The Allocation Dashboard

March 13, 2020

- Credit takes centerstage -

Highlights

- Measures to contain the coronavirus in the US and Europe are still nowhere as drastic as the ones implemented in China. Markets remain unconvinced that this will suffice to contain the virus shortly.

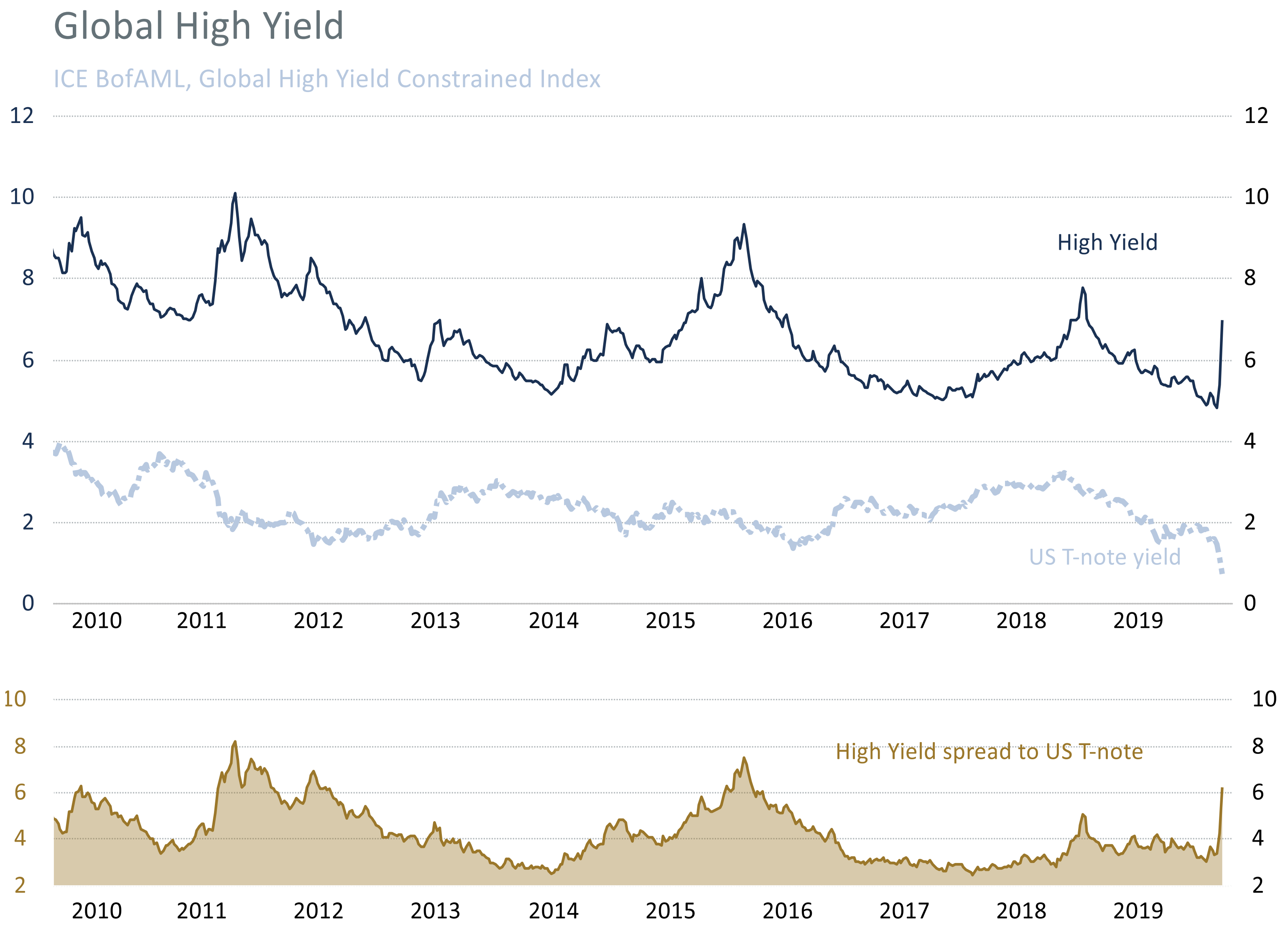
- Uncoordinated policies across the board (intra-EU, US/EU) add to the sense of policy-ineffectiveness.

