EAGLE INVEST

Newsletter

Analytical View of the Financial Markets

Issue 83 May 2020

Topics in this issue:

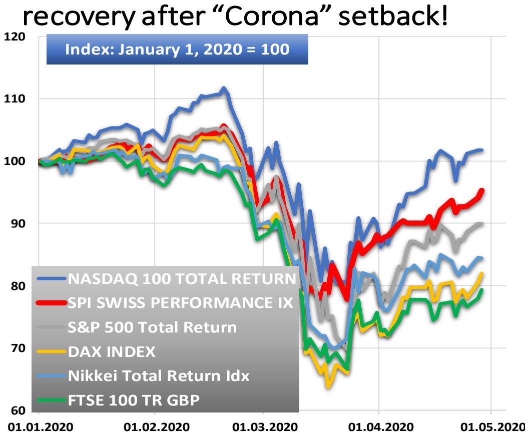
- *Despite Corona, companies have to show their quarterly balance sheets. There are positive surprises!*
- *CH exports remained relatively strong in the first quarter, but the continuation is bleak.*
- *A look at the SNB's balance sheet reveals that the money supply has been massively expanded!*
- *After severe natural disasters, Japan now wants to show growth again!*
- *The pandemic is a positive challenge for companies in the health sector!*
- *The price drop on the oil market unsettled! An end to the turbulence is not yet in sight!*

Still on, or already over the mountain?

It was a "made-to-measure start", the unexpectedly strong increase in UBS's profits in the new first quarter of this extraordinary business year. A nice farewell gift for the soon to leave UBS boss Ermotti. The facts from the UBS balance sheet were received with great joy on the market and also gave the CS a boost! Bank titles remained sought!

In the United States, the Open Market Committee met once again at the end of April. After all the numerous market interventions and interest rate cuts in the past few weeks, the market had no expectations of further market interventions. The FED's unprecedented support for the benefit of the US economy is likely to pause for the time being so that the effects on the real economy can be checked. In fact, GDP growth (See page 2)

International Stock Markets: Significant recovery after "Corona" setback!



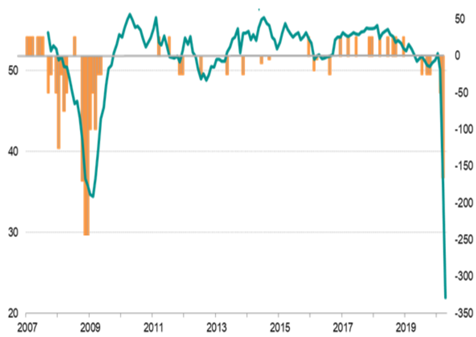
Swiss export demand weak

Anything but unpleasant economic indicators would be a real surprise. There are positive developments (e.g. from the biotech sector), but at the moment they are clearly in the minority. The Purchasing Manager Index (PMI) gives a fairly accurate picture of the current situation. At the moment, however, it is unfortunately not sending any positive news, as it has fallen well below the growth threshold of 50 points. In both the industrial and service sectors, the index fell significantly compared to the previous month.

The eurozone experienced the largest ever drop in growth and employment as a result of measures to contain the corona pandemic.

We also hear bad news from the watch industry, one of the flagships of the Swiss export industry. An area, of course, that depends heavily on the global economy, but the individual companies are covered in very different ways. There are around 350 watchmaking companies in Switzerland. Insiders believe that around 15% of them are not crisis-resistant. If this information is correct, the watchmaking industry will emerge from this crisis in a greatly reduced form.

