Market review January 2020

Without having kept precise statistics, we can state with confidence that "Coronavirus" was the most written about, mentioned and debated term during the month of January. This virus has the same origin as SARS, which claimed the lives of 774 people in the world between 2002 and 2003, and it seems to be spreading faster than its predecessor. With the exception of a few cases in the United States, Southeast Asia and Europe, China is the epicentre of this new epidemic. In response, several of the country's cities were quarantined during the Chinese New Year celebrations, and the World Health Organisation has declared an international health emergency. By the end of January, there were more than 16,000 cases and 361 deaths in China, and the first death outside China (in the Philippines) had also been confirmed. At this stage, it is very difficult to assess the full impact on the Chinese as well as the global economy, as this will depend on the spread of the disease in the coming weeks, but it is likely that the first and second quarter GDP figures will be lower than previously expected.

Market trends at end of January 2020

	Equities in Local Currencies							
End of January	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 3 Month	4.87%	6.19%	1.01%	1.33%	1.19%	3.99%	0.52%	-2.21%
Perf YTD	-0.68%	-0.16%	-2.78%	-2.87%	-1.90%	0.10%	-3.40%	-6.66%

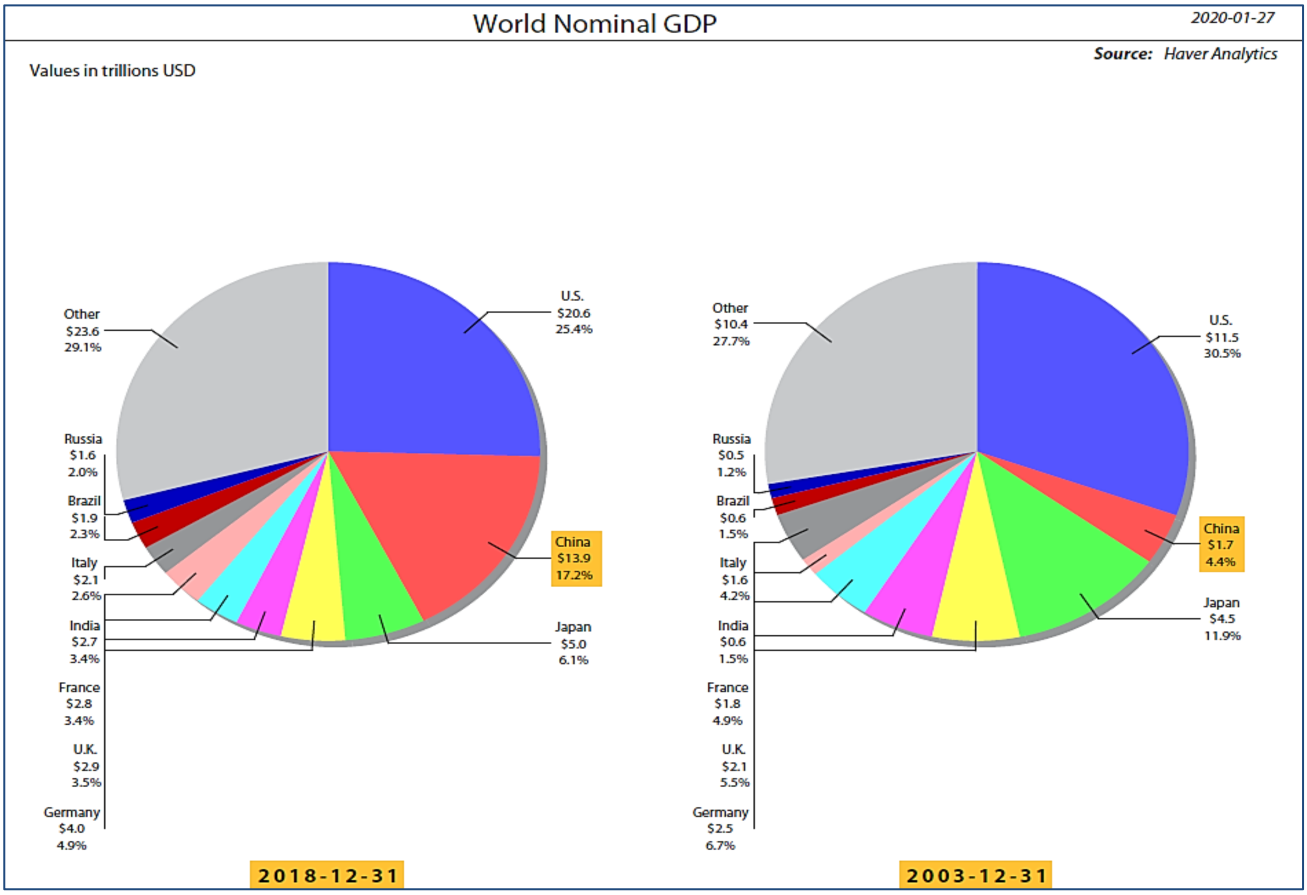
	Commodities				Currencies vs EUR			
End of January	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 3 Month	-4.84%	-3.44%	5.03%	-3.97%	0.54%	-0.27%	2.57%	-2.84%
Perf YTD	-15.56%	-11.88%	4.74%	-9.83%	1.08%	1.33%	0.66%	1.56%

	Bloomberg Indices Bonds Total returns							
End of January	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 3 Month	1.09%	1.80%	0.62%	1.80%	0.78%	2.07%	2.80%	3.12%
Perf YTD	1.28%	1.92%	1.99%	3.24%	4.89%	1.55%	0.13%	1.54%

Source : Bloomberg 31/01/20.

Weisshorn Asset Management SA – 7, rue des Alpes, Case Postale 1800. CH – 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

What should be kept in mind, first of all, is that the weight of the Chinese economy is far greater today than it was in 2002: China currently accounts for 17.2% of world GDP, compared to 4.4% in 2002.