- A technical recession (drop in GDP in two succesive quarters) is already priced in. A full-blown *credit crisis*, prolonging the economic setback, is not. This could be the next shoe to drop, and focus returns to central banks, away from fiscal policy.

- The dynamics of the crisis still resemble the 1987 scenario more than both the bursting of the tech bubble and the GFC. Credit events could change that.

- The Corona-crisis has pushed our Risk portfolio into underweight against our Hedge portfolio. Absence of rebalancing implies that we are positioned for a U-shaped global recession.

Lending markets may not have reacted sufficiently. This could change. Our global High Yield benchmark rose 2% points last week.



A credit event triggered by a prominent default in one of the most vulnerable sectors is a possible next step in the evolution of the Corona-crisis.

Source: Refinitiv Datastream, C.A.P

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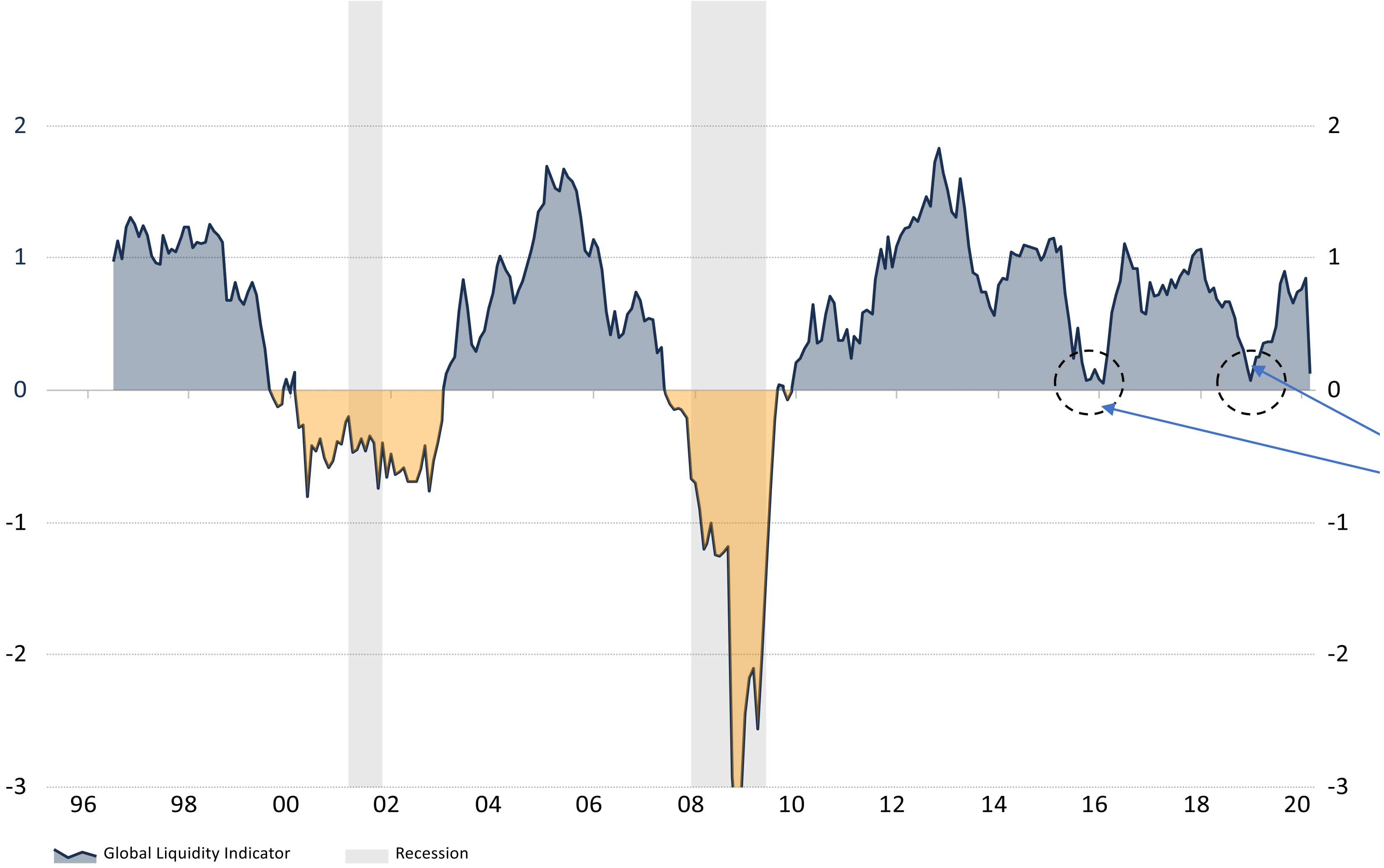
Aside from business cycle indictors, our Liquidity index is an important determinant for our overall risk allocation. The index is close to suggesting contraction in liquidity.



