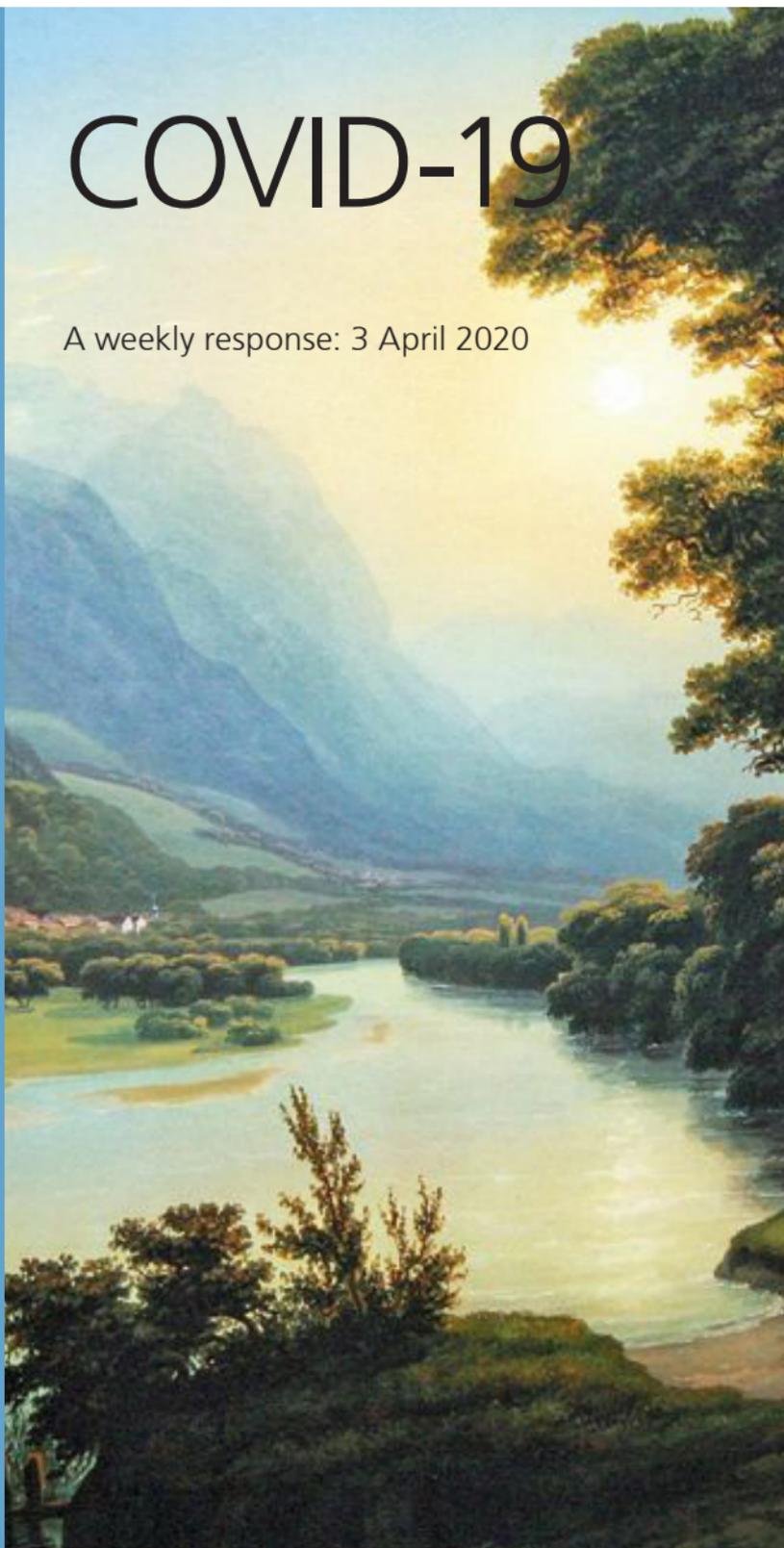




vestra

# COVID-19

A weekly response: 3 April 2020



### **A look inside the Princely Collections**

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

[www.liechtensteincollections.at](http://www.liechtensteincollections.at)

