EAGLE INVEST

Newsletter

Analytical View of the Financial Markets

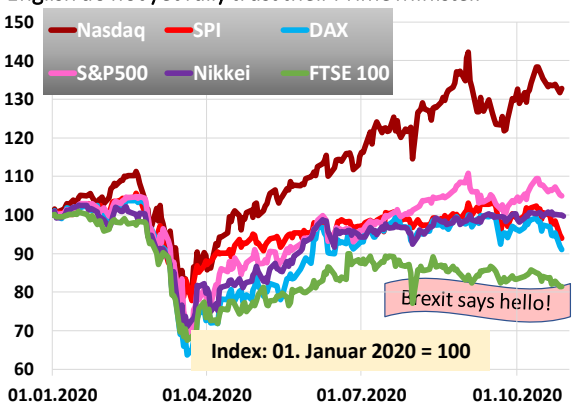
Issue 89 November 2020

Is the Coronavirus going to change the world?

To say it in advance: There is no answer to the title question yet. But the new variant of the coronavirus is spreading rapidly worldwide. The World Health Organization WHO speaks of a pandemic! In addition, according to the latest scientific studies, many more people have died than the current corona statistics indicate. We have to live with that. An effective drug against the pandemic is not yet available. The only thing we can do is to follow the recommendations of the experts. In other words, we have to give up some personal freedoms for the time being. This is not easy, but it is feasible!

What is clear: Corona slows down the economy! Worldwide, economic activity in the first half of 2020 has decreased significantly compared to the previous year. (See page 2)

International stock markets: Despite interruptions, the trend, especially for the NASDAQ, remains upward! The English do not yet fully trust their Prime Minister.



Topics in this issue:

- *The coronavirus has lasting effects on the global economy.*
- *Provide liquidity in difficult times. The most important central banks adhere to this!*
- *In Switzerland but also elsewhere, monetary policy has a lasting impact on economic growth.*
- *Corona also does not leave the labor market alone, on the contrary. Only rigorous government aid can help it!*
- *Turkey has a central geographical position in the balance of power between East and West!*
- ***Where to invest:** The leading producer of active pharmaceutical ingredients is Lonza. The current restructuring promises upside potential.*

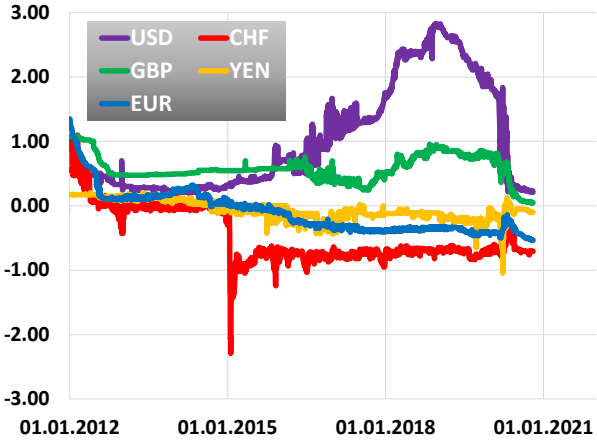
Central banks in expansion mode!

While the US Federal Reserve wanted to bring economic growth and emerging inflation fears somewhat under control with higher money market rates in the years 2015 to 2018, the Federal Reserve Bank has now also joined the monetary policy stance of the other major central banks. The money market rate (3M), which is important for the demand for money, was reduced to less than 0.3%.

With this move, the U.S. Federal Reserve Bank has aligned itself with the objectives of the other major central banks. These have been pursuing an expansive course for some time now and do not appear to be afraid of possible inflationary effects.

All five central banks are in expansion mode! Since the beginning of 2015, the average money market rate in Switzerland, Japan and Euroland has even been negative. The goal of the central banks is clear: they want to provide the economy with sufficient liquidity so that companies do not have to go through a prolonged period of depression as a result of the current pandemic. So far this seems to have been successful, as economic figures are improving in most countries. However, many things are still uncertain and a continuation of the economic slump cannot be ruled out!

Money market rates (3M): The central banks provide the economy with sufficient liquidity! Interest rates remain low!

