oil companies, airlines, tourism companies or the stationary retail sector. On the other side of the spectrum are, for example, online retailers, software developers, credit card companies, pharmaceutical companies or companies from the medical technology segment.

Sound Capital Investment Navigator

Valuation Bonds: 0													
		Yields							Spreads				
		low	-	0	+	high			low	-	0	+	high
		--				++			--				++
New	X						New						X
Old	X						Old						X

Valuation Equities: 0													
		Shiller PE							Risk Premium				
		expensive	-	0	+	cheap			low	-	0	+	high
		--				++			--				++
New							New						X
Old							Old						X

Valuation Equities: 0													
		Leading Indicators							Risk-Index				
		Contraction	-	0	+	Expansion			Euphoria	-	0	+	Panic
		--				++			--				++
New	X						New						X
Old	X						Old						X

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In this extremely unpleasant economic environment, it is not advisable to hunt for bargains among the companies which lost the most in this crises. It seems far more promising to consistently focus on those companies, who emerge even stronger from this crisis.

Fortunately, the curve of new infections is now showing a flattening trend in most of the major economic countries (with a time lag probably also in the USA). "Social distancing", quarantines and improved hygiene measures are showing their effects. However, a sustainable solution to the problem is likely to come only with the widespread availability of a vaccine or an effective medication. But, the development of a vaccine or medication, according to experts, will take some time. Hopes for a rapid economic normalisation are therefore unlikely to be realistic.

Since our last report two indicators of our navigator have shifted.

For equities, the assessment of the risk premium has fallen from ++ to +. **Overall, we still assess equities neutrally.**

In the case of fixed-interest securities, the assessment of the spreads rises from + to ++. **Overall, we now assess fixed-income securities neutrally.**

The asset allocation has changed as follows:

Liquidity now neutral. Bonds new neutral weighted. Equities remain neutral weighted. Alternative investments new neutral weighted.

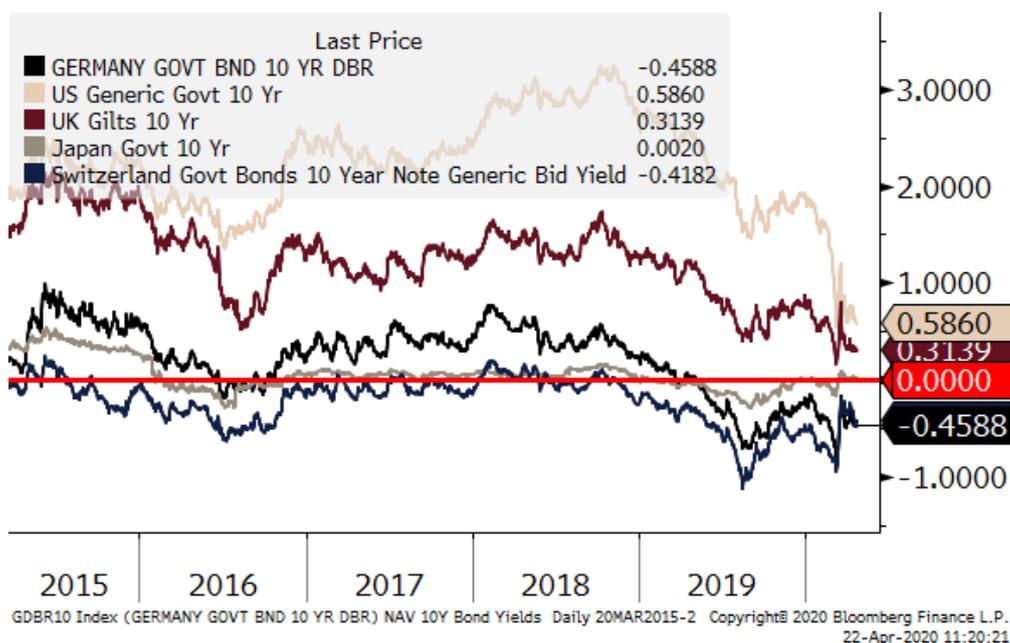
Change in equities:

US equities are upgraded from 0 to + due to the concentration of promising sectors. In turn, Japanese and European stocks are downgraded from 0 to -.