The index has dropped to the same level seen in Q4 2016 and Q4 2018.

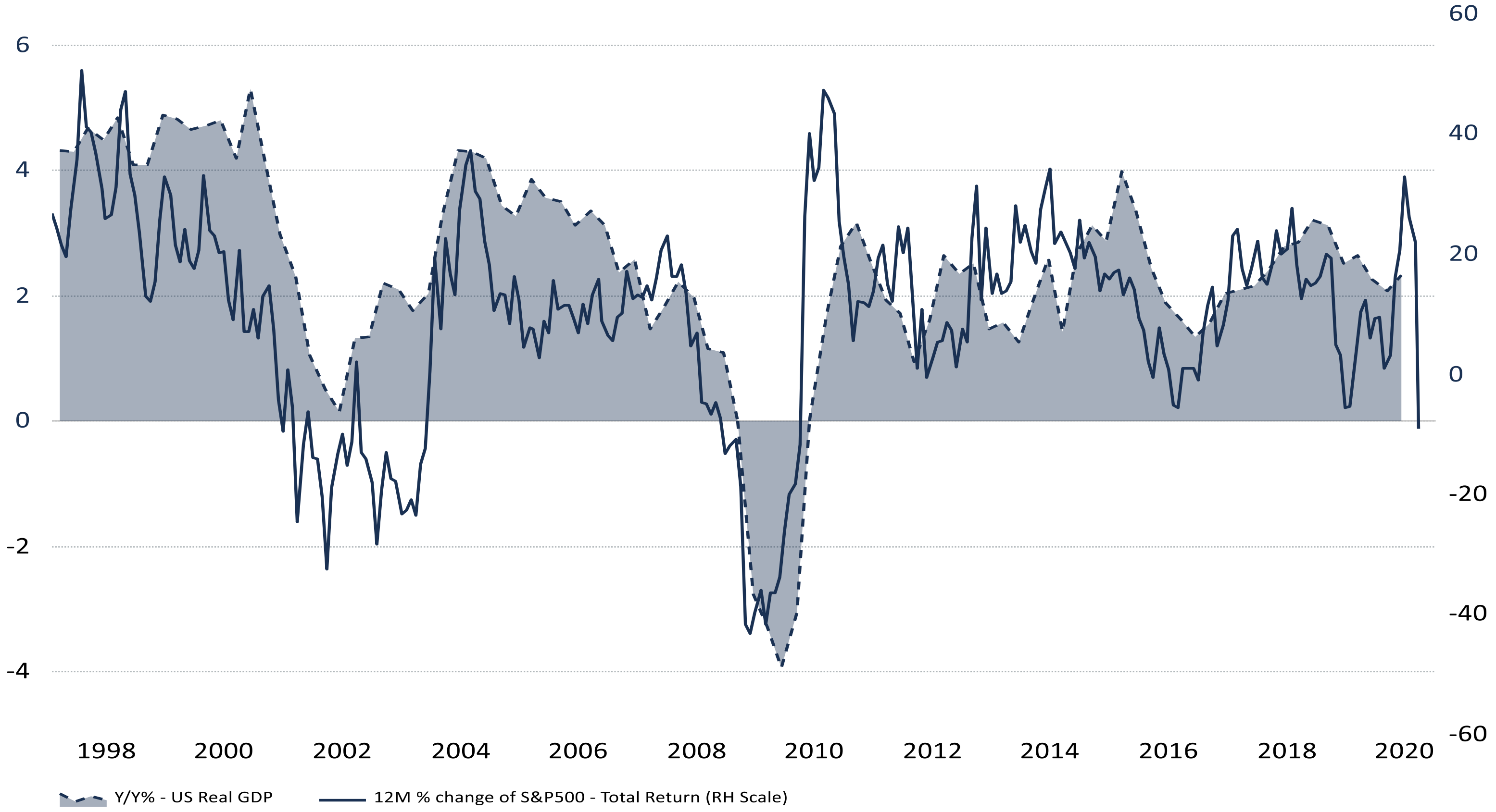
In both years the Fed intervened to prevent liquidity from contracting and the index from moving into negative territory.