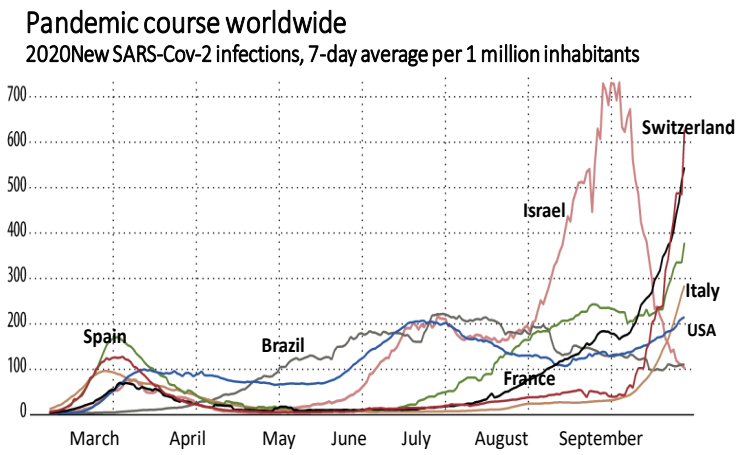


...Is the Coronavirus going to change the world?

According to the latest forecasts and assuming that the pandemic no longer spreads massively, GDP growth should return in the second half of the year, so that real GDP should shrink by no more than 3.6% in the current year.

However, in the last few weeks, the number of infections in Switzerland and elsewhere has again increased dramatically. Should this development continue, the ETH-KOF Institute forecasts that, similar to the situation in spring, there will again be a significant lockdown in the gastronomy, transport and event sectors. GDP growth is then likely to slump again significantly and recover only slowly over the next two years. Unfortunately, the probability of such a scenario has increased somewhat in recent weeks!

But not only Switzerland, but the whole world is suffering from the Covid 19 pandemic! In the euro zone, GDP growth in the second quarter slumped by 11.8% and in the USA by 9.1%. In Great Britain, where Boris Johnson wanted to go his own way through the pandemic, the GDP growth rate fell by 20.4% in the second quarter! The massive slump in economic activity naturally had a drastic impact on the labor market and caused the unemployment rate to rise. The collapse in demand had a positive impact on inflation. The rate of inflation dropped significantly in most countries and fell below zero in many places! What remains is uncertainty about the further course of the pandemic. This uncertainty ultimately also led to a marked increase in savings, which could at most have a negative impact on economic growth.



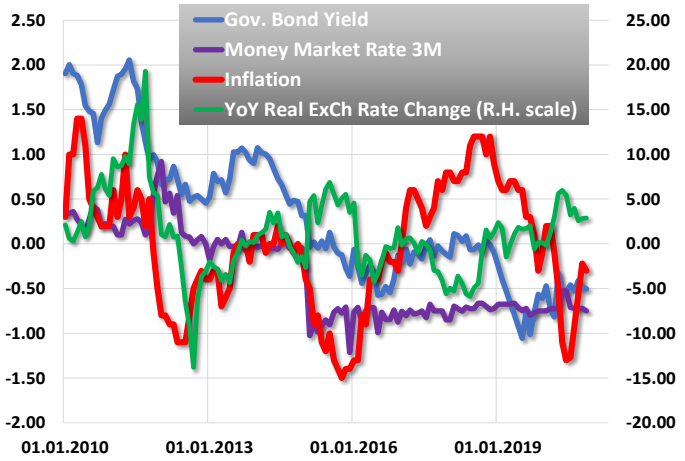
Swiss economy in sideways mode!

This at least conveys the trend in interest rates, which have been falling slightly or moving predominantly sideways since 2010. The money market rate started the past decade at 0.35% and is now at -0.70%, while the yield on government bonds fell from just under 2% to -0.5%. The inflation rate fluctuated relatively strongly around the average value of 0.02%. Finally, the real exchange rate has also been fluctuating sharply around the long-term average of +1.1%!

In Switzerland, interest rates and exchange rates are mainly determined by economic growth in Switzerland and abroad as well as by domestic and international monetary policy! So if foreign investors (e.g. investment funds, pension funds) are convinced that investments in the Swiss capital market will yield an attractive return from their point of view, hardly anyone will be able to hold them back from investing in this market! This demand is likely to lead to interest rate increases and a revaluation of the CHF on the Swiss capital market, assuming the money supply remains unchanged.

Although the development described above may offer incentives for Swiss or Swiss importing companies traveling abroad, the attractiveness of Switzerland as a vacation destination is diminishing for foreigners. In addition, Swiss exporters remain stuck on their offers or relocate abroad! In reality, the SNB has not raised interest rates, but on the contrary has lowered them and thus massively expanded the money supply. Obviously, this was the right course of action in this corona-induced economic growth setback. Although economic growth has collapsed, it has quickly stabilized again, albeit at a lower level than before the outbreak of the pandemic. Today we can assume that the sideways movements of interest rates, exchange rates and inflation will continue for the time being. Real GDP growth should return to the longer-term growth path in 2022!

Switzerland: where are interest rates, exchange rates and inflation headed? No clear trend!



