



THE MUTATION TO „CORONAFINANCE VIRUS“

Uncertainty about the economy as a whole, tied to the spreading of the Corona virus, weigh heavily on the markets and the „golden loop“ scenario seems a thing of the past. As the Brits say: „keep your cool and carry on“.

Let's cut through the chase: it is probably too late to sell, and keeping a cool head – washing your hands regularly – is probably the best thing you can do while the „angst“ in the markets persist.

The spreading of the corona virus beyond China's borders has wreaked the chess game. The epidemic is not under control and market sentiment has melted. Travel restrictions, topped by Trumps yesterday's travel ban from Europe, quarantines and other exceptional measures tampering daily life like closing Schools, Universities, Businesses, Theaters and Sports Stadiums and cancelling events of all kind , have inevitably important economic repercussions.

While we experience fast contamination in (large) countries where there wasn't sign of the virus, paralyzing activity of every kind, the markets have gone into panic. It is not the risk of death from the virus that assails everybody , especially comparing with influenza that causes 200K to 500K deaths annually. It is the fear of a renewed recession and the uncertainty about the economy.

By becoming global, this epidemic questions the „golden loop“ scenario in two ways. Firstly, growth expectations for 2020 will have to be corrected downwards, a recession in the first half not being off the table.

Secondly, there is no visibility as to the duration of the epidemic, number of infected people/countries, the impact on economic growth, any action taken by the central banks and the governments to contain the collateral damages caused by the virus, vigor of a rebound of economic activity once virus spreading hits a ceiling.....the only answer being for the first question is that influenza epidemics usually abate after 6 to 8 weeks.

So it is to be expected that the number of infections will continue to rise, and unfortunately so will the death toll that is a concern for Europe and the rest of the world , except China where a ceiling of the epidemic spreading seems near.

The financial markets are already anticipating a recession, the long TBs at historical lows and stock markets in accelerated correction. Anxiety could persist for days or weeks, but hardly longer that the eventuality of a light at the end of the tunnel. Stock market valuations will end up being interesting again to attract some brave and gutsy buyers.



The only recommendation that can be given at this point is a wide spread positioning , do not panic even if algorithms and quantitative strategies or margin calls would amplify the correction. Our contrarian indicator already signals an oversold market, similar to levels seen towards the end of 2018.



Crises and financial crises are always arduous to endure, even for seasoned investors, but experience shows that crises always create opportunities. Not long ago, investors complained about high stock market valuations and asked themselves what was left to purchase at a decent price.

If today would be considered too early to buy, the point of surrender is not far.

DC

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