2pm PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly marketreview

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Editorial

A HISTORICAL CRASH...

The year 2020 had however started under the best auspices with good publications of results for the 4th quarter of 2019, a feeling that business was improving, indicators of manufacturing activity in recovery after several months of continuous decline, phase 1 of the trade agreement between China and the United States finally sealed… So much so that in mid-February, the Eurostoxx50 index posted an increase of 2.56% while the American S & P500 index increased by 4.62%. Unfortunately, the rapid spread of the Covid-19 virus from China to Europe at the end of February, coupled with the oil shock of early March (check the Grand Angle herein) has led to a reversal of the trend, as brutal as it was unexpected. From its February 20 high to its March 20 low, the Eurostoxx50 index fell nearly 40%. Ditto for the CAC 40 in Paris. And -42% even for Italy, which is paying a heavy human price in this crisis. The United States, later affected by the virus, slipped by -35% between these two dates, while the loss of emerging markets was "contained" at -32%. Never in market memory had we seen such a violent shock, not

even in 2008. And yet, apart from the health aspect, necessarily anxiety-provoking on populations, the situation in 2008 was more worrying in many respects with a crisis born at the heart of the financial system and spreading to the rest of the economy. Today, if we look at things objectively, the world economy is still in better shape than in 2008 and the financial system much more robust, thanks to the rules and the many safeguards put in place since the Lehman Brothers bankruptcy.

Faced with this abysmal plunge and this explosion of volatility, we have endeavored at 2PM to keep a cool head and not to give in to panic, accompanying the fall in the market with a few buying supplements on the positions that appeared to us the strongest and the most likely to rise. Our long experience of the markets has taught us that selling under the effect of panic during turbulence or moments of extreme volatility is the best way to generate deadweight losses and irreparable damage on the performance of portfolios that we manage. On the other hand, and we have checked it many times in 2003, early 2009, in 2011 or even at the end of 2018, it is necessary to know how to take advantage of short-term market dislocations, in an admittedly contrarian way, in order to create the performance of tomorrow; focus on our 3/5 year investment horizon. Panic selling results in losses. Keeping ones position and gradually redeeming during low tide one only has to lament unrealized losses (latent) for a time and thus maintain intact all the rebound capacity of the portfolio. A rebound which, as usual, manifests itself without warning.

In the case of the present crisis, it was around March 20 that the rebound materialized in a context of rapid reaction by central bankers (see our Special Topic on page 3) and the various governments. The American Federal Reserve has indeed announced a new asset purchase program of unrivaled scope, unlimited in size and time, support measures for student loans and households while Congress managed an agreement on the plan to support the economy of 2200 billion dollars, that is to say almost 9% of the GDP, minimal to say the least! In the euro zone, the ECB initiated the implementation of the Pandemic Emergency Purchase Program (PEPP) while in Germany, the Bundestag approved a massive support plan, while MEPs voted in favor of suspending the constitutional provisions that limit a country's indebtedness.

All of these measures have enabled risky assets to rebound significantly. Thus, in three days, European stocks climbed 15%! And almost 18% for American stocks. The differences are even more incredible in terms of individual values. A title like Airbus thus slipped by -65% from mid-February to mid-March, then rebounded by more than 50% over the following week!

The credit market was not been slighted, with significant dislocations marked by a rapid widening of spreads and very low liquidity in the market. Many high-yield funds, including

	Q1 2020	FY 2020	Close 31/03/20
DOW JONES	-23.20%	-23.20%	21 917.16
S&P 500	-20.00%	-20.00%	2 584.59
FTSE 100	-24.80%	-24.80%	5 671.96
EUROST.50	-25.59%	-25.59%	2 786.90
CAC 40	-26.46%	-26.46%	4 396.12
FTSE MIB	-27.46%	-27.46%	17 050.94
MSCI EM	-23.87%	-23.87%	848.58
CRUDE OIL	-66.46%	-66.46%	20.48
GOLD	3.95%	3.95%	1 577.18
EUR/USD			1.1031
EUR/CHF			1.0604
EUR/GBP			0.8882
EURIBOR 1M			-0.423%

the most robust in normal times, suffered inflows of -10% to -15% in March in two weeks. We, of course, took advantage of this to strengthen our positions, convinced that the action of central banks will be enough to bring calm to this bond sphere in a few weeks, as we saw during the Greek crisis of 2011.

Again on for global stock markets, it is very difficult to project whether the real low point of this crisis is behind us with the levels tested around March 20 or whether to expect another "bottom", as the level of uncertainty remains high on the evolution of the virus and the expected impacts on the real economy. Already in Europe, the PMI indexes are collapsing, like Spain, which sees its services index slip from 52.1 to 23 and Italy, from 52.1 to 17.4, a decline of an unprecedented scale. In the United States, above all we note the incredible surge in jobless claims: In the space of two weeks, nearly 10 million people have registered, equivalent to the total of registrations in one year during the subprime crisis in 2008!