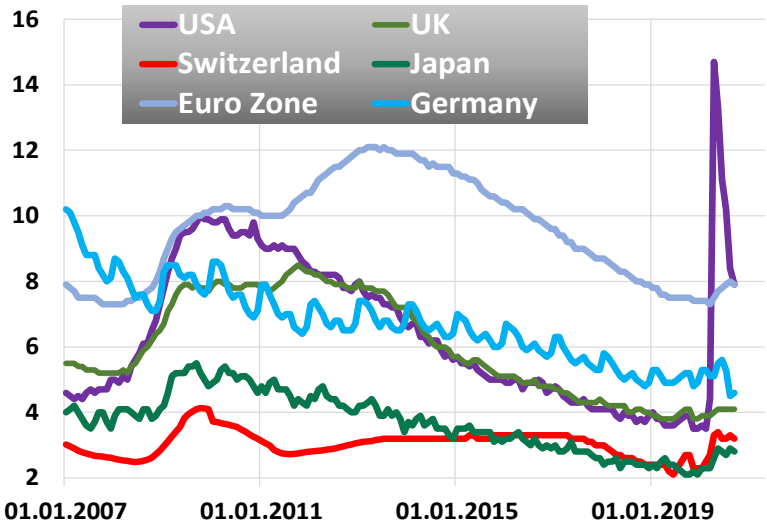
Corona meets the labor market!

The development on the labor market over the last 10 years has been incredibly stable for most observers and more and more jobs have been generated. In Switzerland, but also elsewhere! And now this! Within a very short period of time, Covid-19 caused uncertainty, bias and grief worldwide. In spite of initiated protective measures, the number of cases is increasing again - and rapidly!

A look at the unemployment statistics in major industrialized countries shows that everyone is affected, albeit to varying degrees. The massive increase in unemployment figures in the USA is striking. However, this is less due to the fact that the pandemic spread faster in America than in Europe, but rather to the different legal bases. The "hire and fire" policy is still in use on the US labor market and therefore led to an immediate massive increase in layoffs as the corona virus spread. Only when the government provided financial aid did the situation calm down somewhat. In Switzerland and in other countries, the government promised and provided support to affected companies relatively quickly. This turned around an immediate "knock down" in many places

However, as many had hoped, the story is unfortunately not yet over. In the last weeks the number of cases is increasing rapidly in many places as feared with the winter months! The precautionary measures are being increased. Working from home is increasing again. Stores and restaurants are feeling the restrictions. The unemployment rate should therefore continue to increase!

Unemployment rate: Due to the Corona Pandemic the unemployment rate shot up!



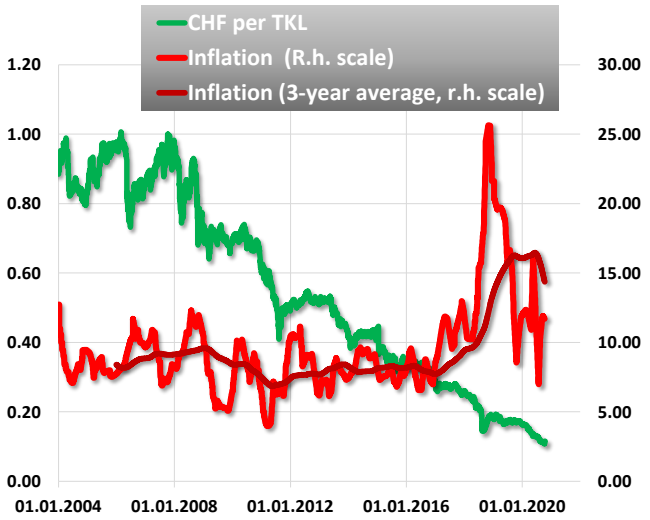
Turkey: Goodwill consumed?

Since the election of Erdogan as Turkish Prime Minister in 2003 and his subsequent election in 2018 as President with almost absolutist powers, much has changed in this country. After an initial phase of democratization, under Erdogan's presidency democratic and constitutional standards have been increasingly curtailed.

Geopolitically, Turkey occupies a key position, since the power political interests of the United States, the Soviet Union, China and the oil-producing states on the Red Sea all converge in Turkey's vicinity. A fact, which the Turkish president is well aware of and with which he tries to assert his influence militarily! But the economic power hardly allows this!

