Wealtheon *Investment Outlook*

Quarterly Bulletin *second quarter 2020*

Risks and opportunities

2020 will go down in history as the year of the Coronavirus. Governments and companies are taking increasingly drastic measures to prevent further spread of the virus. Prudence is called for, but not fear. An impact on economic growth seems certain, which in turn leads to the possibility of a recession. For investors, 2020 has already become a special year: a year of high volatility.

The Covid-19 virus is dominating headlines. Uncertainty about the economic impact that all the measures taken by governments and companies will have on the economy has led to stock market days with losses of more than 15%.

We know there have been many epidemics in the past, some of them on a large scale. The worst have been the outbreaks of Spanish flu after World War I (1918), Asian flu (1956) and Hong Kong flu (1968), resulting in millions of deaths - Spanish flue of tens of millions.

At the time of writing, the Coronavirus has infected more than 1,019,000 people, resulting in more than 53,300 deaths (source: Worldometer). The virus has high infectivity, a relatively low percentage of critically ill people in certain vulnerable groups (old age, a weakened immune system) and a low average mortality rate compared to Spanish flu, SARS and MERS. From a humanitarian point of view, every victim is clearly one too many. It is a positive factor that more than 213,600 have now been declared cured and have resumed daily life.

The measures taken by governments and businesses will result in certain segments of an economy temporarily not functioning at all or at any rate functioning less well. In China, Hong Kong and Singapore, for example, the government has taken strong action by imposing a travel ban. Europe has also followed this example with orders for the whole country to stay at home. Companies are being forced to close their doors temporarily. Unemployment is in danger of rising sharply and, without special support, financially vulnerable businesses will see their activities jeopardised because they are unable to obtain the necessary credit. Both consumption and investments will be affected.

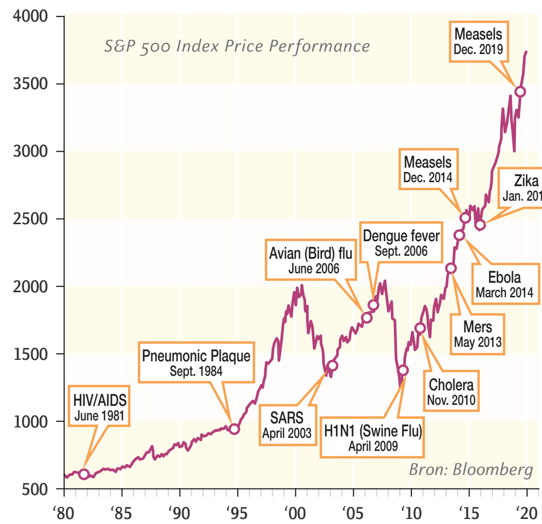
Many companies depend on their suppliers. Not infrequently those suppliers are located in countries affected by the Coronavirus.

Second quarter at a glance:

- The year of the Coronavirus
- Global economy vulnerable and future is uncertain
- Central banks come to the rescue
- Increased cash allocation in the portfolios

If the supply chain is not functioning, the final product (e.g. cars, mobile phones, televisions, laptops) can only be produced while stocks last or new suppliers can be found. With modern stock control techniques, stocks are generally small and alternatives are not readily available. Companies that operate with "just-in-time" stock monitoring now seem extra vulnerable. The longer the crisis lasts, the more severe the supply shock will be and the greater the risk of an unmanageable recession. A further complication with shock effects of its own is that a conflict is going on between Saudi Arabia and Russia about the price strategy to be followed for the oil market. As a result, the oil price has fallen very sharply. Good for consumers, but very bad for the energy sector.

Finally, US 10-year yields fell below 1% for the first time as a result of strong investor demand for US debt. Although European investors have long regarded this phenomenon as the new normal, people are still quite shocked by it in the United States. This has caused the US dollar to fall against the euro.



Preface continuation

As long as the Coronavirus continues to spread, its impact on the economy and business results will increase. Fear is not a good counsellor, but caution is required at this time. We have therefore taken a number of steps to contain the risks in the portfolios. More on this in this quarterly report.

You invest with a focus on the long term. You buy shares because you believe in the quality of the company, the management and the product. You do not invest if you need your money tomorrow.

The graph given on the previous page shows that a recovery has always taken place after every epidemic. It won't be any different this time.

2020 promises to be a challenging year. As always, we remain alert to the risks and opportunities that will always be there!

With kind regards,
Victor Zwart
Director

Global Economy: vulnerable and future is uncertain

According to the World Health Organisation (WHO), there is a pandemic.
As a result, there is great uncertainty about how hard the Corona virus will hit the world economy.