From a health point of view, Europe is showing some encouraging signs with a decrease in new infections in Italy and a slowdown in new admissions to intensive care in France and Spain. On the other hand, the pandemic is progressing strongly in the United States, in England and in many emerging countries. And in Asia, the fear of a second wave of infection from abroad does not facilitate the resumption of trade. Faced with this prospect, the various governments and central banks are redoubling their efforts these days by announcing new support measures. Korea has announced its 2nd stimulus, Italy is working on a new 40-billion-euro package and D. Trump is trying to

convince the merits of a new infrastructure stimulus package. It is estimated at this stage that the fiscal stimulus is around 5% of global GDP. In any event, whether the low point is that of March 20, or that we should expect a last wave of market decline in the coming days, it seems to us that many companies are currently valued at incredibly low levels, already incorporating a lot of bad news. It is clear that with a large part of the world population on lockdown, many economic sectors are at a standstill or in a deadlock, and that the economic machine will take some time to restart. But when a fine company like Siemens loses almost 50% of its value from the start of the year until March 20, or even 60% for a cyclical company like Arcelor Mittal, it is not surprising to think that a large part of the current and even future problems is already included in the prices. In any case, we are careful not to sell at 2PM on these highly depreciated levels. On the contrary, our experience of the previous stock market crises pushes us to stay in the race, or even to strengthen our positions to take full advantage of the rebound when it manifests itself in a lasting way, thanks to the rebound in the world economy, in an environment which will remain extremely accommodating for a long time.

Christophe Carrafang

The Big Picture

The new oil counter-shock or the unexpected showdown between Saudi Arabia and Russia

On the sidelines of the Covid-19 epidemic, the world is experiencing an oil counter-shock, triggered on March 7 by Saudi Arabia's decision to break the market and open its production valves.

Oil prices fell dramatically during the month of March, the strongest drop in history. Just like stock market indexes, themselves partly fueled by the collapse in energy costs. With a plunge of 70%, we have thus witnessed the largest decline ever recorded in economic history. At $ 20 a barrel, never since 2003 and the Second Iraq War have oil prices reached such a low level.

If this crisis is reinforced by the epidemic of coronavirus which lockdowns the world, it has its origin in a diplomatic showdown engaged on March 6 between Saudi Arabia and Russia, the two most powerful countries in the so-called OPEC+ organization.

Meeting in Vienna, host venue to the summits of the organization of the exporting countries, the two protagonists tried to agree on a further drop in oil production in order to maintain prices, weakened by the drop in demand related to the Covid-19 crisis. Against all expectations, Moscow, anxious not to lose market share to producers of American shale gas, refused. Consequently, Riyadh, the third largest oil producer in the world, decided to increase its production in order to drive prices down, thereby forcing Russia to reconsider its position.

In reality it's a 3-strip billiard game: Saudi Arabia decided to punish Russia for not showing solidarity in the effort requested. On the other hand, Russia decided to take advantage of the situation to punish American shale oil and gas producers.

Now who can win from such a situation? Neither one nor the other.

It is surprising that this break and the decision to let prices collapse was taken by Saudi Arabia at a time when the world economy is almost at a standstill. Each of the protagonists claims that he can hold his own perfectly. President Putin assures that Russia's budget is built on an average assumption of $ 42 a barrel. Saudi Arabia is not trying it out since it had applied the same strategy in 2016 at the time, among other things to "punish" Iran and already American producers. But it had to back down after a few months, thus favoring the accession to power of the young prince Mohamed Ben Salmane (MBS), the same who today applies this punitive strategy. Yet this diplomatic war, as often in a crisis situation, will create opportunities.

The winners will undoubtedly be the consumer countries who did not expect such a windfall but also the long-term investors who will be able to get their hands-on high-quality securities at prices never seen in more than 20 years. After a drop of more than 50%, the major players in the sector such as Anglo-Dutch Royal Dutch or French Total saw their stock market prices return to their levels of the 1990s, a situation that was not long ago unimaginable.

This is also already playing out according to statistics collected by the Chicago Futures Market Authorities (C.F.T.C) by specialized alternative fund managers who have repositioned themselves "long" (buyers) on the barrel.

Geoffroy de Villaines

Macro-economy

All macroeconomic forecasts for 2020 fell apart within a few weeks.

