Manfred Hübner
Managing Director, CEFA

manfred.huebner@sentix.de

sentix
expertise in behavioral finance

sentix GmbH
Wiesenhüttenstraße 17, 60329 Frankfurt / M.
Tel. +49 (69) 3487 961-0, info@sentix.de

Is the worst already over?

Will the corona virus plunge the global economy into recession? Are further restrictions in everyday life to be expected in the short term? And how will governments and central banks react?

These are just some of the current uncertainties facing investors. What is the mood on the markets and how should one act now in the portfolio? This is the question we are looking into in the current "indicator in focus" issue.

It is clear that we are not virus experts and cannot know how the crisis will continue. However, our experience with previous pandemics shows that such events - as critical and difficult as they are for those directly affected - generally do not change the fundamental path of the stock market.

This is also how investors surveyed by sentix currently seem to assess the situation. Not only has the medium-term basic conviction about equities not changed, it has even grown. In view of the current restrictions in global travel and in the Wuhan region, which is mainly affected, this seems to be reckless. But investors' calculations seem simple: as soon as the virus is successfully contained, business will return to normal, production backlogs will be at least partially made up and the central banks, especially in China, should support the economy with credit facilities. The latter has already begun today. In view of the fact that the Chinese have been rather reluctant to support the economy with cheap money in recent months despite the trade dispute, one could even speak of a certain improvement in the situation.

Investors may see exactly this "opportunity" from the crisis, but in the short term they have a considerable fear that the situation will unexpectedly escalate negatively after all. This, too, is easy to explain if one considers the "news flow" on the crisis. For while the Chinese government has already started its drastic measures to contain the crisis on 23.01.2020, the number of cases is still rising very significantly.

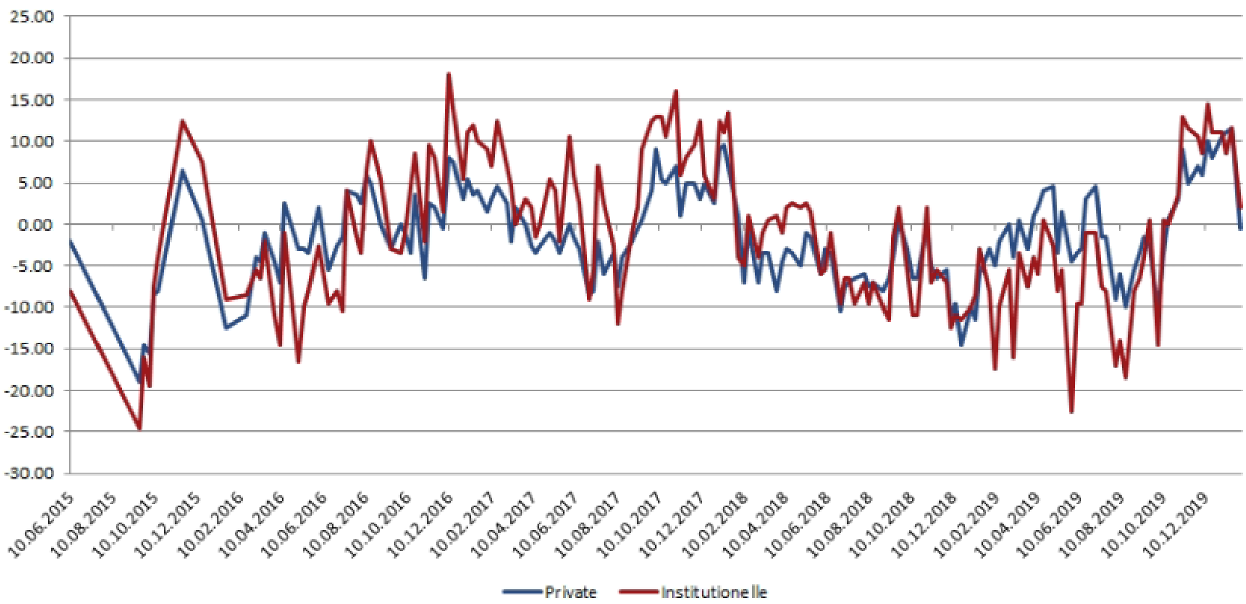
This can be both an indication that the virus has not yet been successfully taken off the top. In view of an incubation period of almost 14 days, however, this is again not unexpected. We will probably have to wait another 7-10 days before we actually receive the news that the number of new cases is declining noticeably - or that we have new worries.