Since 2004 the average annual inflation amounts to approximately 16%. In the last few years, however, it has risen again, as the Turkish government tried to prevent the economic slowdown that would occur in 2017/18 with an expansive monetary policy, but this was not successful. However, the loose monetary policy and the very nationalistically colored economic policy led to an accelerating decline in the external value of the Turkish lira. When Erdogan took over the government activities, a TKL in Switzerland still had a price of about CHF 1.00. Today this price is CHF 0.12. The continuing massive devaluation, also against other currencies, led to a growing flight of capital. It looks as if the Turkish central bank is trying to prevent a further devaluation, but this works against the export ideas of the government! Erdogan will do everything to assert himself!

Turkey: Erdogan shows his muscles and gets involved in positions of power politics! Economically, however, it is on very thin ice! One of the highest inflation rates in the world!



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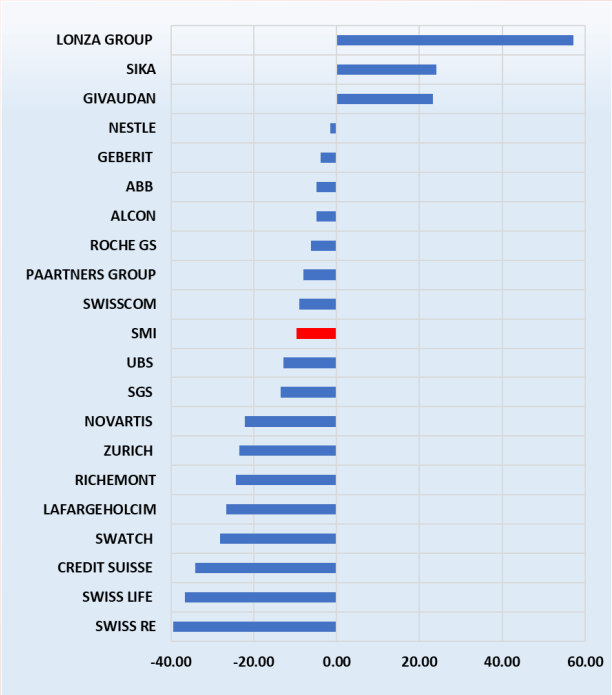
Performance of the SMI stocks since the beginning of 2020 to the end of October in %



Where to invest? Lonza Group Ltd.

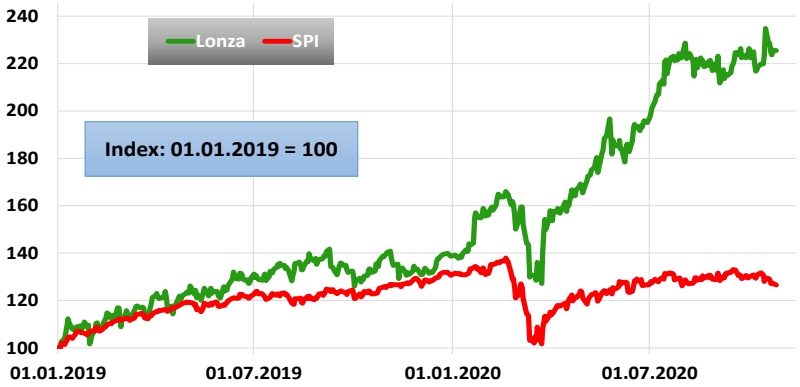
Lonza Group Ltd. is one of the leading producers of active pharmaceutical ingredients. As a supplier, Lonza serves the pharmaceutical, healthcare and life science industries. The portfolio includes molecules that play an important role in the development of novel drugs and health care products. Lonza has 45 production and research sites worldwide. From 2021, the business is to be divided into four units. These are Biology, Capsules and Ingredients for Health, Cell and Gene Therapy and Life Science.

The new strategy for the period after the final separation from the chemicals business does not contain any major surprises. The increased visibility resulting from the realignment into four business units is viewed positively. However, given the annual growth of almost 60% to date, there are certain limits to the title's upward potential.

The Lonza update is very extensive in terms of the new business structure, the dynamics of the individual divisions or the new forecasts. Lonza will have a clear focus on the pharmaceutical and biotech industries in the future. This will give the company an excellent profile with a good balance between high growth, strong margins, higher cash generation and increasing returns on capital.

The indicator for fundamental analysis helps to positively assess the share: the P/E ratio. On this basis, Lonza is, at a value of 25.92, significantly cheaper than the average in the industry and therefore undervalued, as its PER is 41.7! The gap is thus 38%.

Performance EV100: Reference portfolio per October 31, 2020:	
Since Launch 14.8.17	**- 14.65 %**
Last month	**- 6.77 %**
YtD 2020	**- 17.41 %**
Currency structure	
CHF	**82.30 %**
EUR	**15.90 %**
GBP	**1.80 %**



Sources: Dr. Galli Investment Research