INVESTMENTS

MONTHLY COMMENT

April 2020

MARKETS REVIEW

Oil is collapsing

The markets recovered, slightly in April.. The containment of half of the world's population has allowed the virus to slow down. The prospects of a gradual recovery in economic activity allow for a slight rebound in the markets. Nevertheless, performance has remained negative since the beginning of the year. China and Switzerland effected the. China, because its economy has largely recovered, and Switzerland thanks to its index of defensive stocks. Europe, on the other hand, is still lagging behind. Political disunity hampers recovery.

The bond and real estate markets are haved firmed slightly, however Bid-Offer spreads remain wide.

Currencies are stabilising, only the EUR remains under pressure. The most effected asset over the month is oil, which is down 70% in 2020. Oil futures even reached negative prices during the month due to a lack of storage capacity. Gold, for its part, is rising sharply. The injections of liquidity have raised fears of a devaluation of the USD. .

Our risk indicators remain high.

	Value	April	2020
Equity markets			
Switzerland (SMI)	9 629	3.41%	-9.30%
United States (S&P500)	2 912	12.68%	-9.85%
Europe (Euro Stoxx 50)	6 251	5.32%	-21.37%
Japan (Nikkei)	20 194	6.75%	-14.64%
China (Shanghai SE)	2 860	3.99%	-6.23%
Brasil (Bovespa)	80 506	10.25%	-30.39%
Currencies			
USD/CHF	0.966	0.05%	0.00%
EUR/CHF	1.058	-0.30%	-2.53%
GBP/CHF	1.216	1.88%	-5.20%
EUR/USD	1.094	-0.31%	-2.60%
Other asset classes			
Swiss Real Estate		2.79%	-0.75%
Swiss Bonds		1.84%	-0.79%
Foreign Bonds		1.44%	2.25%
Commodities		-9.67%	-47.92%
Oil	18.84	-8.01%	-69.15%
Gold	1 687.67	5.62%	10.82%
Rates / Indicators			
10 years Swiss rate		-0.52%	-0.47%
10 years US rate		0.64%	1.92%
US Unemployment		4.40%	3.50%
US GDP		0.30%	2.30%
US CPI		2.10%	2.30%

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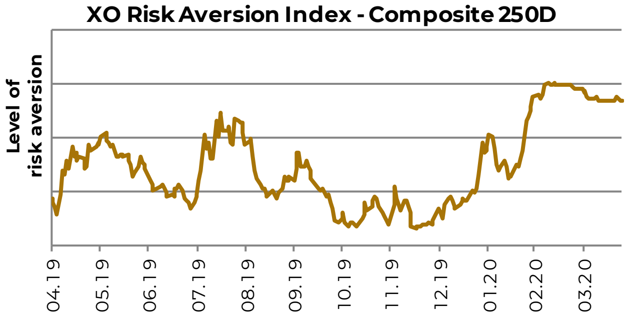
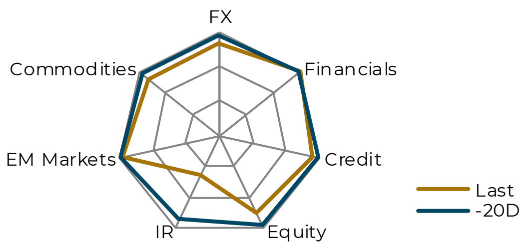
XO Risk Aversion Index - Composite 250D



XO Risk Aversion Index - Components

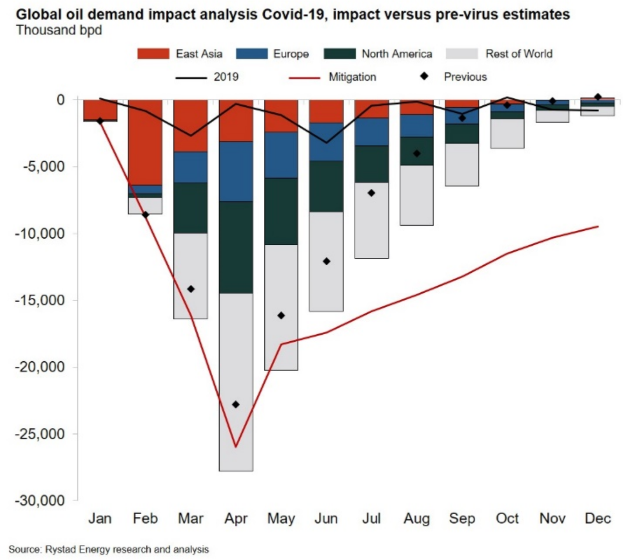


FALLING OIL PRICES PUT MONARCHIES AT RISK

The historic fall in oil prices forced OPEC to massively reduce its production (-10%). This drop in the price of a barrel of oil, not only endangers the costly production of North America or certain deep-sea drilling operations, it also puts at risk certain states that finance their deficits by sellingoil.