Source: Refinitiv Datastream, C.A.P

The drop in the S&P500 is still far from discounting a scenario similar to the tech bubble bursting or the GFC. But a "technical recession" is arguably now priced in.

S&P500 & GDP growth

12 mth chg. in pct



Source: Refinitiv Datastream, C.A.P

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Which crisis template is most relevant for the Corona Pandemic from a market point of view? The pace of market moves points to the '1987 Crash' which was partly technical in nature.

S&P500	1987 Crash	Asian/Russian debt crisis	Tech Bubble	Financial Crisis	2018 Global Slow down	Corona Pandemic
Dates for Peak to Trough	1/10/87 - 19/10-87	24/7/98 - 4/9/97	8/9/2000 - 4/10/2002	19/10/07 to 6/3/09	28/9/2018 - 21/12/2018	19/2/2020 -
Days for the first 20% drop	19		195	201		22
Days from Peak to Trough	19	42	776	504	84	
Crisis Depth	-31.7%	17.8%	-45.8%	-54.7%	-17.1%	25%*
Recovery - days	485	84	1484	1253	112	

(*) 12.3.2020)

The onset of a widespread credit crisis would make the comparison to the two recent major crises more relevant, deepening the market impact and implying a longer time to recovery.

Policy-makers are still in time to keep this from happening, and short-term focus is back on central banks.