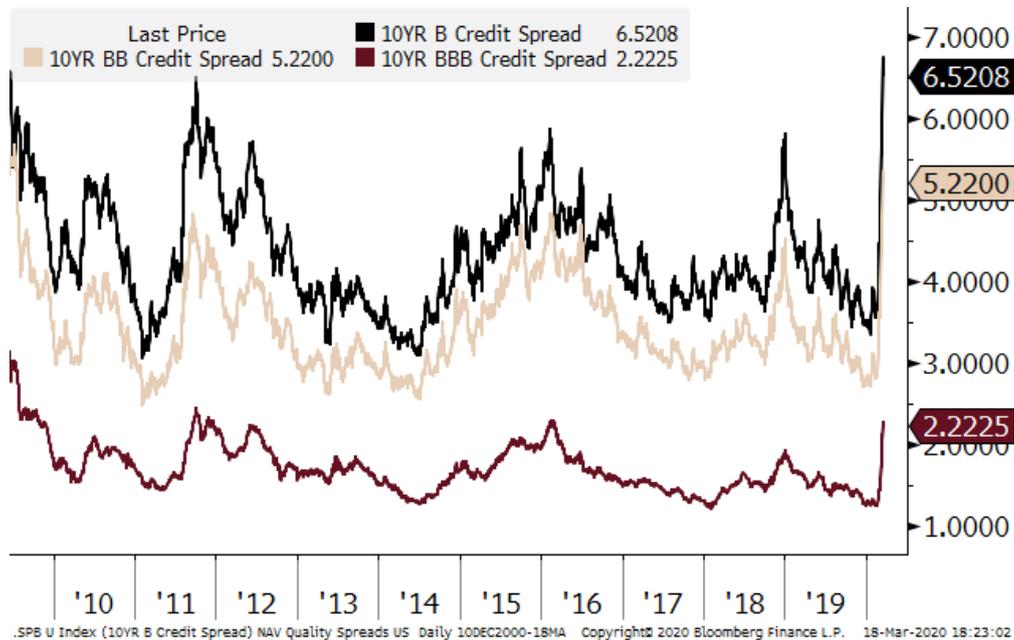
Interest rate level (indicator --) / Spreads (indicator ++)

Assessment unchanged / Assessment increased to ++ from +

The interest rate for government bonds is still at an extremely unattractive level.



The spreads of corporate bonds, on the other hand, are still very attractive. In this area we invest in the "investment grade" segment, while we avoid the "high yield" segment for fundamental reasons (in expectation of substantial rising default rates).



Shiller P/E ratio (indicator 0) / Risk premium (indicator +)

Assessment unchanged / Assessment reduced to + from ++

Due to the significant recovery of the equity markets, the absolute valuation of equities is in neutral territory.



