

LMM COMPASS



Dear reader

The financial markets have awoken from their state of shock and have recovered a large part of the price losses from the first quarter. In view of the situation, many investors are surprised by the significant price recovery, the corona crisis is not yet over. As so often, the stock price development reflects the general mood on the one hand and expectations of future developments on the other. Supported by the global central bank programmes and fiscal policy decisions, the financial markets have reacted positively.



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THEMES



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MARKETS AND STRATEGIES

The first quarter was characterized by a sell-off in the investment markets and set new standards in speed and scale. Similar superlatives can be used for the countermovement in the second quarter. However, there are significant differences between the individual

markets and sectors. US technology stocks and defensive quality stocks in particular rose. The precious metal gold benefited from the low interest rate environment and a growing scepticism towards the flood of money from central banks.

		Value	% QTD	% YTD	Currency
Currencies	EUR/CHF	1.06	+0.25	-2.09	
	EUR/USD	1.12	+2.37	+0.06	
	USD/CHF	0.95	-2.07	-2.15	
	USD/JPY	107.88	-0.07	-0.73	
Bonds	Switzerland	139.98	+2.15	-0.48	CHF
	Europe	267.93	+2.39	+1.24	EUR
	USA	2361.51	+2.90	+6.14	USD
	Emerging Markets	433.73	+9.60	-0.85	USD
	Inflation linked	369.33	+6.63	+3.73	USD
	High Yield	1348.65	+12.19	-4.66	USD
	World	526.93	+3.32	+2.98	USD
Equities	Switzerland	3096.19	+8.66	-3.95	CHF
	Europe	212.68	+12.60	-12.83	EUR
	North America	8500.95	+21.58	-2.45	USD
	Pacific	6209.936	+14.16	-9.01	USD
	Emerging Markets	475.94	+18.08	-9.78	USD
	World	264.66	+19.22	-6.25	USD
Alternatives	Real Estate	3742.39	+10.33	-20.93	USD
	Commodities	64.98	+5.04	-19.67	USD
	Gold	1780.96	+12.92	+17.38	USD
	Private Equity	2766.11	+26.32	-14.16	USD
	Hedge Fonds	1278.4	+6.19	-1.09	USD

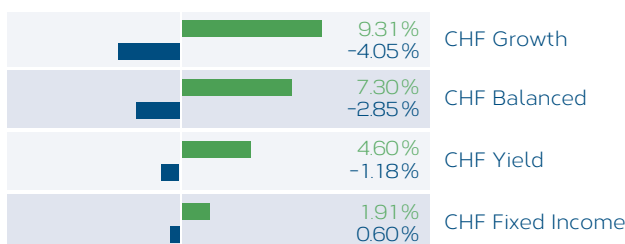
reference date 30.06.2020

All investment strategies closed the second quarter with a significant plus. Once again, the higher the equity quota, the higher the profits. The consistent

adherence to the investment strategy once again has paid off. The losses since the beginning of the year were thus significantly reduced.

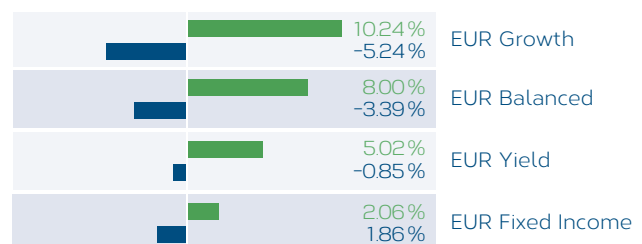
Investment strategies in CHF

■ QTD ■ YTD



Investment strategies in EUR

■ QTD ■ YTD



Note: the figures are before costs (exclusive of custody- and management fees)