Central banks in China, Australia and the United States have taken support measures that have been received with mixed feelings by the market. Is it positive that action is being taken, or is the economic outlook even worse than expected?

The current situation is different from that 17 years ago, when the SARS virus appeared. Then far fewer people became infected and less than 1000 people died. At that time, the Chinese economy accounted for 4-5% of the world economy. Today, China has the second largest economy (20%) in the world. Moreover, economies are now much more closely integrated.

In the first quarter, China will certainly come in with lower economic growth figures. We estimate this at approx. 3.5% (year-on-year), compared to 6.0% in the fourth quarter of 2019. The Chinese government is doing everything it can to maintain growth. It will try to "catch up" in the coming quarters by means of liquidity support from the Central Bank, tax incentives and the reopening of businesses. How well this works, time will tell.

The virus is coming at a bad time. Global economic growth has been weakening for some time. Although there is still growth, it is on average significantly lower than before the crisis in 2008. Since the crisis, the central banks have done everything in their power to turn the tide. For example, the ECB has repeatedly lowered interest rates and put more than 2600 billion in bonds. Partly as a result of this quantitative easing, the current long-term interest rate for first-class government paper is in fact negative. Despite the fact that interest rates have fallen from 4.6% to -0.5% since 2008, economic growth has only weakened.

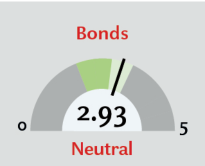
Yet savers are not spending any more. You would expect savers to save less if the interest rate is negative or zero. After all, the yield is effectively nothing. The opposite is true. In a number of countries (e.g. the Netherlands), the savings ratio is even rising because savers are putting more aside to achieve their goal for later. Investments are also continuing to disappoint, despite high savings rates and low interest rates.

In addition, companies and governments are not investing enough to give the economy an extra boost, while countries such as Germany and the Netherlands have budget surpluses and large balance of payments surpluses.

The stock markets have continued to rise steadily for a long time, partly supported by companies that purchased their own shares on a large scale. Often, these purchases have replaced investment, given an uncertain background. For example, US companies purchased USD 736 billion worth of their own shares in 2018 and USD 866 billion worth of their own shares in 2019 (source: Financial Times). Maybe good for the shareholders, but not for the economy.

In short: as a result of this conscious policy choice, the global economy is now more vulnerable.

Bonds: central banks come to the rescue



Central banks have moved swiftly to ease their monetary policy. The FED cut interest rates by 50 basis points at the beginning of March, followed by a further cut of 100 basis points on 15 March. It also announced that it was going to buy back bonds. In our opinion, this decision is similar to earlier interventions at the time of the Russian crisis (October '98), the tech bubble (March '01), 9/11 (September '01), the subprime crisis (August '07) and the financial crisis (October '08). Other central banks have also adopted the approach of the FED.

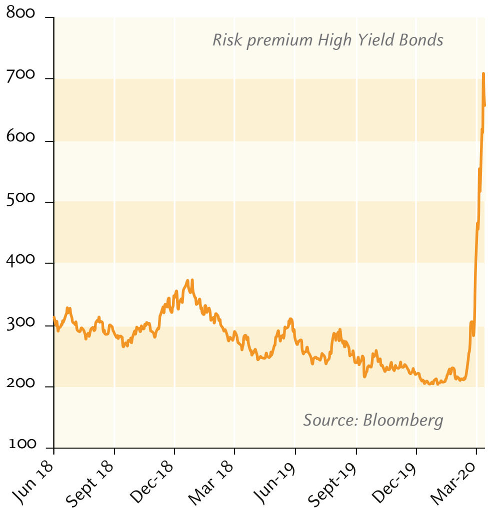
This includes the European Central Bank. On 12 March, the ECB announced a major package of emergency measures. In particular, the bond buyback programme is to be increased by € 120 billion until the end of the year. The primary focus of the actions is to create enough liquidity (more cheap loans) available to banks and companies that need it. The deposit rate of - 0.50% is not being reduced further. Moreover, the comments made by President Lagarde of the ECB got an extremely frosty reception.

This led to the bond markets coming under pressure, especially bonds from weak countries. High-risk bonds have also fallen sharply. The ECB finally intervened on the 18 March by announcing € 750 billion of emergency measures. And Lagarde also indicated that the ECB would do everything in its power to support the euro.

