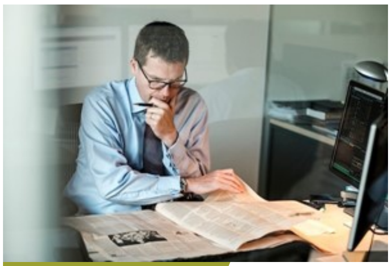


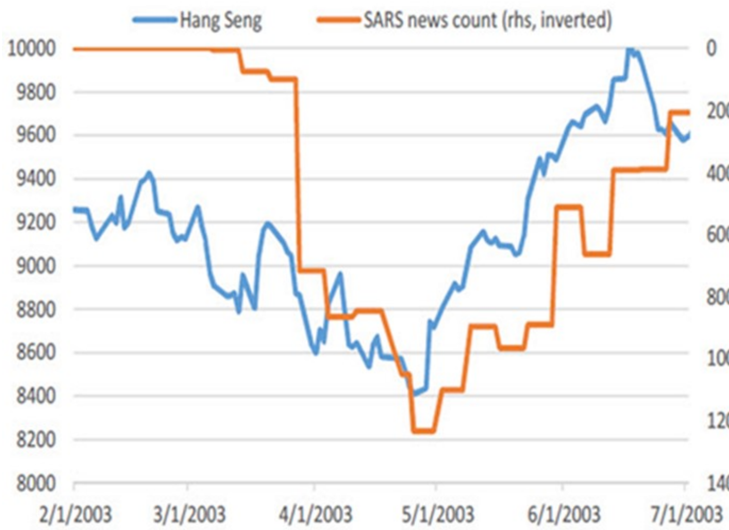
Friday Morning Coffee

Nr. 89 — Corona with lemon

In his speech on Wednesday this week, Fed chairman Powell commented on the spread of the novel coronavirus "Coronavirus outbreak is likely to cause disruption in China and globally; uncertain what macroeconomic effects will be at this point." Stock-markets have been quick to adjust to this new risk factor and its potential impact on trade and economic growth. China is indeed important as it represents 18% of the world economy and any slowdown in Chinese consumption will be felt worldwide. We therefore witnessed a quick "contagion" through global equity markets with not only MSCI China down several % but also S&P 500 and MSCI Europe went down noticeably over the last week. The stock prices of luxury and travel companies have been particularly hit.

As human beings, we are wired in a way to particularly fear potentially lethal diseases and invisible viruses. These fears are accentuated by constant media coverage and updated statistics on new cases and casualties. It is therefore understandable that some investors vote with their feet and sell risky assets to flee towards perceived safe havens like gold and treasuries. We also suspect that some investors take this potential black swan event as an opportunity to take profits after the run-up in equity markets. As long-term investors however, we would strongly recommend avoiding any panic, analyze the situation calmly, stick to the agenda, and follow the investment process.

Mark Twain is famously quoted by "history does not repeat itself, but it rhymes.". **If history is any guide, a fear driven correction in the equity markets could be followed by a quick reversal once the outbreak is contained.** According to JP Morgan, during the SARS outbreak period in 2003, MSCI China fell 14%, but it was followed by a 55% rebound in 2H03, in part due to the supportive policies announced by the Chinese government. The graph below shows the correlation between the news coverage on the SARS outbreak (inverted) and the Chinese stock market.



Source: Bloomberg, JP Morgan Asia Equity Strategy

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Once the outbreak was contained and the media interest in the disease abated, the Chinese market rebounded strongly. Similar patterns could be seen with the Swine Flu in 2009, Ebola in 2014 and Zika in 2016. At the end of the day, these epidemics presented investors with buying opportunities.

As a conclusion, it is certainly too early to assess the outcome of Corona. However, it could prove costly to overreact and head for the exits. On the contrary, we should keep our calm and look for investment opportunities once they arise.

I wish you a nice weekend,

Léon Kirch, CFA

Partner & Chief Investment Officer

January 31 st, 2020