Secondly, the world is not in the same economic situation today as it was in 2002. At the time, the world economy was emerging from a recession caused by the bursting of the dot-com bubble, whereas we are currently experiencing the longest growth cycle in history. An analysis of how the economy reacted after SARS would therefore be of limited use, since it is very likely that the response will be different this time. Consequently, we will have to closely monitor the economic data that will be released in the coming weeks. These will naturally be distorted, but we do not expect this epidemic to be a game changer that will push the global economy into recession, especially since China reacted very quickly by launching a new stimulus package equivalent to USD 174 billion.

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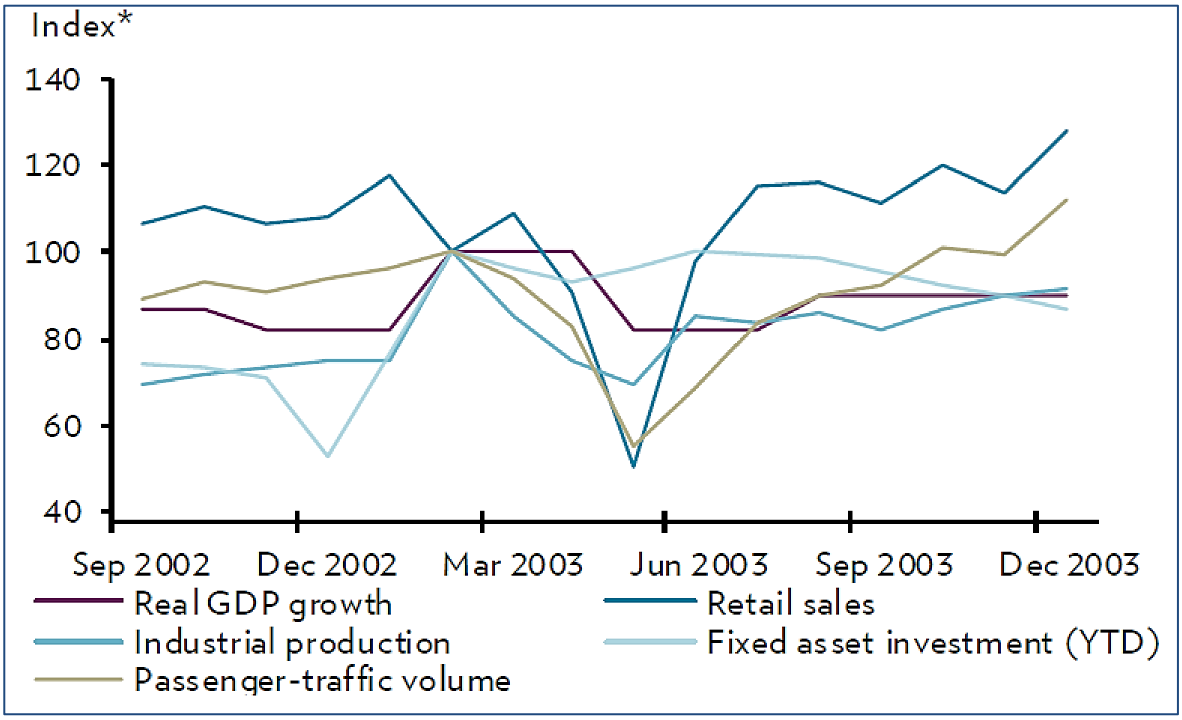

Source: Datastream, Julius Baer.

For our part, we are therefore confident that this epidemic does not call into question the current economic outlook, and that an exaggerated correction would create a purchase opportunity for risky assets. As such, the sectors that are currently the most affected, such as luxury goods and tourism, may offer interesting entry points in the coming weeks.

On the whole, most equity indices posted negative returns in January, with the exception of the Nasdaq, which appeared imperturbable, mainly thanks to the performance of the US technology giants. We have thus seen a return to volatility, as we already noted in our monthly newsletter for December. The VIX index, which tracks market volatility, rose from 13.8 to 18.8 points between the end of December and the end of January, an increase of 36% over the month. As we have previously stated, we expect to see even greater volatility this year. Investors have naturally sought safe havens such as the Swiss franc, which gained between 0.5 and 1.5% against most other currencies, and gold (+4.7% in USD over the month). Conversely, oil (WTI -15.6%) and most industrial metals (copper, aluminium, etc.) came under heavy pressure due to fears of a drop in Chinese industrial activity linked to the coronavirus.

January also saw the first central bank meetings of the year. While there was not much to report from the ECB side, the BoE (Bank of England) failed to lower interest rates as expected. The Pound Sterling naturally benefited first and foremost and thus returned to its starting point. The end of January was also marked by the final confirmation of Britain's exit from the EU. The concrete phase of Brexit can now begin, in the form of bilateral negotiations with the EU, but we are still a long way from the ratification of these agreements. The US Federal Reserve once again showed that it is ready to support markets at all costs, as it announced that it will extend its repo operations until April and its bond buyback programme of USD 60 billion per month until the end of the second quarter. There is no better way to raise investors' confidence.

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In terms of earnings, companies generally reported good results, with positive surprises in consumer spending (which was not actually surprising, given the indications of record sales over the holiday season). Meanwhile, the energy sector is still lagging behind. Both in terms of revenues and earnings, it is currently in contraction mode.

In conclusion, we are not immune to exogenous factors, such as the new virus from China, which may put pressure on risky assets. This is one of the reasons why we maintain a rather defensive equity allocation and are concentrating on stocks with solid growth prospects, as we expect to see the emergence of other negative exogenous factors (the US presidential elections?) in the coming months. Make sure to be prepared.

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