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MESSAGE FROM THE CIO – 13.03.2020

The Stock Market is clearly evolving in step with announcements of COVID-19 cases and of the public health measures taken by the authorities. It is still not factoring in all the financial measures that have been announced by governments and central banks to attempt to prevent this public health crisis from becoming an economic and financial crisis. Governments and central banks have been far more responsive and active compared with the 2008/9 crisis. We must be realistic, however, and acknowledge that, at this stage, investors are mainly focusing on public health news.

Since the start of the crisis, we have been cautious about the timing for starting to build positions back up again as we were expecting the crisis to arrive in the US, which it now has. The virus has now visited the whole of the Northern hemisphere. Right now, all eyes should be on China, where the crisis began. Activity has resumed in China, factories are starting up again and Chinese people's lives are gradually returning to normal. This bodes well for the future. We must be patient though as, based on the data from China, Europe won't reach a turning point for a number of weeks. Europeans are fortunate that they have been able to take certain preparatory measures, unlike the Chinese authorities. Europe and the US are currently taking stringent measures that few observers thought were possible in our democracies. We are also monitoring communications from the scientific community.

To get back to the financial and economic consequences, the IMF has said that it is still too soon to say. According to some macro-economic analysts and crisis specialists, there will potentially be a technical recession in Q1 and Q2 2020, potentially followed by a sharp rebound in activity thanks to the recovery effect and the stimulus measures that have been announced.

We maintain our conviction regarding our positioning. It is robust and will be able to absorb the impact of this volatility, although, given the current sharp downwards movements, complete protection is of course not possible. We will make a few adjustments to prepare for what it is to come. Firstly, we are reducing our exposure to high yield bonds, as they are highly sensitive to sudden slowdowns in economic activity. Secondly, we are reducing our exposure to sovereign bonds. During this period of volatility our positions in US Treasury Bills have played their protective role and have gained a lot of ground in terms of price. The valuation level of these bonds leaves little upside potential, so we intend to sell them to build cash reserves that we can draw on when signs of an economic recovery emerge.

Best wishes,
Erik Fruytier
Chief Investment Officer

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