MARKET COMMENTARY – Q1 2020: They say that night is darkest before the dawn

Isn't it amazing how quickly situations can change? Despite all the efforts made toward reviewing and assessing current and potential risk in the financial market framework, experience has taught us that there will always be unidentified risk and this first quarter of 2020 has been a monumental reminder of this indelible truth. I personally expected to comment on the upcoming US presidential elections and warn about the international trade tensions which I believed were far from over, despite the first step agreement signed between the US and China. But, when considering these first three months of the years, who will recall anything else then this global and unprecedented context which led the world economy to almost a complete halt and give people the opportunity to look above, at a space that was once busy by heavy airline traffic, to contemplate a clear and quiet blue sky?

Despite concerns over the escalating tensions between US and Iran which drew international attention in early **January**, the easing of the trade tensions with China boosted investor sentiment as the "phase 1" deal got signed on the 15th, kicking the much more challenging negotiations further down the road. It is only in the second half of the month that worries about a virus outbreak in China made their way into the headlines, as the entirety of Wuhan province was put under lockdown and that the WHO declared a global health emergency. The formal exit of the United Kingdom out of the European Union on the last day of the month and the necessary ongoing negotiations are dropped down the list of investor concerns. Taking a higher spot on the list, China's dominance of the global supply chain was severely challenged by the virus outbreak. At the end of January, the official number of confirmed cases was 9'956 and 213 deaths are reported, almost exclusively in China.

In **February**, Tidjane Thiam was ousted from his CEO role at Credit Suisse. UBS announced that Ralph Hamers from ING will be replacing Sergio Ermotti. Jean-Pierre Mustier from UniCredit will take charge at HSBC, still going through major restructuring. Also, Barclays' Jes Staley is expected to step down by the end of the year. While banks' CEOs played musical chairs, most probably indicating continuous weakness of the industry in Europe, Chinese authorities multiplied their support of the economy as measures taken to contain the spread of the virus made businesses suffer significantly. Apple and Microsoft, among others, warned that the revenue guidance will not be matched due to the virus impact on both production and consumption in China. When at last some improvements were observed for the region, the virus spread outside China, especially in

Italy and in other developed countries, including the US in the latter part of the month. The rapid international contagion pushed governments in most countries to also impose measures including quarantines, cancelling events and large gatherings to avoid any further spread. At the end of February, there are almost 90'000 official cases and more than 3'000 deaths reported.

During the month of **March**, nobody could care less about North Korean missiles being shot into international waters and the lead taken by Joe Biden in the run for the Democrat candidacy for the US presidential, over Michael Bloomberg and Bernie Sanders, was barely acknowledged by global investors. As a result of the pressure on the energy sector following the expected economic weakness, OPEC planned to further tighten its oil production, conditional on Russia's agreement to comply. But the failed negotiation resulted in an oil price war and accelerated the collapse of the oil market. The WHO declared the virus a pandemic on the 11th and authorities took outstanding measures to support the economy as one country after another shot their borders, closed schools, restaurants, shops and put their citizens under lockdown to avoid further virus spread. In an unprecedented move, the Fed unexpectedly cut its rate by half a percent to 1.25% on March 3rd and a second time by a full percentage point to 0.25% on the 15th. To a wide extent, the US central bank also resumed its asset purchase program. The US government passed several Acts to support the economy and notably voted in favour of a fiscal package of $2 trillion in the last week of the month. In Europe, on March 18th the ECB announced an asset purchase program of EUR750 billion for the year and each country in the old continent put together their own fiscal package, in an attempt to mitigate the economic impact of the pandemic measures. The quarter ends with more than 920'000 cases and more than 46'000 deaths reported.

Investor obsession with the evolution of the pandemic to its peak and how the world will emerge when it is contained, is quite obvious and understandable. Nevertheless, when the storm will abate, we will need to remind ourselves of the pre-existing economic conditions we were going through before the pandemic hit. The Chinese central bank was already supporting its economy by cutting its reserve requirement ratio at the very beginning of the year, Christine Lagarde, at the head of the ECB, already echoed Mario Draghi's stance late last year about the importance of government fiscal economic stimuli. And delicate international trade relations have little chance of being in better shape when we exit the crisis.

On the bright side is the emergence of opportunities which are resulting from the current environment and years of investing through index trackers, indiscriminately allocating capital to market. Carefully reviewing investment rationale and business fundamentals will enable the unlocking of substantial alpha on both the equity and credit sides over the mid to long term, but being ready to tolerate elevated levels of volatility in the short term will be necessary, as no one will know for sure if it is going to be darkest before we all see the dawn.

Kenji Yamada, CIIA
Managing Director & CIO

Markets	**Indices**	**Q1-2020**
Equity World	*MSCI All Countries World Daily Total Return Net USD Index*	**-21.4%**
Equity Emerging Market	*MSCI Emerging Net Total Return USD Index*	**-23.6%**
Global Fixed Income	*Barclays Global-Aggregate Total Return Index USD*	**-0.3%**
Global Commodity	*S&P GSCGI Index Spot Index*	**-41.4%**
Hedge Funds	*Hedge Fund Research HFRX Global Hedge Fund Index*	**-6.9%**
EUR/USD	*Euro Dollar*	**-1.6%**