It is precisely such uncertainty that fuels short-term fears. Investors would like to "look through" the crisis, but they are afraid in the short term. What is decisive for us is what this means for investors' portfolios.

If investors were to try to go through the crisis with their portfolios, we would have to act more cautiously than if the short-term fears had led to a reduction in positions. Unfortunately, no new data on investor positioning is available from our survey.

However, we do have another indicator, the sentix risk levels, which allows us to estimate the positioning behaviour.

And these "risk levels" have been adjusted noticeably downwards (defensively) due to last week's weakness:



sentix risk levels (individuals and institutionals)

The significantly increased and thus very aggressive risk levels, as we were able to measure them just two to four weeks ago, have at least been noticeably reduced.

Of course, it cannot be ruled out that a further reduction in risk positions will occur in the course of a further increase in the current uncertainty. In view of the increased basic confidence and the current bearish sentiment, however, this no longer seems at all imperative.

As stated in yesterday's edition of our Weekly, the TD Index for most stock markets is trading at very low levels (TD = Sentiment minus Bias). If we look at the statistics for such scenarios, this means that, on average, the signals have a good chance of price gains over a period of more than three weeks. Critical are the immediately following 1-3 weeks, which are unproblematic in about 50% of cases. And in the other 50% of cases lead to a second, often deeper low for the markets.

Whether the virus will send us on one path or the other is something we cannot estimate. But anyone who is afraid of a portfolio contagion has probably already reacted in the previous week.

So, is the worst over? In view of the sentix data and the resulting statistical properties of the current data constellation, we would say: probably yes.

Disclaimer

Important information concerning liability, compliance, protection of investors and copyright

This information is meant only for distribution in countries in which this is permitted by law.

This analysis is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as an advertisement thereof. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested.

Changes in rates of exchange may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

We assume no liability for the information contained in this analysis. The analysis is no substitute for personal investment consultation. Even on the basis of the depicted opportunities and risks, investors must individually assess – on the basis of their own personal investment strategies, their financial, legal and fiscal situation - whether an investment in the financial instruments depicted here is sensible for them. As this document is in no way a direct investment recommendation, this document or parts of it should not be used as the basis for any conclusion of contract or for any commitment to obligations of any kind. Investors are asked to contact the investment analysts of their banks for individual investment advice and other individual explanations and advice. Neither the sentix GmbH nor any of its managing directors, employees or other persons assume liability for losses or damages caused in connection with the use of this document or its contents.

The sentiment analysis is made available via the internet to those sentix participants of which is assumed that they do not base their investment decisions inappropriately on the basis of this analysis.
Statements or conclusions made through data or services do not include warrants or guarantees for future market or price changes. The opinions and assessments expressed therein can change without prior notice.

The sentix GmbH explicitly points out that both the sentix GmbH, its legal agents as well as their employees (in the following: the Involved) regularly conduct transactions in equity and other financial instruments which the data and services refer to. They do this both in their own names and for their own accounts as well as in the name and accounts of third parties. Should the Involved have been involved in an emission of instruments for the finance markets in the past 12 months, this is separately indicated at the corresponding place.

All rights of use for this analysis, its data and services are property of the sentix GmbH and are copyrighted. The sentix GmbH reserves its right to inflict penalties for the unauthorized usage of data and services, especially unauthorized commercial use. A reproduction or subsequent processing of website elements, analyses, data or services in electronic, written or other form is prohibited without prior consent by the sentix GmbH. Analyses that are only available in the secure customer area may not be quoted, neither in full, nor in part. An exception to this are analyses, data or services which have been posted by the sentix GmbH via the press mailing list or which have been presented in other form for public propagation.

This analysis must not – either in full or in part, regardless of underlying intent – be forwarded, reproduced or published.

„sentix“ is a registered trademark of sentix Holding GmbH.

DAX, TecDAX, Xetra und Eurex are registered trademarks of the Deutsche Börse AG. Dow Jones EURO STOXX 50 is a registered trademark of the STOXX Limited. Other names of products and companies which may be mentioned in this publication could also be protected or be registered trademarks of other companies.

ANALYST DECLARATION
Neither in the past, present or future is the remuneration of the author linked – either directly or indirectly – to his or her recommendations or views expressed in this context.