

A long way back

Tactical Positioning - April 2020

The corona crisis has sent financial markets on an unprecedented roller coaster ride. The consequences of the pandemic containment measures will continue to be felt in society and in the economy for a long time to come. Therefore, we think it is too early to sound the all-clear for financial assets. As positive as the recovery of the past few days has been, the risk remains that there will be further setbacks.

The past few weeks have been full of superlatives for the financial market. We have seen the fastest slide in stock markets in decades and a wave of enormous consecutive daily movements of a magnitude last witnessed during the Great Depression. We also witnessed one of the strongest countermoves in history as the US stock market gained almost 20 percent in just three days. This shows how violently the corona crisis has jolted the world. There are hardly any historical parallels that offer observers much support or orientation.

That said, scenarios can be useful to try to structure the spectrum of possible developments and their effects. In our baseline scenario, we assume that the corona crisis will leave very deep ruts in the economic landscape in the second quarter. The return to social and economic normality will be slow and gradual, but, we believe, it will still take place in 2020.

In this scenario, according to our estimates, companies will earn around a third less profit this year than in 2019. Equity markets have in the meantime priced in a decline of this magnitude. Past market corrections, however, have typically unfolded in several waves. Thus far, we have only experienced the first wave. That is why we consider it sensible now to balance the risks in the portfolio. In this environment, this includes not only equity risks but also interest rate, credit and liquidity risks. While we have already taken equities back to neutral after the first strong countermovement, we are now reducing the broad index of USD bonds.



Dr Felix Brill

Chief Investment Officer VP Bank Gruppe

Stronger underweight in bonds

Yields have seen unparalleled ups and downs lately. In the meantime, even the large government bond markets have faced liquidity issues. Against this backdrop, we have reduced the broad index of US dollar bonds after the recovery of the past few days.

Equities neutral

We closed our overweight on European equities after the first strong countermovement. In the short term, we consider the risk-reward-ratio for equities to be balanced, which is why we confirm a neutral weighting.

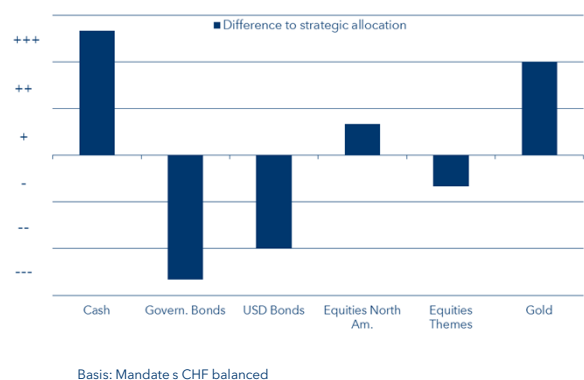
Gold remains overweight

In turbulent times, gold plays an important, stabilising role in the portfolio. The precious metal has not always complied with this rule so far this year, but overall, gold has proven itself over the past few weeks, which is why we are sticking with our position.

Reducing USD bonds after the recovery



Tactical allocation



Wichtige rechtliche Hinweise

Diese Dokumentation wurde von der VP Bank AG (nachfolgend Bank) erstellt und durch die Gesellschaften der VP Bank Gruppe vertrieben. Diese Dokumentation stellt kein Angebot und keine Aufforderung zum Kauf oder Verkauf von Finanzinstrumenten dar. Die darin enthaltenen Empfehlungen, Schätzungen und Aussagen geben die persönliche Auffassung des betreffenden Analysten der VP Bank AG im Zeitpunkt des auf der Dokumentation genannten Datums wieder und können jederzeit ohne vorherige Ankündigung geändert werden. Die Dokumentation basiert auf Informationen, welche als zuverlässig eingestuft werden. Diese Dokumentation und die darin abgegebenen Einschätzungen oder Bewertungen werden mit äußerster Sorgfalt erstellt, doch kann ihre Richtigkeit, Vollständigkeit und Genauigkeit nicht zugesichert oder gewährleistet werden. Insbesondere umfassen die Informationen in dieser Dokumentation möglicherweise nicht alle wesentlichen Angaben zu den darin behandelten Finanzinstrumenten oder deren Emittenten.

Weitere wichtige Informationen zu den Risiken, welche mit den Finanzinstrumenten in dieser Dokumentation verbunden sind, zu den Eigengeschäften der VP Bank Gruppe bzw. zur Behandlung von Interessenkonflikten in Bezug auf diese Finanzinstrumente sowie zum Vertrieb dieser Dokumentation finden Sie unter http://www.vpbank.com/rechtliche_Hinweise