The spread of the coronavirus has put a considerable brake on economic activity. Oil demand is down by about 25% in April, or 25 million barrels per day.

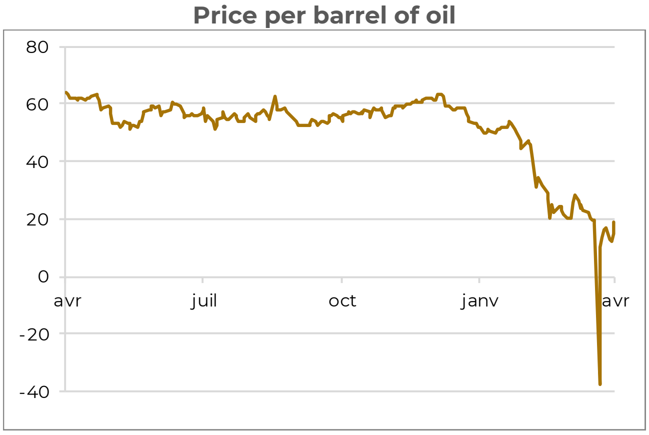
Impact on oil demand (thousands of barrels per day)



Source : Rystad Energy Research and Analysis

The impact on prices was not long in coming, as the barrel of oil depreciated by around 70%. It was not until the intervention of the producing countries, with a drop in production of around 10 million barrels per day, that the price recovered slightly.

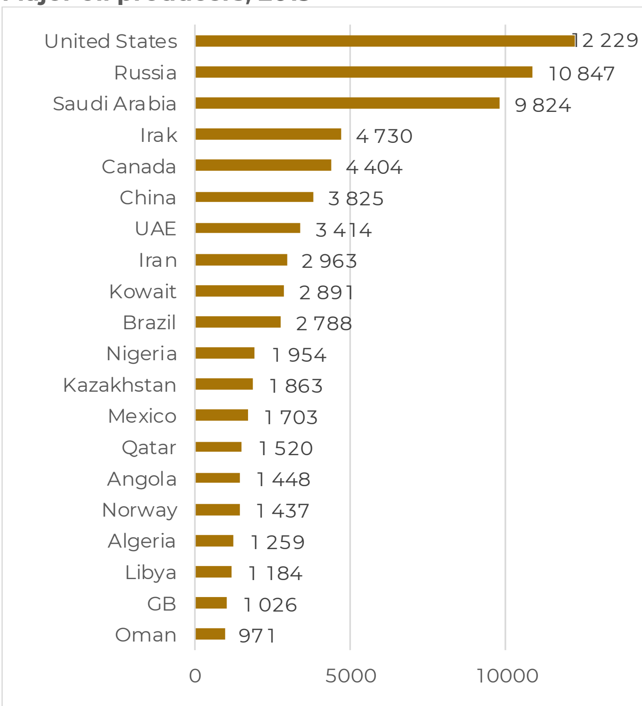
Price per barrel of oil



Source : Bloomberg, XO Investments SA

The situation became difficult. The top three oil producers (United States, Russia and Saudi Arabia) had every interest in reaching an agreement. The reasons for their action were, however, diverse.

Major oil producers, 2019

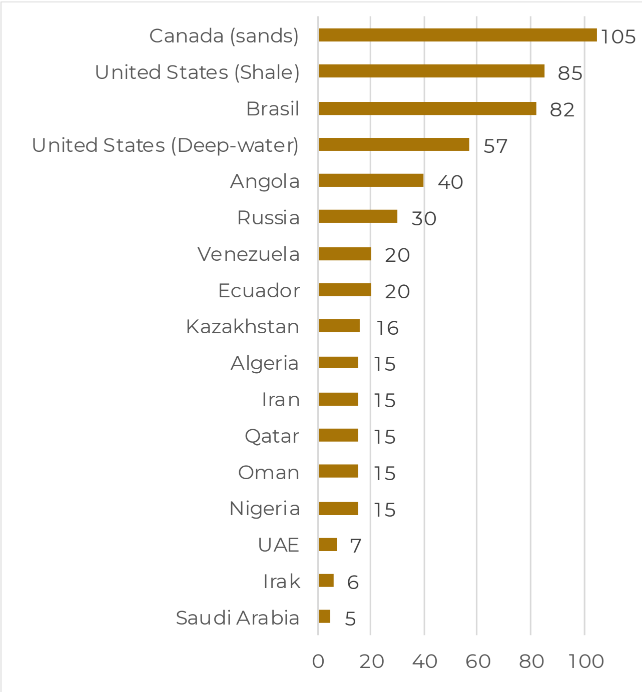


Source : FMI, XO Investments SA

The United States was the first to be interested in a price hike. In fact, US production, although it is the world's largest with more than 10% of world supply, is extracted in two ways: on deep-water offshore platforms (Deep-Water) and by hydraulic fracturing, i.e. shale oil. **The cost of producing this oil, without considering the environmental cost, is around $85 per barrel. This is a far cry from current prices!** We can understand Donald Trump's haste! American energy independence has a significant price in this crisis. And bankruptcies of American companies producing in this way are not to be ruled out until the price has returned to acceptable levels.

