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Monthly Update – March 2020

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Summary

— **Macro model scores for equity and credit markets have weakened again across all regions. Nevertheless, they remain marginally in positive territory, with the notable exception of Japan.**
— **The decline in model scores was triggered by both the cycle submodel and a flattening of yield curves.**
— **In contrast, short-term early warning indicators have not deteriorated further, but remain in negative territory. However, the stability of the copper price was a noteworthy development.**
— **The weakening of the model scores was strongly influenced by the coronavirus epidemic and must therefore be considered an external shock.**
— **This makes short-term timing difficult. At the moment, however, markets still have a relatively large amount of residual energy.**

Highlights and key changes

— Some of our **short-term early warning indicators have weakened**. In particular, the share prices of the **consumer credit institutions Capital One and American Express**, which until recently remained very firm, came under considerable pressure. Transportation indices (shipping, trucks and air transport) were also weak. Here, however, it was primarily **sectors directly affected by the coronavirus that reacted negatively**. Consequently, this is not yet indicative of structural economic weakness.

— **The copper price, on the other hand, has remained fairly stable**. This is remarkable and should be seen as positive. **Copper is an extraordinarily fast and reliable leading indicator** for the global and, in particular, the Chinese economy.

— The US money supply M1 reached new highs, signaling **very high financial market liquidity**.

— **Currency markets are also reasonably stable, especially the Chinese yuan.** This is an **important prerequisite for further monetary easing by the PBoC** to support the economy and financial markets.

— **The trend in interest rates and inflation remains clearly downward** in the current environment, but only as long as the uncertainty regarding the spread of the coronavirus persists. Otherwise, there would be various grounds for the trend to reverse and head upwards.

— **Valuations of equity, credit and bond markets remain in the slightly expensive range**. However, no real exaggerations are currently visible.

Topics "on the radar"

The global economy and financial markets still have a relatively high level of residual energy, which is further supported by an extremely generous supply of liquidity from central banks worldwide.

However, the system cannot withstand the pressure of the coronavirus epidemic, which has so far been only temporary, indefinitely. We therefore summarise here some information on the course of the epidemic to date, which may also provide a very rough indicator of its further evolution.

The **worldwide spreading** of the virus has been the main concern since last week. Conversely, **in China the situation should be under control by now**, with the daily rate of new infections numbering only about 300 to 400 and being largely confined to the Hubei province. **The global contagion so far is in line with what experts have long been predicting** for this type of epidemic.

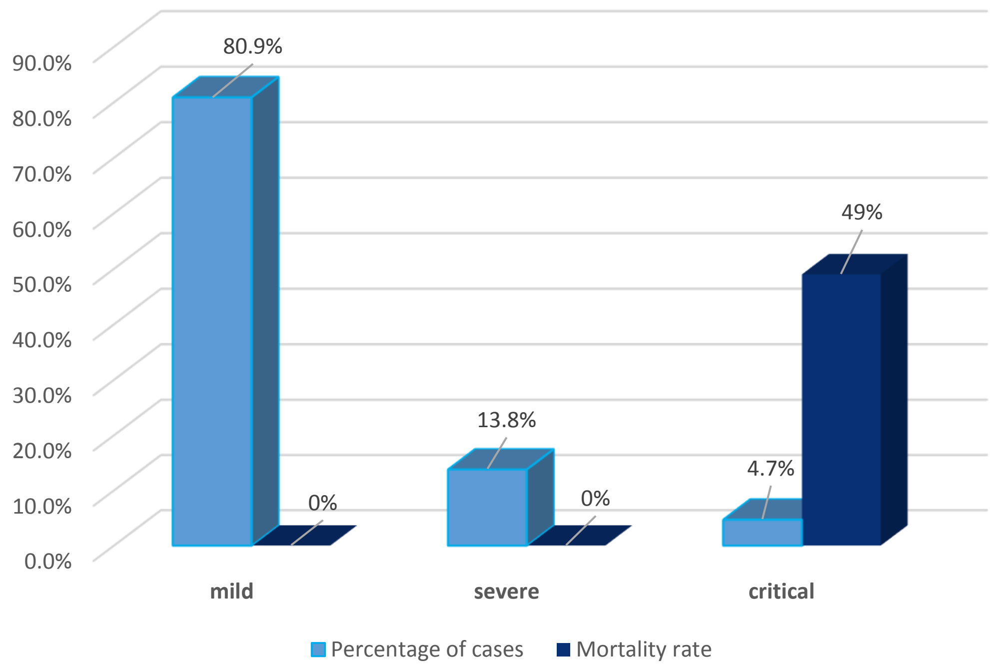
Due to the long lead time and the sometimes drastic measures taken in various countries, there is, according to experts, **justified hope that the global spreading will slow down considerably**. However, a complete **disappearance of the virus in the near future is unlikely**. Nevertheless, a real pandemic need not occur as long as the **infections remain below a critical threshold**. This too is based on experience with previous epidemics.

In China, companies have ramped up their production again to around 70%.

The following graph shows that, interestingly enough, **the danger of the virus is not as great as is often feared**. **Even in severe cases there were no fatalities** up to the survey date (11 February):

Chart: Covid-19 takes a mild course in four out of five cases

The number of cases in China is 44,672 sick with 1023 fatalities (as of 11 February 2020)



Source Chinese Center for Disease Control and Prevention

Summary of *FischView* model outputs

	US	Europe	Japan	Asia ex-Japan	LatAm	CEEMEA
Equities	+	+	o ↓	+	+	o ↓
Government Bonds	+	+	+			
Credit IG	o	o		o	+	+
Credit HY	o	o		o	o ↓	o ↓
Convertibles	+	+	o ↓	+		
Commodities	Energy:	- ↓	Prec. Met:	+	Indu. Met:	o ↓

Key:

++	Strong positive
+	Positive
o	Neutral
-	Negative
--	Strong negative

Notes regarding the table: Changes from prior month are indicated with ↓ or ↑. i.e. "O ↓" means that the output has weakened from a prior value of + or ++.
The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained **here**.
Within government bonds, we consider the most important bonds for each region, e.g. German Bunds in Europe, and a representative group of countries for Latin America, Asia ex-Japan and CEEMEA (Central and Eastern Europe, Middle East and Africa).

Cross asset class preferences

This table combines top-down views with bottom-up analysis at the portfolio level.

	Most preferred	Least preferred
Convertible bonds	– Industrials – Utilities – Technology	– Real estate – Shopping center REITS – Energy
Global High Yield	– ‘B’ rating segment EUR – Telecoms	– ‘CCC’ rating segment – Asia – Banks
Emerging Market Corporates - Defensive	– Latin America (Mexico) – Middle East (UAE)	– Asia (South Korea/Hong Kong)
Emerging Market Corporates - Opportunistic	– Latin America (Brazil) – Middle East	– Asia (South Korea/Hong Kong)
Global Corporates	– North America – Telecom & Media – Pharma	– Pacific – Energy – Asia HY

Note: Preferred sectors/regions may differ between asset classes owing to respective performance drivers. In particular, equity exposure is the key performance driver for convertible bonds and is not relevant for corporate bonds.

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