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CITYWIRE SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2020

REVIEW AND ECONOMIC OUTLOOK

Stock markets continued to plunge this week. European markets gave up about 3 percent and major US indices were down more than 4 percent on Thursday. Most indices are now in correction territory, leading to losses from last week's all-time highs exceeding 10 percent. There is no doubt that the spread of the coronavirus is increasing uncertainty and challenging the global growth outlook. And, while stock markets held up remarkably well during the first four weeks of the epidemic, some form of price adjustment in the equity universe appeared inevitable.

TACTICAL ASSET ALLOCATION

Liquidity	Neutral
Bonds	Neutral
Equities	Overweight (↑)
Alternative Investments	Neutral

Macroeconomics

This week saw the first real evidence of the global economic fallout of the coronavirus outbreak. It suggests that the global economy is facing a significant external supply shock, which promises to be much larger than the experience of SARS in 2003. The key difference compared to 17 years ago is the much greater importance of China for the global economy now, including China's integration in global supply chains as well as Chinese overseas travel. Car sales, for example, dropped a stunning 92 percent YoY during the first two weeks of February and recent flash PMIs show the first clear disruptions around the world with Asia-Pacific region in the front-line.

In Europe, the composite PMIs held up well thanks to resilience from domestic demand. Hence, in EZ there was a huge rise in suppliers' delivery times for manufacturers. Such a rise in delivery boosts the PMI reading because it is normally associated with strong demand and pressure on capacity. However, companies reported in February that the virus outbreak had disrupted supply chains, particularly from Asia. Meanwhile in the US, the composite PMI, fell abruptly to 49.6 from 53.3 – the lowest reading since October 2013.

Analysts assess China's growth rate in Q1 is likely to halve to around 3 percent from 6 percent YoY. For G7 countries, only the US recorded growth. Only time will tell us the real impact and spill-over into Q2.

Fixed Income

In February, US rates followed the performance of equity markets closely. The more risk-off mood, the lower the yield. UST 10Y tested the 2016-lows at 1.30. Markets are more and more convinced that coronavirus will force the FED to cut rates. FED Funds are pricing in a cut in rates in June and September. Credit markets started to widen with high beta names underperforming. High Yield spreads widened about 40bps during the equity sell-off late February. Recently issued AT1 bonds (Unicredito, DB) gapped down a few points on bad market timing. So far market liquidity remains right on with flows rather retail driven. The case for a further decline in yields remains high.

Equities

The price adjustment was certainly quite forceful, with most indices having recorded losses on each of the past six days.

EQUITY INDICATORS*

Valuation	Underweight
Momentum	Negative (↓)
Seasonality	Attractive
Macro	Neutral

However, we outline immediate and longer-term opportunities and increasing probability of easing policy from major central banks. US consumer discretionary and communication as well as EM look to be oversold and beneficial to buy on dips. Hence, we increased our tactical asset allocation in Equities and are currently overweight.

Alternatives

Gold, CHF, JPY are the top performers due to their safe haven characteristics in a risk-off environment and should continue to benefit in the wake of virus fears while oil is still deteriorating.