DEFLATION OR INFLATION – EFFECTS ON YOUR FINANCIAL ASSETS

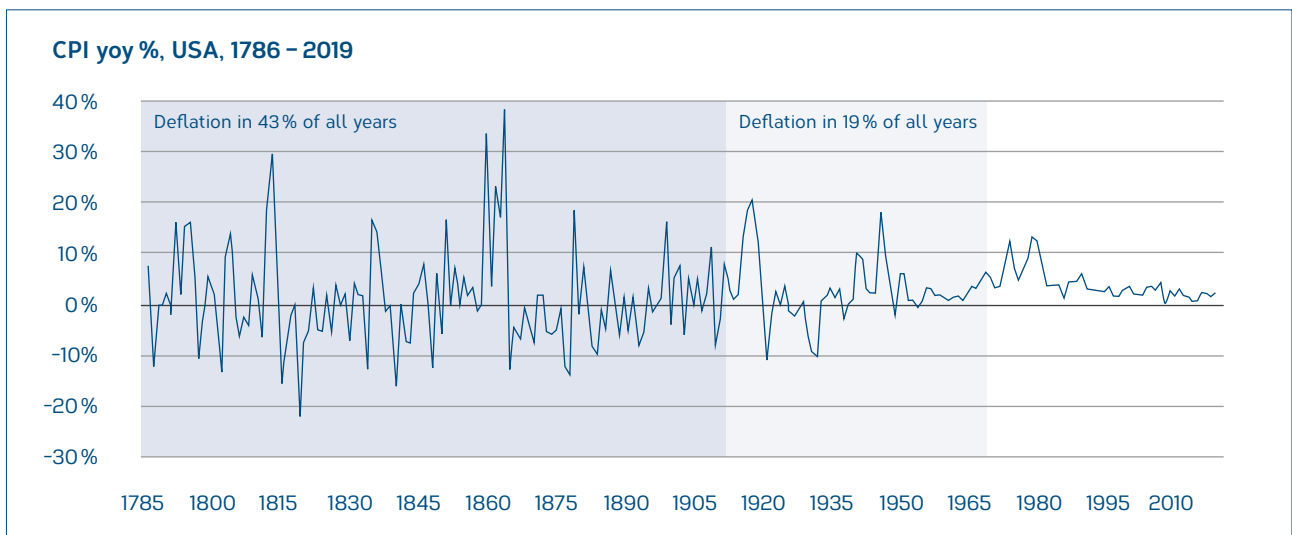
The infection of the economy with the coronavirus resulted in historic price movements on the capital markets. Just as rapidly as prices fell at the end of March, they rose again in the following months. However, the picture is not uniform and the results vary considerably by country and above all by sector. The IT and consumer goods sectors have lost the least and are even in positive territory YTD. At the negative end are the energy and financial sectors, which suffered the biggest losses in March and are still clearly in the red since the beginning of the year. When it comes to the outlook, most investment houses are still cautious at present, as the number of uncertainty factors and their interdependence is considered very high.

Central banks and governments have taken extensive measures to combat the crisis. The financial scale of the various rescue packages is unprecedented in history, and previously applicable rules on limits on government debt are suspended until further

notice. Due to the uncertainty, many investors are asking themselves whether the greater risk is deflation or inflation?

The following chart shows the Consumer Price Index (CPI) in the U.S. year-on-year over a long time series between 1786 and 2019, clearly showing that since the establishment of the Federal Reserve in 1913 and even more so with the end of the Bretton Woods Agreement in 1973, the phases of deflation have declined significantly. Central banks are forced to do everything possible to prevent sustained deflation (“whatever it takes”), as the consequences for highly indebted countries would be dramatic.

In the short term, analysts agree that the deflationary effects of the crisis will predominate. Demand shocks have an inherently deflationary effect. A look at the slump in oil and commodity prices seems to confirm this assumption. The decline in consumer demand as well as the overall lower commodity



Reference: Nick Laird, goldchartsrus.com, Incementum AG



prices are having a dampening effect on consumer prices. In addition, the rise in the unemployment rate, which has risen sharply in some cases, will result in little pressure from wage developments.

The long-term effects are assessed inconsistently. Moderate growth in the global economy is predominantly expected in the coming years. This fundamentally argues against inflationary pressure. However, the tendencies to restrict open world trade - keyword customs duties - and the relocation of production back to the home countries could lead to inflation for some products. Globalisation has been cited in recent years as one of the drivers of low inflation rates.

Added to this is the massive creation of money by the various measures taken by the central banks. Normally, this development would immediately send out an alarm signal for rising inflation rates. 9/11 has taught us that an expansion of the money supply by the central banks does not necessarily lead to rising inflation. In many cases the money "landed" in bank reserves and did not reach the real economy or the consumer. The velocity of circulation of money has declined sharply and has counteracted the inflationary effect by expanding the money supply.

In recent years, and probably in the medium term as well, the central banks see weak economic activity and persistent deflation as a major threat. The signs are therefore still pointing to "quantitative easing".

It is therefore unclear whether and when inflation will become an issue. Nevertheless, investors should be prepared for different scenarios. One of the simplest and most efficient ways to minimize risk is diversification. The following simplified illustration shows how asset classes can react in different scenarios:

ASSET CLASS	POSITIVE	NEGATIVE
Cash	Uncertainty and deflation	Strongly rising inflation
Fixed income	Stable economic and interest rate environment	Strongly rising inflation with sharply rising interest rates
Stocks	Economic recovery and price stability	Economic uncertainty and rapidly rising inflation
Gold	Strongly rising inflation rates	High real interest rates and economic confidence

In addition, the measures taken by central banks and politicians have a strong influence on the capital markets. In conclusion, we return to the generally valid conclusion that a distribution across all asset classes leads to an optimisation of the overall risk and takes into account the uncertainty of forecasts.



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