PMI Output Index (USA, Japan, EU)

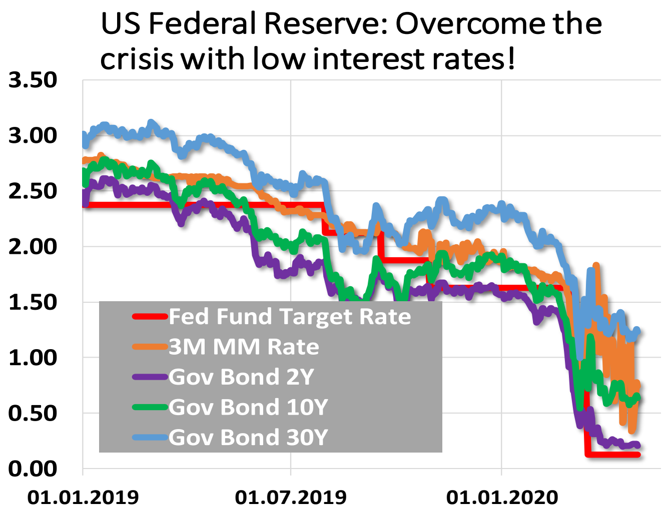


...Still on, or already over the mountain?

slumped by 4.8% in the first quarter. This affects the labor market in particular, since the many production shutdowns have led to a massive increase in requests for unemployment benefits. Many only find part-time employment, others even have to quit the job altogether, so that the unemployment rate will increase massively not only in the USA, but worldwide this year.

In Germany, experts expect GDP to plummet by almost 5%, but only if the economy recovers quickly and the labor market does not get out of control. The German federal government provided a correspondingly extensive aid program (EUR 500 billion). In Italy, where unemployment is already at 9.8%, the government has little means to prevent corporate bankruptcies. Italy has the world's third largest mountain of debt instead of a financial cushion, only surpassed by the United States and Japan. Unemployment in France has dropped slightly to 8.1% in recent months, but is still too high to get out of the crisis quickly. In the United States, unemployment has skyrocketed in the past few weeks.

Due to the sharp increase in negative news, the current growth forecasts for the Swiss economy have been adjusted significantly downwards. For example, the experts expect the national income to shrink by just under 7% in the current year. This is the sharpest decline in real GDP since the 1970s when flexible exchange rates were introduced. In 2021, however, the Swiss economy should revive significantly. Then, only then, we will be over the mountain!



SNB balance sheet as of March 31, 2020

The Swiss National Bank's (SNB) foreign exchange investments fell by CHF 12.6 billion in the first quarter of 2020. At the end of March 2020, that was 1.48% of the total assets of the SNB, or 1.51% of the reported gold and foreign exchange reserves, or 2.10% of the total amount of central bank money under the control of the SNB!

That looks like number robbery! But it is not! On the contrary, this is the important part of the central bank that ensures the money supply of an economy. The central bank can control the money supply by changing the gold, foreign exchange or securities holdings (the latter is insignificant in Switzerland). This gives the institution broad economic importance. It bears a great responsibility for the development of inflation and exchange rates. The actions of the SNB also affect economic growth, but it is in Switzerland not the primary goal of monetary policy!

The central bank is responsible for providing the economy with sufficient liquidity. With the banknotes in circulation in the private sector, the sight deposits of the banks and the federal government, it has the ideal distribution channels to manage the money supply. The central bank can use the assets side of its balance sheet to control the money supply (money supply M1, M2 and M3) and thus influence GDP growth, exchange rates and the general price level. Over the past 50 years, it has had sufficient experience with this, which ultimately resulted in moderate GDP growth with relatively modest inflation and low unemployment. Unfortunately, the current pandemic has the potential to disrupt existing structures. However, the SNB's balance sheet should include sufficient resilience to face upcoming storms!

Balance Sheet of the SNB in billion CHF

Assets	31.03.2020	31.12.2019	Liabilities	31.03.2020	31.12.2019
Gold	51.92	49.11	Curency	83.22	84.45
Foreign Reserves	781.44	794.02	Current Account Banks	526.07	505.81
Securities	3.98	4.07	Current Account Government	24.14	23.48
Others	3.16	13.76	Others	90.02	80.14
			Equity	128.86	167.08
Total	852.31	860.96	Total	852.31	860.96

