2020: A year of shocks, but also a memorable year the Corum investment policy

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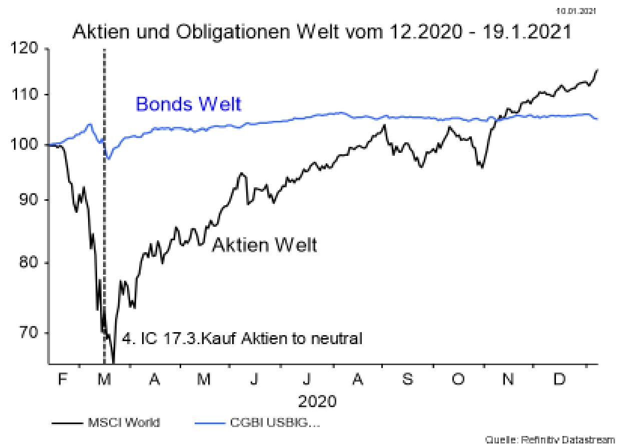
The rapid, overwhelming spread of the coronavirus at the start of the year and the tough, incisive economic and political measures taken to fight the pandemic triggered a shock on the stock markets at the end of February. Within a few days, global stock markets lost around a third of their value. The first wave of the virus was, we must note, under control relatively swiftly due to drastic limitations on interpersonal contact. In the third quarter, economic activity experienced an uptick. Nobody really wanted to believe in a second wave. Additionally, there was widespread confidence that we now knew how to fight the virus: with appeals to individual responsibility, testing, tracing, isolation and quarantine. But surely not with any more lockdowns. This experiment was to fail miserably. With the more targeted, decentralised approach, valuable time was lost. In the USA, the situation reached the point that the president followed the lead of conspiracy theorists and played down the virus as a harmless flu, and decided to do as little as possible to counter it. Into this desolate situation, the scientific breakthrough of the vaccines brought great hope. Unfortunately, the mutation of the virus represents yet another clear step backwards. The mutations can spread around 70% faster. In Switzerland it is estimated that it is doubling weekly. The dramatic images from England and Ireland show what lies in store for us, because 2/3 of the population will not be vaccinated until summer. Here in the West, then, we have some tough months ahead of us, not just in terms of health policy but also economically speaking. No country will be able to escape tough measures if they do not want case numbers to enter exponential growth once more. Especially not Switzerland, which for weeks now has been recording the highest death rates in Europe and has so far spent the least, as a proportion of GDP.

From a global standpoint, the economic costs of the pandemic are enormous. The IMF estimates it at around 8% of global GDP. This is a setback of a magnitude not seen since the Second World War. Despite this, the aggregated value of companies is now greater than it was before the pandemic. Many are asking whether the financial markets have become unhooked from reality. We do not share this assessment. Because, unlike in ordinary recessions, in this cycle no serious insolvencies and layoffs have been recorded. Rather the opposite: the production apparatus remains largely intact. What makes this possible is the political consensus that the costs of the pandemic should to a great extent be borne in common, not through tax increases but through increasing state debt on the capital markets. In addition, national banks, with their ultra-expansive monetary policies, have helped to lower interest rates further, increasing the present value of the future profits.

For this reason, the high stock market prices are fundamentally well founded. Shareholders are correct in assuming that the global virus crisis will end this year, and many people will want to make up for what they had to do without during the pandemic. The supply capacity is there, as is the money, because many have saved throughout the pandemic.

The special character of this recession is also shown in the progress of the stock markets. After the surprisingly rapid spread of the pandemic at the end of February, they fell by around a third.

We did not consider the low valuation justifiable, as we were convinced that the costs of the pandemic would be borne by society, not by the private sector. For this reason, on 17 March 2020, shortly before the low point, we increased the share ratio from 70% to 100%. This investment decision alone led in 2020 to excess returns of double figures in our share model portfolio. Further micro-decisions generated additional excess returns. It is not every year, of course, that the markets offer such opportunities.



But we are confident of further progress in the first quarter of the new year. The end of the pandemic on the horizon, the end of Trumpian confrontation, the huge, unprecedented economic support programmes, the hunger for closeness and mobility, the savings laid down during the pandemic and a global liquidity that leaves nothing to be desired, all let us expect unparalleled levels of demand to come. And it will be a demand that can be satisfied, as productive capacity is largely undamaged. For companies, this will give scope for increasing prices, meaning higher profits. These, in the end, are what justify the high value set on stocks. But let's not celebrate too long. There are hidden risks. The UK has shown that a small mutation in the virus can set a whole country back months. This British variant of the virus is also highly infectious. And it knows no borders. Western democracies' lax approach to the virus raise fears, unfortunately, that yet again, decisions will be taken too late, and the full weight of a new pandemic will be felt. With our control measures, we would then be in an arms race against the virus. However, we do not assume that the mutations will have resistance against the vaccines already developed. That would stretch the schedule of our scenario to breaking point.

If the party gets started around summer, further dangers lie in wait. If the demand shock is too strong, expectations of inflation could well form. The more so as the American Federal Reserve has signalled that it is ready to keep interest rates low for a long period, even if inflation temporarily rises above the two percent target. We consider this risk to be considerable. If it does happen, long-term interest rates would react to it as early as this year. Right now, we are reflecting this in an underweighting of bonds.

But first and foremost, we are looking forward to getting the party started. This anticipation justifies a slight underweighting of shares, with Europe and Asia considered to offer the greatest opportunity. We have once again increased the underweighting of bonds.