In itself, a health crisis is not necessarily recessive (note the heat wave of 2013 in Europe which resulted in 70,000 deaths); it is the extreme lockdown measures which are likely to strongly contract the economic activity. They concomitantly create a shock of supply and demand. Therefore the year 2020 most likely will have two stages: a recession in the first two quarters, in particular in the second. Then in the second half of the year, a strong rebound in activity linked to the catching up on this inactive period, supported by budgetary and monetary policies on colossal amounts, coordinated worldwide.

Observing the Chinese economic situation is a good proxy for what could happen anywhere else in the world:

- **Chinese February PMIs hit historic lows of 35.7 for manufacturing and 29.6 for services, respectively.**
- **The March figures show a clear improvement, with figures of 52 and 52.3 respectively. Beyond the figures that can be disputed, the trend is real.**

In Europe, economic indicators show a quick turn-around:

- **PMI services sink to 26.4 (17.4 in Italy).**
- **PMI manufacturing held up better at 44.5 for the month of March.**

In the USA, the situation will be the same, with a few weeks lag:

- **The first effects are felt, the ISM manufacturing rate goes from 50.7 in February to 49.1 in March, while that of services fell to 52.5, against 57.3 a month ago.**
- **As of March 27, nearly 10 million Americans have already been laid off.**
- **For the moment, the real estate sector is still in good shape, the fall in interest rates favors this sector and credit renegotiations are starting again. It will inevitably be impacted by the lockdown period, but in the medium term, everything is done so that it restarts strongly.**

Damien Liegeois

Rolling 12 months Eurostoxx50

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Special Topic

On the strength of their experience in 2008, central banks no longer adapt, they anticipate.

The 2008 crisis took all monetary authorities by surprise, who realized the ineffectiveness of the traditional tools at their disposal (essentially rate cuts). The US Federal Reserve had to be inventive in developing unconventional monetary policy tools (asset purchases, direct intervention in the financial markets). Today we no longer speak of unconventional tools, for they have become part of the status quo during the past 10 years.

Unlike this year, in 2008 the Fed did not intervene with its "QE" until December, four months after the Lehman Brothers bankruptcy, with asset purchases of $ 1.2T. Subsequently, it continues its support efforts with a new intervention of nearly $ 2T between 2012 and 2015.

For the crisis we are experiencing, just after the first American death of the Covid-19 as of March 3, the FED lowered its rates for the first time from -0.5% to 1.25%. A week later, it raised its key rate to 0.25%. Subsequently, it announced a purchase of $ 500b in treasury bills and $ 200b in Mortgage Back Securities. Ten days later, following strong tensions on the bond market, it attacks the corporate debt market to announce unlimited redemptions, these extreme measures being put in place in order to lower interest rates to the lowest financing, to ensure that credit conditions on the financial markets remain available and optimal, so that these rate cuts benefit those who need them most. Thus in three weeks, we have already had four interventions from the American monetary authorities, which is unheard of.

With the coronavirus health crisis, and thanks to the legacy of 2008, everything is going much faster.

In the Euro Zone, to activate a real long-term quantitative easing program, the European Central Bank had to wait until 2015, and two recessions, before being able to adopt a similar plan of a scale and duration comparable to that of the FED. The famous “whatever it takes” of July 2012, and the first QE of 1T € was a good start, but it was relatively brief and from mid-2012 the ECB started to resell assets massively until mid-2014. This eagerness to deflate the ECB’s balance sheet has no doubt widened the gap in economic performance with the United States, which at the same time pursued an accommodative policy. This year, despite a first false start, the monetary authorities under the aegis of Christine Lagarde quickly took stock of the economic emergency and announced a massive program of repurchasing credits of all kinds, the PEPP, the Pandemic Emergency Purchase Program.

The Covid-19 crisis is therefore global, and the response of central banks is global and coordinated on an unprecedented scale. The FED, the ECB, the BOJ, the BOE, the PBoC and others are maneuvering to try to compensate for this big economic air gap which, we hope, albeit painful, should be temporary. Never in the annals of economic history have the monetary authorities acted together as now. We can therefore hope for results commensurate with these commitments.

The strength of these interventions lies in the speed of decision-making and the speed of execution of these measures; no procrastination, little hesitation in the face of the gravity of the situation.

The legacy of 2008 is certain, and while the current crisis may be similar in the magnitude of stock market corrections (stocks and bonds), the suddenness of dropouts is historic.

The legacy of 2008 lies in the ability to go beyond simple monetary policy tools (action on interest rates), plus having included asset purchases of all kinds in the range of tools available for large or even unlimited amounts. Thus the monetary authorities, last resort lenders for banks, also become the last resort for states and companies. When is the last resort for equity markets? So far, only the Bank of Japan has taken the step of direct intervention in equity markets.

Damien Liegeois

FEDERAL RESERVE BALANCE SHEET SINCE 2007