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

MARKET OVERVIEW AS OF MONDAY, 02 MARCH 2020, 4:43 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	1.57	0.03	0.03	0.03
USD 1y Swap	0.93	-0.64	-0.81	-0.84
USD 3y Swap	0.80	-0.56	-0.79	-0.87
USD 5y Swap	0.88	-0.48	-0.73	-0.84
USD 10y Swap	1.05	-0.43	-0.69	-0.83
EUR Overnight	-0.46	0.00	-0.01	-0.01
EUR 1y Swap	-0.45	-0.09	-0.11	-0.13
EUR 3y Swap	-0.47	-0.11	-0.18	-0.23
EUR 5y Swap	-0.42	-0.12	-0.24	-0.31
EUR 10y Swap	-0.22	-0.16	-0.35	-0.43
CDX Xover 5y	3.70%	0.64%	0.41%	0.90%
iTraxx Xover 5y	2.99%	0.71%	0.74%	0.92%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.8%	1.6%	1.9%	1.4%
USD Aggregate 3-5y	1.2%	2.6%	2.7%	2.3%
USD Aggregate 5-7y	1.6%	3.3%	3.1%	2.9%
USD Aggregate 7-10y	2.2%	5.3%	4.1%	5.1%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR Aggregate 1-3y	0.0%	0.1%	-0.4%	0.1%
EUR Aggregate 3-5y	-0.1%	0.6%	-0.6%	0.6%
EUR Aggregate 5-7y	-0.1%	1.3%	-0.7%	1.3%
EUR Aggregate 7-10y	0.2%	2.2%	-0.6%	2.4%
US Corp. HY	-1.4%	0.7%	1.6%	-1.4%
EUR HY	-2.0%	-1.0%	-0.5%	-1.9%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	6,287	15.9	2.7%	5.1%
S&P 500	2,954	17.1	2.1%	5.0%
NASDAQ	8,462	21.6	1.1%	4.1%
Euro Stoxx 50	3,349	13.1	3.9%	7.0%
SMI	9,988	15.9	3.4%	5.4%
FTSE 100	6,667	12.1	5.2%	7.4%
DAX	11,922	13.0	3.4%	2.8%
MSCI Asia Pacific	156	13.7	2.9%	4.9%
FTSE China A50	13,664	9.6	3.3%	7.3%
MSCI Emerging Market	1,006	12.3	3.2%	5.8%
PH Semiconductor	1,706	18.5	1.8%	4.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	-8.5%	-5.6%	1.0%	-9.0%
S&P 500	-8.4%	-5.1%	0.9%	-8.6%
NASDAQ	-5.9%	1.8%	10.0%	-3.1%
Euro Stoxx 50	-8.0%	-7.7%	-2.4%	-10.6%
SMI	-6.0%	-3.5%	0.6%	-5.9%
FTSE 100	-8.5%	-8.5%	-8.5%	-11.6%
DAX	-8.2%	-8.0%	-0.3%	-10.0%
MSCI Asia Pacific	-6.1%	-5.6%	1.9%	-8.8%
FTSE China A50	-0.9%	0.4%	0.4%	-5.0%
MSCI Emerging Market	-5.3%	-3.3%	2.2%	-9.8%
PH Semiconductor	-4.7%	0.8%	13.3%	-7.8%

COMMODITY

	Price	FCST 19	FCST 20	Δ Future
Gold	1,611	1387	1,500	-1.3%
Silver	16.97	16.2	17	-11.2%
Platinum	876	864	958	-13.0%
Palladium	2,546	1502	2,010	-23.4%
Crude Oil	45.56	57.0	57	-2.5%
Brent Oil	50.68	64.0	62	1.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1.7%	10.1%	5.7%	5.7%
Silver	-6.2%	-0.5%	-8.5%	-5.8%
Platinum	-8.9%	-3.2%	-6.9%	-10.4%
Palladium	14.6%	39.8%	66.0%	33.8%
Crude Oil	-11.8%	-17.9%	-14.2%	-24.6%
Brent Oil	-10.2%	-14.6%	-10.3%	-21.6%

FOREIGN EXCHANGE

	Price	FCST 19	FCST 20	Δ Spot
EUR/USD	1.1087	1.1100	1.1400	2.8%
GBP/USD	1.2786	1.2900	1.3400	4.7%
USD/CHF	0.9611	0.9900	0.9700	0.9%
USD/JPY	107.81	108.00	107	-0.8%
EUR/CHF	1.0655	1.1000	1.1000	3.2%
USD/RUB	66.78	64.10	63.83	-4.5%
EUR/RUB	74.03	71.10	72.89	-1.6%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	0.3%	0.1%	1.0%	-1.3%
GBP/USD	-1.7%	-1.1%	5.9%	-3.6%
USD/CHF	0.5%	3.2%	3.0%	0.6%
USD/JPY	0.8%	1.1%	-1.5%	0.7%
EUR/CHF	0.3%	3.1%	1.9%	1.9%
USD/RUB	-4.6%	-3.9%	0.0%	-7.2%
EUR/RUB	-4.7%	-4.0%	-1.0%	-5.9%

Source: Clarus Capital Group, Bloomberg

SPECIAL TOPIC: BREXIT, ACT II

WHAT NOW?