Cover image: Johann Jakob Schmidt, Detail from  
"View of Vaduz from the Swiss bank of the river Rhine", 1833  
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## **A message of reassurance**

We would like to reassure you that, as part of the LGT Group, we are well protected in the event of negative economic developments. LGT Bank's liquidity is well above the legally required minimum liquidity ratios, due to the bank's solid refinancing and asset base. With a core capital ratio (Tier 1) of 19.9%, LGT is very well capitalised and has high liquidity. LGT Bank Ltd. is one of the few private banks that has had its creditworthiness checked regularly for many years by both Moody's and Standard & Poor's, consistently achieving very high ratings (Moody's: Aa2 ; Standard & Poors: A+). The creditworthiness of LGT Bank's parent company, LGT Group Foundation, is an important factor for the rating. The first-class credit ratings are attributable to LGT's strong balance sheet, conservative lending strategy and earnings power, the latter based on over CHF 200bn of Assets under Management, as at March 2020.

# The investment landscape

## A weekly overview

This week, we have sadly seen the number of deaths due to the coronavirus continue to rise, particularly in the US. Investment markets remain volatile but equities found some support at quarter end as multi-asset portfolios rebalanced to adjust for the reduction in equity weightings resulting from the big falls. Credit markets have taken heart from central bank actions and recovered some of their losses.

“After the major fiscal and monetary policy announcements of previous weeks, this week has been focusing on tweaking the terms to make sure that the support gets through in a timely manner. ”

Jonathan Marriott, LGT Vestra Chief Investment Officer

### Medical action

Medically, the focus in the UK has been on getting new critical care facilities in place to better cope with the demand, with new facilities being built around the country. In times of crisis, we see the extraordinary becoming the ordinary. Who would believe that we could build a 4,000-bed hospital in nine days, but that is what has been achieved at the ExCel centre in London. Staffing these facilities will be difficult but 750,000 volunteers have offered their help and support. Testing staff for coronavirus, it is hoped, will enable medics who are self-isolating to get back to work. The UK's ability to test has been constrained by a shortage of the necessary chemicals, swabs and testing

facilities. This issue has been subject to much criticism, but is being addressed with a target of increasing testing capacity from 10,000 to 100,000 a day by the end of the month. If the UK is able to delay the peak, the NHS may be better prepared to cope with the inevitable influx of patients.

President Trump appears to have now accepted that this situation is not going to be over by Easter, and is introducing additional social distancing measures. The emerging star of the crisis appears to be Andrew Cuomo, Governor of New York, who gives an informative daily briefing that clearly gives the facts, explains the projections, what the needs are and advises what is being done to counter the virus.

### **Fiscal and monetary action**

After much bickering amongst US politicians, the \$2 trillion package was passed last week. They are ready to do more and there is now talk of a possible further \$600 billion of aid, targeted at particularly hard hit industries. President Trump has suggested a further \$2 billion in infrastructure spending tied to this. Yet again, this is muddling the coronavirus response with an unrelated political agenda.

On both sides of the Atlantic, the questions about fiscal and monetary aid have focused primarily on the delivery of the package, in particular the speed with which it can be achieved, rather than the size. In the UK, there were questions raised about high interest rates being charged by banks on loans with 80% government backing, as much

as 30% in some cases, and certain applications requiring personal guarantees. Rishi Sunak has already acted to stop this happening. This is a new situation requiring novel solutions and the Government has had to think on its feet and is showing flexibility in adjusting rules to meet the situation.

### **Other key market events**

Since the start of the year, the oil price has collapsed as a dispute between Saudi Arabia and Russia led to Saudi increasing production. This was in the face of declining demand as a result of the coronavirus shut down in economies around the globe. Yesterday, President Trump tweeted that he had spoken to the Crown Prince of Saudi Arabia and they could cut production by 10 million barrels a day or more, and the oil price spiked up nearly 25% at one point. It has subsequently settled back, giving up about half of that gain. There was some scepticism about the message. This morning it has been announced that OPEC will have an unscheduled virtual meeting on Monday next week. Oil companies will be hoping that this time they agree a cut in production. We will watch this closely while continuing to focus on the wider impact of the coronavirus.