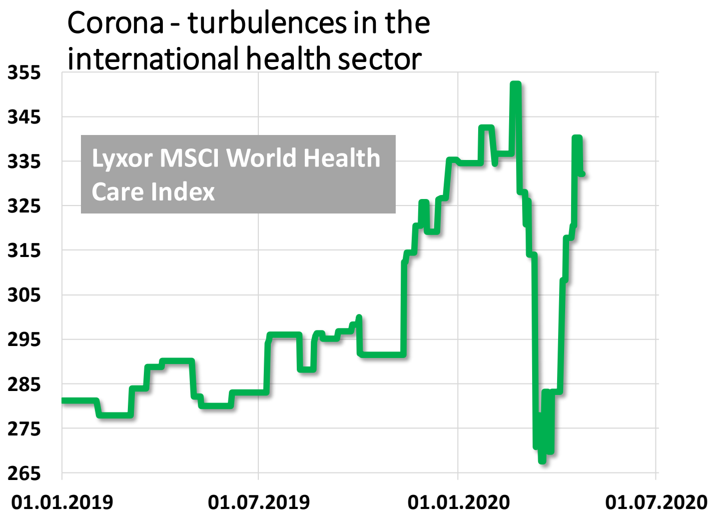
Corona virus - boost in the biotech sector!

The MSCI World Health Care Index reached an all-time high in February 2020. After that, however, the market was shaken by the corona virus and sales followed in almost all asset classes. From February 25th to March 19th, the Health Care Index lost around a quarter of its value because the markets suddenly panicked and many investors wanted to get rid of their shares as quickly as possible. According to the motto: Better not waste time if you don't know what the future holds! Indeed, hardly anyone assumed that the markets would recover quickly.

A look at the graphic opposite shows that a reserved strategy has paid off. However, since March 19, the index has risen and almost made up for the entire previous setback. So, nothing except expenses? Unfortunately, we do not know what will happen from now on. Cautious strategies should remain in the foreground.

But, there are also more confident reports. It is heard from various sides that numerous small and large pharmaceutical companies are involved in the provision and development of diagnostics, medicines or vaccines for the treatment of Covid-19. Facts that have been rewarded accordingly by the market. In any case, the total returns remained impressive in the biotech sector. In this environment, the biotech sector will gain importance in the portfolio structure.

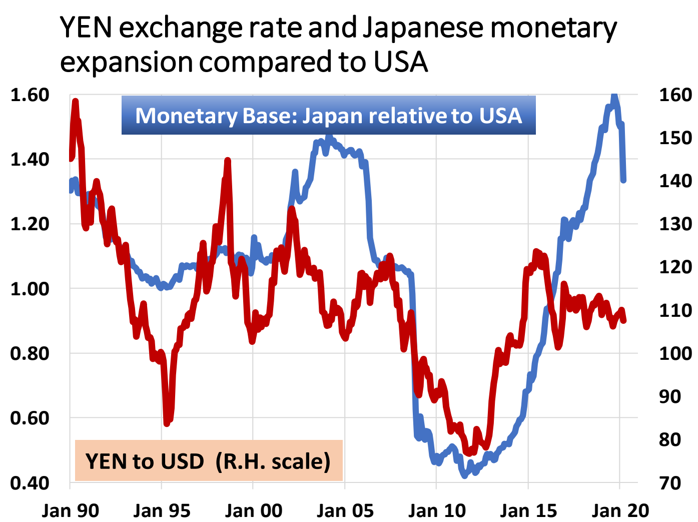
For example, BB-Biotech invests in high-growth biotechnology companies worldwide. These include California-based Ionis Pharmaceuticals, which specializes in metabolism and cardiovascular therapies, and Vertex Pharmaceuticals, a biopharmaceutical company based in Boston (USA). The company develops medicines to treat people with serious, genetically determined diseases.



Japan not quite in "take off" mode?

Does Japan want to build on past times when the Nikkei Index followed a steady upward trend in the 1980s and Japanese investors were looking for investment properties worldwide? One of the big investors, the Hungarian-born philanthropist George Soros, has repeatedly caused a sensation with both his investments and his progressive comments. Nevertheless, he also developed a stock indicator that is supposed to provide information about the relationship between Japanese and American investments.