The CAP-M Investment Universe

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Hedge Asset Performance

	Performance (EUR)				
	- 1w %	- 1m%	- 3m%	YTD %	-12m%
Hedge Assets					
Eurozone Core Gov Bonds	0.6%	3.7%	5.0%	5.8%	8.5%
BUND- Future (ETF)	0.6%	3.2%	4.4%	5.1%	7.3%
IG Corporate Bonds (EUR base)	-2.7%	-2.7%	-1.7%	-1.6%	2.2%
IG Corporate Bonds - ESG (ETF)	-3.9%	-4.4%	-3.5%	-3.5%	0.0%
IG Corporate Bonds - BBB (ETF)	-5.2%	-5.8%	-4.5%	-4.7%	1.0%
Long Bond Risk	5.8%	17.1%	23.0%	25.7%	43.0%
Long Bond Risk - US	4.9%	15.7%	24.6%	27.4%	48.8%
Long Bond Risk - EU	6.7%	18.6%	21.3%	23.9%	37.3%
Short USD bonds	1.0%	-0.1%	2.7%	3.4%	7.0%
US Treasury 1-3Y (ETF)	-0.1%	1.4%	2.1%	1.8%	4.9%
USD per EUR (contribution from:)	1.0%	-1.7%	0.3%	1.3%	1.7%
US Long High Quality Bonds	1.7%	4.4%	9.0%	10.1%	18.3%
US Treasury 7-10Y (ETF)	-1.1%	1.5%	5.5%	7.2%	15.6%
Japanese High Quality Bonds	1.9%	2.5%	3.9%	4.3%	7.1%
Japanese Short Gov. Bond (ETF)	0.2%	1.5%	3.2%	3.8%	7.8%
JPY per EUR (contribution from:)	1.9%	2.4%	3.8%	4.2%	7.2%
Swiss High Quality Bonds	-0.1%	0.5%	4.2%	3.7%	8.0%
Swiss Franc AAA-BBB 5-10 Bonds (ET	-2.4%	-2.2%	2.0%	1.5%	7.8%
CHF per EUR (contribution from:)	0.6%	0.7%	3.8%	2.8%	7.5%
Gold (EUR)	-4.5%	-1.4%	7.5%	4.6%	23.2%
Physical Swiss Gold (ETF)	-4.2%	-1.4%	7.6%	5.0%	23.4%

Risk Asset Performance

	Performance (EUR)				
	- 1w %	- 1m%	- 3m%	YTD %	-12m%
Risk Assets					
High Yield Bonds	-4.1%	-5.0%	-1.9%	-2.8%	5.3%
US High Yield (ETF)	-8.4%	-8.8%	-4.3%	-4.1%	7.1%
EU High Yield (ETF)	-10.6%	-13.2%	-12.2%	-12.8%	-7.9%
Emerging Debt	-2.8%	-2.5%	0.5%	0.7%	10.6%
EMD Corporate Hard currency (ETF)	-4.8%	-6.7%	-1.9%	-1.7%	7.5%
Core Equities (EUR based)	-20.0%	-26.6%	-21.7%	-23.6%	-13.4%
Global Equities	-18.1%	-28.1%	-22.4%	-23.4%	-11.1%
US Equities - Large Cap	-17.1%	-27.7%	-21.1%	-21.9%	-7.8%
US Large Cap - ESG (ETF)	-17.6%	-26.4%	-18.6%	-19.9%	-4.1%
European Equities - Large cap	-22.7%	-31.5%	-27.6%	-29.0%	-18.9%
EU Large Cap - ESG (ETF)	-22.3%	-31.6%	-27.5%	-29.7%	-23.0%
Emerging Markets Equities	-14.2%	-21.6%	-16.8%	-19.6%	-12.0%
EM Equities - ESG (ETF)	-31.4%	-38.2%	-34.5%	-36.6%	-29.5%
Japanese Equities - Large Cap	-10.7%	-20.9%	-19.4%	-19.6%	-9.0%
Japanese Equities (ETF)	-17.4%	-28.2%	-27.3%	-25.8%	-16.7%
US Equities Growth	-15.3%	-25.6%	-13.3%	-15.3%	4.8%
Nasdaq100 (ETF)	-16.1%	-23.0%	-12.7%	-15.8%	0.3%
US Equities Small Cap	-23.3%	-34.5%	-31.3%	-31.7%	-25.2%
Russell2000 (ETF)	-23.3%	-33.6%	-30.4%	-31.2%	-24.7%
European Small Cap	-21.5%	-31.0%	-26.7%	-28.8%	-18.2%
MDAX (ETF)	-21.4%	-31.1%	-26.9%	-28.9%	-18.5%
CAP-M Equity Bear	58.1%	105.9%	87.9%	88.9%	34.0%

Update 11.3.2020 at 5 p.m. c.e.t

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