Brexit's done. Or at least that's what Boris Johnson, the UK Prime Minister, would want you to believe. He ran his campaign during last December's general election on a promise to 'get Brexit done' by January 31, 2020. This clearly resonated with voters; Johnson outperformed expectations to win an 80-seat majority. But while the UK has officially left the EU, entering a 'transition period' during which current EU rules on trade, travel and business will continue to apply, negotiations about a new 'future relationship' are just about to begin. The time in which to do a deal is severely limited. The transition period ends on 31 December 2020 and Johnson has made it very clear he has no plans to request an extension.

This potentially creates a new 'cliff edge' at the end of 2020: if the UK and EU are unable to reach a trade agreement, only items agreed in the Withdrawal Agreement will be in place (broadly EU and UK citizens' rights, the UK's financial contributions to the EU, and a protocol that aims to prevent a hard border between Northern Ireland and the Republic of Ireland). Without a free trade agreement (FTA), UK-EU trade would be on World Trade Organization terms. In theory, Johnson's new parliamentary majority should give him room to manoeuvre when negotiating an FTA. The challenge instead will come from the EU: which areas should be covered in the time available? Which trade-offs are acceptable? And how do these marry with the red lines that have been drawn?

The UK government's priority is to agree a zero tariff, zero quota FTA, modelled on the Canada-EU *Comprehensive Economic and Trade Agreement* (Ceta). The EU, however, has made it clear that, given the UK's 'geographical proximity and economic interdependence', stringent rules on common regulatory standards will have to be adhered to in return for a Ceta-style deal. But this, in turn, seems to clash with a UK red line. Both Johnson and the UK's chief negotiator have said that simply accepting EU regulations would defeat the point of Brexit. Bound by Rodrik's 'inescapable trilemma', Johnson's government seems willing to forgo deep economic integration in order to repatriate sovereignty.

These are the opening negotiating gambits made by each side. One possible option, especially given the limited time available, is to agree sector-by-sector deals, rather than aiming for a comprehensive agreement. This would mean the EU and the UK agreeing to lower tariffs and increased quotas on certain goods or services where the UK remains aligned on standards. Other sectors where the UK wished to diverge would face trade barriers. The EU and the UK have a highly asymmetrical trading relationship. UK exports to the EU account for about 8% of UK GDP, whereas EU exports to the UK are only about 2% of EU GDP. If greater frictions are introduced at the end of the year, there are doubts about whether the UK would be able to compensate for any reduction in EU trade by agreeing FTAs with other countries such as the US. It is also worth noting that the UK Government's own analysis suggests a Ceta-style agreement with the EU would reduce UK GDP by 4.9% in the long-run. Moving to WTO terms is predicted to reduce GDP by 7.7%. A much closer European Economic Area (EEA)-type agreement (with freedom of movement) would mean only a 1.4% hit to GDP.

An EEA-style agreement would also be good for financial services. Ceta has only limited provisions for financial services. There is nothing resembling current EU 'passporting' rights, which permit EEA authorised firms, such as banks or insurance companies, to carry out business in other EEA countries. Given that over a million people work in financial services in the UK, and UK financial services firms generate almost a quarter of their revenue from EU-related business, recent movements towards lower harmonization might be a worry.

But discussions about preserving the City of London's interests during the Brexit negotiations have been conspicuous by their absence. Factors such as public unpopularity (dating from the Global Financial Crisis) to competing interests between different parts of the sector, have meant the City has been ineffective in shaping Brexit negotiations. At least publicly, UK politicians have prioritized areas other than financial services such as manufacturing and fishing. It appears the UK will seek to secure an agreement for financial services based on 'equivalence', which allows access if regulations equivalent to the EU's are followed. But again, crucially, the UK would have to follow regulations as they evolve in the EU, meaning a loss of sovereignty.

One route forward would be for the UK to agree to 'selective equivalence' for certain areas where they see fit. However, the risk is that if only certain areas enjoy superior access to EU markets, the City of London will begin to lose its position as a premier global financial hub. Economies of scale will be lost, and firms may find it makes more sense to locate elsewhere.

Written by Thomas Schiller, Ad-Hoc Economics
http://www.adhoc-economics.ch

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IMPRESSUM

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EDITORS ROGER GANZ, HEAD ASSET MANAGEMENT, DEJAN RISTIC, HEAD EQUITY & FX, MARKUS METTIER, HEAD FIXED INCOME