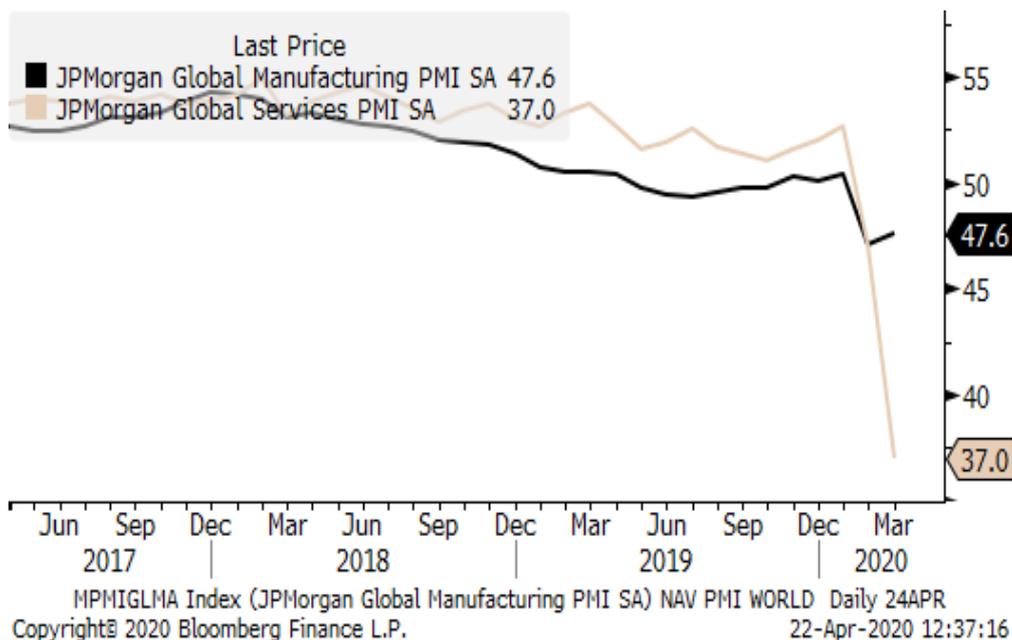
Risk premiums have declined due to the rise in share prices but also due to falling corporate profits.



Macro leading indicators (indicator --)

Assessment unchanged

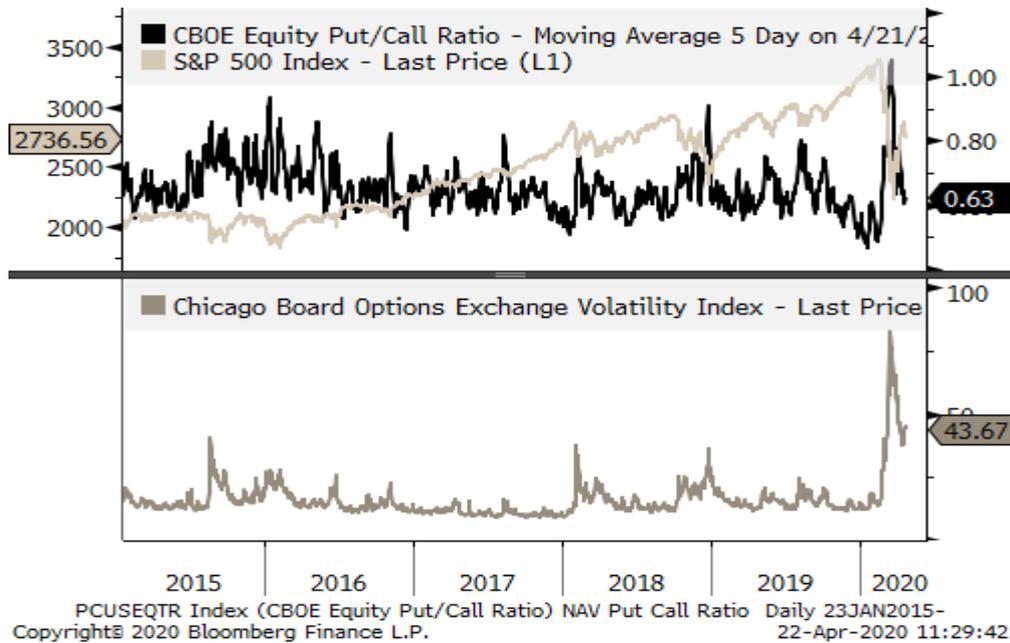
While the global PMI manufacturing data for March was still relatively good at 47.6, the global services data plummeted to 37. The data may continue to weaken in April, which means that no improvement in this indicator should be expected for the time being.



Risk index (indicator ++)

Assessment unchanged

In certain areas, such as options trading (put/call ratio) and volatility (VIX), there are clear signs of calming down. However, investor positioning and investment flows are still showing an extremely defensive attitude of investors. For this reason, the contrarian risk index remains in extremely positive territory.



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