Source : FMI, XO Investments SA

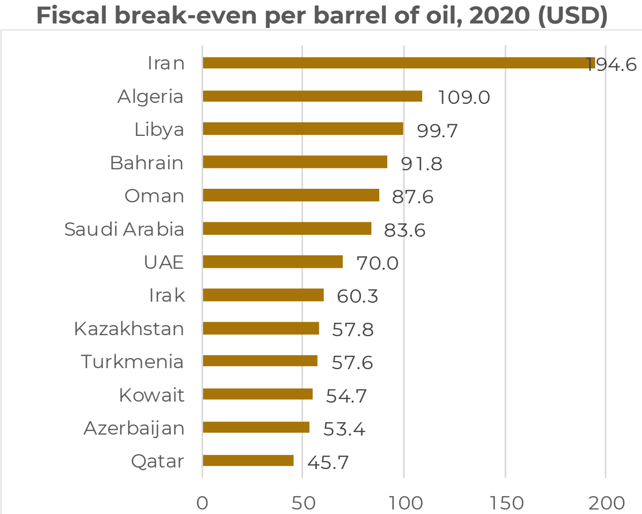
Marginal cost of producing a barrel of oil, 2014 (USD)



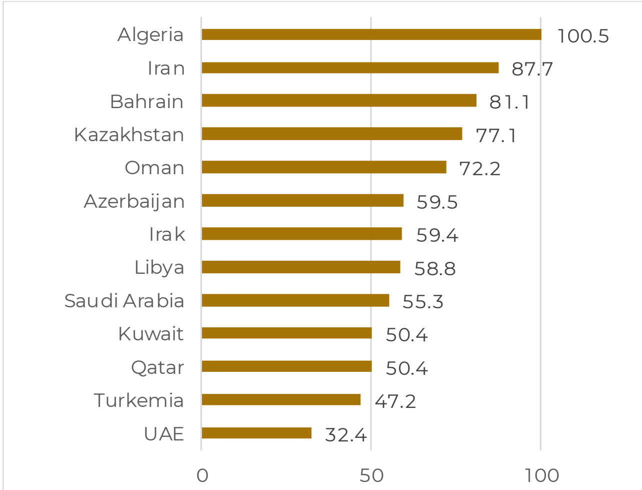
Source : Knoema, Oil Statistics, XO Investments SA

It was also in Saudi Arabia's interest to find an agreement in order to raise the price of a barrel of oil. As the world's third largest producer and the world's largest reserve, Saudi Arabia, like other Middle Eastern petro-monarchies, has extremely low production costs. The light oil extracted from the desert has made the wealth of these countries. Unfortunately, many of these countries, led by Saudi Arabia, have only this resource and have developed little or no industry. As a result, the fiscal and economic data of these countries are largely based on their oil exports and therefore on the price of black gold.

Fiscal break-even per barrel of oil, 2020 (USD)



Break-even current account balance per barrel of oil, 2020 (USD)



Source : FMI, XO Investments SA

Thus Saudi Arabia needs oil at around $85 a barrel to reach fiscal balance and $55 a barrel to reach current account balance! The drop in prices therefore has an immediate and major impact on the country's finances. And there is no doubt that economic difficulties can lead to tensions within the royal family and wars of power.

With USD 160 billion in revenue last year from its hydrocarbon exports, compared to USD 200 billion for Saudi Arabia, Russia is also dependent on oil prices. Nevertheless, with a fiscal break-even point of USD 42 per barrel, Russia is in a strategically better position than Saudi Arabia. And with production costs much lower than those of US companies, it seems that Russia is in a strong position in this oil war.

The "petrodollar era" began on 14 February 1945 with a meeting between King Quincy's Saudi Arabia and US President Franklin Roosevelt. The coronavirus crisis shows the dependence of certain states on the price of oil and could reverse the balances established for 75 years now.

PORTFOLIO STRATEGY

After the significant drop in March we are continuing with the established strategy. We are gradually taking profits on assets that were only slightly affected by the crisis. We are using this liquidity to complement our precious metals positions and are gradually taking positions in stocks that have been strongly shaken by the crisis, such as oil stocks.

Equities :

- Gradual purchases of gold mines or oil stocks.

Bonds :

- Positions are beginning their slow recovery. We are holding the positions that have been heavily discounted and are gradually taking profits on positions that have had little or no impact.

Real estate :

- Partial recovery from declines. We will reduce these positions in the coming weeks and months in order to have liquidity.

Alternative strategies :

- Gold is our biggest conviction in this crisis ..