Long-term interest rates down - forecasts down

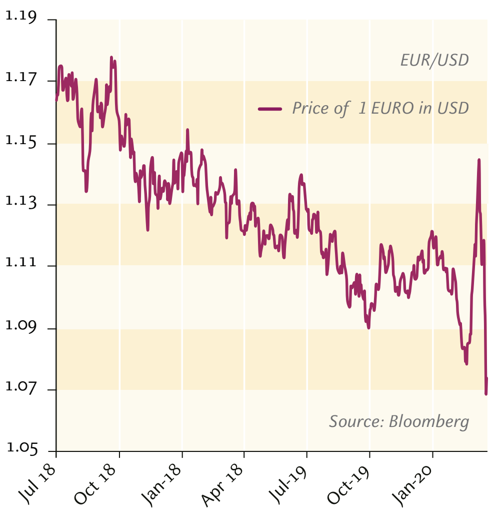
Long-term interest rates have fallen sharply. In the U.S., it hit its lowest level ever recorded. As long as concerns about the virus persist, long-term interest rates will remain under pressure. European long-term interest rates are also exploring new lows. Only when the virus disappears, will rates go up again.

Despite extremely low yields, government highest-quality bonds are remaining popular. Investors are fleeing to safe havens. At the same time, we are seeing an increase in the risk premium on corporate bonds. Investors fear that the economic malaise following the Coronavirus outbreak will make things more difficult for highly indebted companies.

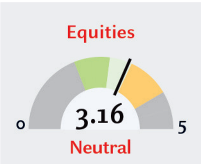


Dollar stronger due to the coronavirus

The dollar has been in demand as a "safe haven". This is despite a sharp fall in the interest rate differential between the US and the Eurozone. The ECB's announcement of its emergency package gave the dollar an extra boost. As soon as the coronavirus crisis reaches its peak, the euro is likely to appreciate again against the dollar.



Equities - Regions - Sectors



Investing is based on expectations regarding issues such as confidence, spending, investment, monetary and fiscal policy. Elements that influence economic growth in the short or longer term.

For us, it remains important to invest in companies that have a healthy cash flow, are not in excess debt and, in the event of a temporary drop in consumer demand, can get through this period of weakness in a stable manner.

In early February we reduced exposure to "Corona"-sensitive equities through the sale of Royal Caribbean Cruises and the iShares MSCI Far East index tracker. The resources released were allocated to Industria de Disenso Textil Sa (Inditex), Intuitive Surgical inc. and the Ashtead Group Plc, among others.

Industria de Disenso Textil Sa

Inditex is the largest clothing retailer in Europe, with eight retail formulas: Zara, Pull and Bear, Massimo Dutti, Oysho, Zara Home, Bershka and Stradivarius. A newly launched format, Uterqüe, offers accessories and a selected range of textile and leather clothing. Zara is the flagship of the chain and accounts for 65% of total turnover. The company now has more than 7000 stores in 88 countries. Western Europe generates 60% of sales, America 15% and Asia 25%.

Intuitive Surgical inc.

Medical technology company Intuitive Surgical is the world leader in robot-assisted surgery. Intuitive has achieved high revenue growth and robust profit margins, even as its expansion shifts to other regions and procedure types. The company sells robots to hospitals in the US and a growing number of international markets, including several European markets, Japan and China. The Da Vinci Xi is the company's fourth generation and most expensive surgical robot. We expect the company to continue its robust double-digit revenue growth in the coming years. In particular, profitability will be maintained even if operating costs increase.

Ashtead Group Plc.

Ashtead rents out a wide range of construction and industrial equipment such as platforms for height work, forklift trucks, earthmoving and pumping equipment. The company operates in the United States, the United Kingdom and Canada. A series of acquisitions has helped it become the market leader in the UK and the second largest player in the US equipment rental market.
The Ashtead group has approximately 17,800 employees, 1040 stores and a diverse customer base of more than 700,000 customers. For the financial year 2020, management expects sales growth of approximately 13% (mainly organic growth), as against which the market will only grow 5%.

Sectors with exposure to the commodities, automotive, transportation, luxury goods, textiles, events and holidays segments (aviation & cruises) can expect negative repercussions on their figures. As in the Eurozone, the US financial sector will also suffer from extremely low interest rates. We are taking this into account by limiting the exposure.

Conclusion

The Coronavirus will disappear in due course and the economy will be able to recover fairly quickly. In the end, when life returns to normal, the economy will grow again. It is important that consumers continue to have confidence in the future (i.e. continue to spend) and that public authorities take incentive measures as soon as possible. The longer the virus lasts, the greater the impact on the economy.

With regard to the coming reporting period in April, both at the economic and company level, and the expected disappointing figures, we are adopting a more conservative stance. The portfolios now have a larger cash position, which provides a degree of protection against a further fall in prices. But this cash is also essential for being able to take advantage of the purchase opportunities that always arise after a correction.