FLASH NOTE

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Coronavirus: our approach on the subject

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In our opinion, the coronavirus crisis, which has had the markets reeling for a few days, should be understood as an external shock type **"Black Swan"**, that is to say exceptional, without directly comparable precedent.

The crisis needs to be analyzed based on reliable data available, not on speculations about its future developments, which **no one can forecast today with any accuracy.**

In all such cases, **the damage to markets and the economy tends to be largely created not by the initial cause of the crisis but rather by the reactions to it** (measures of containment, disruptions of supply chains, psychological stress).

A **viral propagation** presents a unique feature in that it tends to follow as such a **"Bell-shaped" trajectory,** meaning that it starts with an initial very **strong acceleration** of new cases, which then **decelerates, plateaus, before going down** and ultimately **disappearing**.

In the present case, the trajectory of new infections seems to have reached **its descending phase within China** but is, logically because of the time lag of propagation outside of the country, **only starting now its acceleration phase outside of China.**

This explains why international markets first took the mostly Chinese crisis in their stride, with the support of still very accommodative monetary policies, and why now the **internationalization phase of the propagation is sending waves of stress across global risk markets.**

These waves will last until their trajectory moves on to the deceleration phase.

Economically, the **immediate impact** on global demand is **likely to increase** as the hit to consumer confidence widens to developed economies and public opinions require governments to take strong containment measures.

Conversely, as China employees in the manufacturing sector progressively go back to work, as they already do, the **damage to supply chains will be getting a relief**.

As asset managers, we believe trying to time short term market gyrations is an unreliable way to manage portfolios at this juncture. It seems to us more appropriate to focus on two priorities:

1) **Strengthening our portfolio construction.** We are unlikely to avoid significant fluctuations in the day-to-day performance of our funds, however, their construction is meant to provide a more acceptable risk profile in all potential scenarios, and

2) **Ensure that equity assets held in the portfolios are high medium/long-term conviction names,**which we would be prepared to add to should strong opportunities arise. Given our view that policymakers, including in China, are unlikely to resort to massive reflation policies this year, **these high conviction names remain growth stocks across the world, including emerging markets, with better visibility across economic cycles.**

> Our strategic preference for growth stocks is in no way an empty, common-sense boilerplate

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Source: Carmignac, 28/02/2020