Brexit has all but disappeared from the headlines with no face-to-face meetings. With both Boris Johnson and Michel Barnier having tested positive for coronavirus, negotiating a trade deal by the end of June seems even more unlikely. An extension to the transition period, however unpalatable to the Brexiteers, seems inevitable. This is enshrined in law so will need an amendment to the Brexit bill when Parliament returns.

## Macro update

“The economic impact is beginning to be felt at home, with 3.2 million new jobless claims in the US last week and 6.6 million this week.”

Jonathan Marriott, LGT Vestra Chief Investment Officer

Aid appears to have come too late for these people and we expect the number will be high again next week. In the UK, the Government acted early to protect employment but was slower to help the self-employed. Domestically, nearly a million people have registered for universal credit. Other survey data is reflecting the closing down of daily activity. With large parts of the global economy effectively shut down, economic numbers will undoubtedly be bad for some time to come. Some economic indicators may become hard to calculate. Inflation measures such as the Retail Price Index are made using surveys of prices in shops and online. These include the cost of air travel and eating out, which are more or less suspended at present.

The aim of government and central bank policy is to make sure we have a functioning economy when we come out the other side of the present crisis. It has become clear that government aid in both the UK and US comes with strings attached. This is a proactive measure to ensure that government money is used to support employment and financial liquidity, rather than payments to shareholders. This week, the Bank of England ordered banks to stop paying dividends and cut bonuses for senior management. Companies accepting aid from the Government will not

be able to buy back shares or pay dividends. The UK equity market has traditionally been a high yielding market relative to other countries. Many companies have already announced dividend cuts and while the historic yield on the FTSE 100 is close to 6%, the forward-looking dividend yield will be much lower. There is a futures market in FTSE 100 dividends that tends to have little liquidity and can be distorted by technical factors, but is indicating the yield may fall to as low as 2.5%. A slightly smaller but still substantial cut in dividend yield is indicated for the US and European equity markets. In the US, cuts in share buy backs will have a greater impact. However, if this is already the market expectation, then the impact of actual dividend cuts may be reduced. This may make managing portfolios with yield targets harder. This could result in some managers increasing higher yielding bond exposure.

## Summary

The impact of COVID-19 is paramount and we expect to see very poor economic and company earnings reports in the weeks to come. However, government and central bank response has been enormous. Companies with strong balance sheets and quality businesses will come through this and be better positioned to perform well once we start to see a recovery. How long the present crisis lasts and how bad it will get are hard to predict. For now, the corporate bond market has recovered some of its losses, but still looks relatively attractive on a risk-return basis. In both equity and bond markets we continue to recommend a selective approach.

“In times of crisis, we see  
the extraordinary becoming  
the ordinary.”

Jonathan Marriott, LGT Vestra Chief Investment Officer

## For each other

### Showing our resilience, our kindness and our strength for each other

We are all currently adapting to a major change in our daily life due to the spread of the coronavirus. With many now in isolation, it can be challenging to support friends, family members and colleagues, amongst others. Over the past few weeks, as the realisation of this pandemic has hit home, we have found ourselves thankful for many things. For the NHS, for the community spirit we're seeing in towns up and down the country, thankful for our family and friends, thankful to our colleagues as we set up daily calls and video chats to keep the camaraderie alive.

We are also thankful for this time to take stock and appreciate the little things. In the weeks and months ahead, it is the little things that will get us through these troubled times together. A daily dose of sunshine. More time for home-cooking. More time with our families, when usually we might be commuting. We are thankful for all of these things and more. We are thankful to you, our client, for placing your trust in us.

