

Time of extremes

Tactical Positioning - March 2020

Financial markets are experiencing wild swings these days. They have had to deal with difficult news such as the establishing of a protection zone in Italy, the temporary suspension of trading in the US stock market and the dramatic fall in the price of oil. This has led to enormous intraday movements. We are reacting to the extreme swings of recent days by realising gains on bonds and increasing the equity allocation.

The new coronavirus is spreading rapidly. In Europe, Italy has been the most affected. So much so, that the government felt compelled to restrict the movement of the population across the country. Policymakers around the globe are assessing appropriate measures to support the corona-affected economy. Central banks like the Fed have already responded with interest-rate cuts. More are expected to follow. Additionally, targeted measures are expected from governments to support cash drained small and medium-sized enterprises. Tax reliefs or special depreciation programmes would also quickly relieve the companies' financial burden. Such measures would support not only the economy, but also financial markets. Psychology plays an important role in extreme times like these. The announcement of such measures alone can help calm everybody.

The situation in the markets is exceptional because two external shocks act simultaneously. First, the spread of the coronavirus and its potential economic damage. Secondly, oil prices are falling because oil producers cannot agree on price stabilisation measures. This leads to wild price swings in equities and bonds. Such extreme situations have traditionally been good selling and/or buying opportunities. Against this background, in a first step, we are reducing our USD-bond exposure and are buying US equities.



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Bonds remain underweighted

In recent days, yields have fallen significantly. In the US, new lows have been recorded. Against this background, we decided to sell some of the USD bonds to realise gains and reduce the interest rate risk in the portfolio.

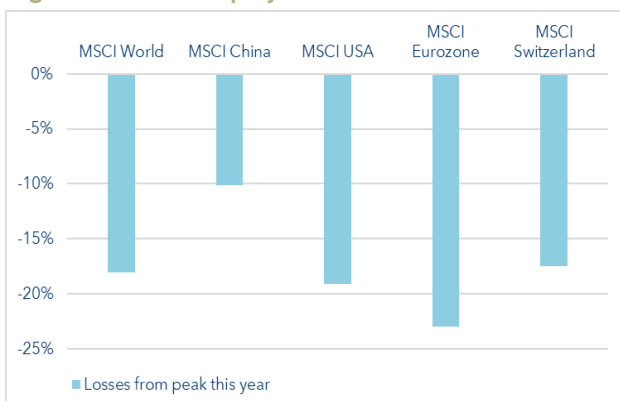
Equities to overweight

After the sharp correction of the last few days, we increase our US equity position. This puts our overall equity allocation to overweight.

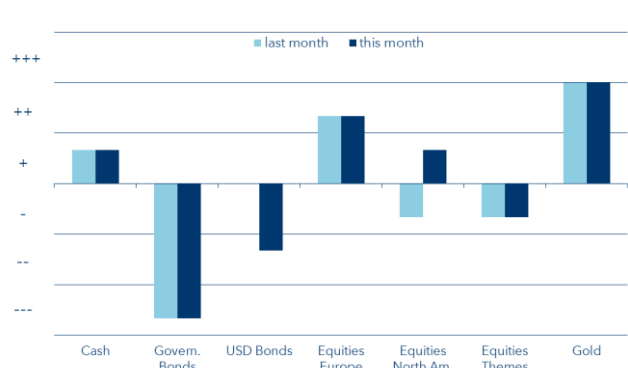
Gold remains overweight

We stick to the gold position. In extreme times, gold plays an important role stabilising the portfolio. The precious metal has played this role convincingly once more time this year.

Significant fall in equity indices



Tactical deviations



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