As can be seen from the graphic opposite, the Japanese money supply (monetary base) has grown significantly faster than the American one in the past 10 years. This would normally lead to an acceleration of inflation in Japan with a corresponding negative impact on the YEN exchange rate, which was actually the case in 2012 to 2015. Afterwards, however, this hardly applies anymore. The various natural disasters, in particular the catastrophic earthquake of 2011, once again reduced the growth of the gross national product. This was already badly affected due to the previous global financial crisis. Japan regained strength in the years that followed, but the latest figures are still very modest!



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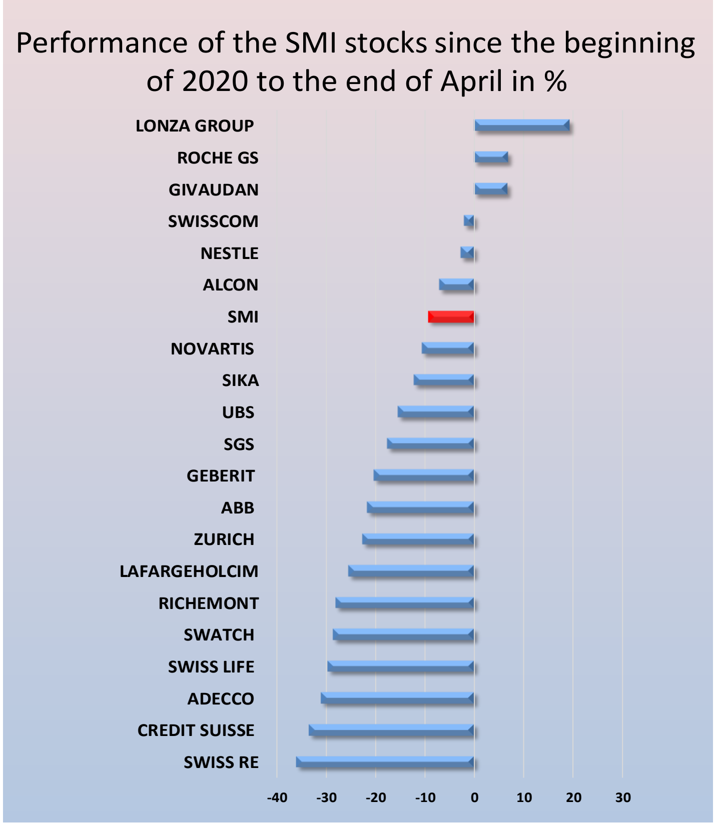

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How can the price of US WTI oil fall below USD 0.00?

The fact is certain. The world is slowly but surely running out of space to store oil. This is the result of an oversupply combined with a drastic drop in demand caused by the Corona crisis. The surpluses must be stored, but the camps threaten to fill up. This leads to a strange situation. The price of a barrel (159 liters) of oil of the US type WTI plummeted on April 20 in New York under USD 0.00.

How could it possibly come this far? Simply put: investors on the New York commodities exchange had underestimated the situation or simply gambled away. There the oil is traded on futures, through so-called futures.

Anyone who owns an oil future undertakes to accept the raw material at a certain point in time. That would be 1,000 barrels per contract. 1,000 barrels of oil. The May contract will be delivered at the end of May, the June variant accordingly at the end of June. Many investors on the commodities exchange only want to speculate with the oil; they never seriously intend to receive the greasy commodity themselves. The closer the end of a respective contract comes, the more urgently the future must be sold by these speculators.

If investors are unable to sell the contract, they will receive the raw material at the end of the term - but this is not what they intended. With little oil left, traders were forced to lower prices to get business. When the price of US WTI oil fell below USD 0.00 for a short time, they even had to pay to get rid of their contracts.

Performance EV100: Reference portfolio per April 30, 2020:	
Since Launch 14.8.17	**- 12.77 %**
Last month	**9.11 %**
YtD 2020	**- 15.19 %**
Currency structure	
CHF	**77.90 %**
EUR	**14.00 %**
USD	**6.20 %**
GBP	**1.90 %**