We have launched '*For each other*' where we share each other's stories of thankfulness as we aim to foster a virtual community and reinforce the message that we are here for each other. **We're asking you to share with us moments that you are thankful for.** Please send these through to your LGT Vestra contact or [thoughts@lgtvestra.com](mailto:thoughts@lgtvestra.com).

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## An insight into what you, our clients, are thankful for this week

I am grateful for peace, community and Joe Wicks (The Body Coach who does daily online workouts for kids and adults around the world)!



If nothing else, COVID-19 has shown that we live in an inter-dependent world and we all have to play our part. We have joined the NHS voluntary service. I've launched my online (Zoom) yoga class. I had 25 participants last Sunday. This Sunday, I'm expecting 30+, including people from NZ and Israel. The focus is on bringing calm and relaxation.



Highlights for me this week:

1. Seeing my children during the working week.
2. My daughter's face lights up every time she sees me; sometimes I look up from the computer and she is just looking at me.
3. My 4 year old son participating in Zoom meetings!!



We are enjoying time together clearing out "stuff". It's therapeutic, good exercise and satisfying. What could be better?

# A worthwhile commitment

## Supporting those in need

Firstly, thank you to so many of you who responded to us this week in terms of help and assistance. Last week I mentioned we had contributed an initial £25,000 to a fund to support those most in need during the COVID-19 crisis.

We want to ensure that the funds we raise are with those who need it the most, as quickly as possible. This is not an exercise to create a fund in perpetuity; it is to ensure money reaches the most vulnerable immediately. Given the urgency of the situation, accessing smaller charities and completing a level of due diligence is not possible for us to achieve alone. We have therefore decided to partner with 'The Fore', an organisation we have previously worked with and which is part of the Bulldog Charity, an established and registered charity. For more information, please visit: [www.thefore.org](http://www.thefore.org).

The Fore is a groundbreaking funder in the UK charity sector catalysing fresh solutions to pressing social issues. Since inception in 2017, The Fore has made grants and offered over 4,000 hours of professional expertise to a wide range of charities solving issues from knife crime, to social isolation, food poverty and homelessness.

### **How it will work**

Within the Bulldog Charity, a designated fund, The Rapid Action by the Fore and Trust Emergency Fund (RAFT), was launched to help small charities and social enterprises that are struggling as a result of the COVID-19 crisis. The fund will provide grants to these small charities and social enterprises doing vital work in their communities, ensuring

donations reach the most vulnerable organisations enabling them to remain viable, and allowing them to meet the rapidly changing needs of their beneficiaries.

Initially, RAFT will be deployed to their 150 previously screened charities. If they can raise more than £1 million, RAFT will be able to accept applications from any UK registered charities, with annual incomes below £500,000. Organisations will be able to apply for up to £5,000 with an option to re-apply for further funding if appropriate. The application process is extremely simple with a high level of support provided by The Fore's assessors. The aim is to place minimum administrative burden on the applicant in order to ensure the charities can continue to concentrate on their delivery of services. Alongside RAFT, The Fore is running a Rapid Reaction Directory to connect skilled pro bono support with organisations that need help. From cash flow forecasting, through to the navigation of COVID-19 related government programmes.

### **How you can help**

Alongside one of our clients, who has committed £250,000, we aim to raise a minimum of £100,000. We therefore are asking for your compassion and your passion. There is enormous demand from thriving, well-run charities for modest support, failing which they will fold. A few million pounds in total, spent wisely through the crisis, will save hundreds of important, but small charities.

Just think what we can do as a group of caring individuals.

David Scott, LGT Vestra Chairman

**How you can donate:**

To make a bank transfer:

Bank	<b>C Hoare &amp; Co</b>
Account name	<b>The Bulldog Trust Ltd</b>
Sort code	<b>15-99-00</b>
Account no.	<b>10048750</b>
Reference	<b>RAFT- LGTV- surname</b>

We can liaise with the charity to arrange gift aid for those who donate.

“Many clients are realising that achieving a sense of purpose is now one of the most important goals to strive for.”

David Scott, LGT Vestra Chairman

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## **VALUES WORTH SHARING**

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Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.