# GOOD TO KNOW in July 2020

## Asset allocation

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**No glory in prevention**

This is what the German virologist Christian Drosten said in the coronavirus update podcast: „there is no glory in prevention", meaning that people are rarely grateful for measures that were taken to reduce risk. In asset management, the situation is quite similar. Were the concerns and the resulting reduction of risk wrong? We do not think so. We have, of course, been surprised by the strong rally of equity markets and, most of all, by its size and scope. From the trough, the stock market soared by almost 20 percent within just three days.

In June we decided to take one step away from the „strong" underweighting of equities towards „normal" underweighting. The rise in stock prices had increased the equity portion in the portfolios anyway and we currently continue to be underweight in equities despite some new additions.

Within an extremely short time span, the stock market turned from bleak pessimism to complacency. We are still worried, though, and keep an eye on the risks which most market participants have apparently chosen to ignore.

We recognise the positive changes resulting from the world-wide reopening of the economies, of course, but across the various segments, absolute levels are widely diverse. Our underweighting of equities is not the expression of a doom-and-gloom scenario. We see a slow recovery, but not a V-shaped movement (sharply down and up again) of the economy as currently being anticipated by the stock markets.

### A wave of central bank programmes

There is nothing to say against the huge central bank stimulus packages. In June, the European Central Bank (ECB) granted a total of 1.31 trillion Euro in loans to Euro zone banks (under the so-called TLTRO programme) at an interest rate of minus 1 percent. Are the banks now going to throw loans at European businesses with full hands? This is unlikely, as it is much easier to invest in Italian government bonds. On the one hand, this gets you one percent per year from the central bank and, on the other, a three-year Italian government bonds pays 0.25 percent or, over five years, even 0.75 percent. In addition, this supports the Euro and ECB backing is guaranteed.

The primary bond market is wide open and activity there is intense. The Republic of Austria issued a 100-year bond with a coupon of 0.88 percent. Demand was strong and the issue was heavily oversubscribed.

Overall, bonds worth 140 billion Dollar have been placed on the market internationally over the past two months, with two thirds coming from Europe, the Middle East and Africa. One half was sovereign bonds or semi-public bonds, one third corporate bonds, and only 14 percent financials.

We have also been active in the primary market. Brisk issuing activity offered us the opportunity of investing broadly in many different instruments, thus keeping individual security risk low. In June we subscribed to bonds from more than thirty issuers. We have been cultivating access to this market segment for many years. Today, we reap the fruits of this work for our clients in the form of extra returns that are not available in this manner in the secondary market. In the current low-interest-rate environment, one has to struggle more than ever for every basis point.