



Investing in the age of coronavirus



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Coming up with economic forecasts today would be highly presumptuous, as it would in part require forecasting how the coronavirus will play out. The job of predicting stock-market trends might seem much easier in comparison. Economic uncertainty clearly has little bearing here, given that unconditional central-bank support has become simultaneously the driver, parachute and barometer of those trends to a previously unheard-of degree.

In the short term, to navigate these choppy market seas we need to view changes in government intervention as our compass, and economic uncertainty as our horizon.

In the medium term, somewhere between the extremes of “Nothing new under the sun” and “Nothing will ever be the same again”, we sense a more subtle reality emerging that will have momentous implications for investors.

The world has gone Keynesian

In macroeconomic terms, while subsidised interest rates made it possible to avoid the worst during the 2008 crisis, they didn't provide much incentive to invest. This time truly is different, however. Governments have resigned themselves to a huge increase in public spending. The US Federal budget deficit is likely to rise to about 20% of GDP by year-end, while the eurozone deficit should reach 10%. Central-bank asset-buying has thus become the logical companion to those spending programmes in that it makes them easier to finance. Those policies are beginning to look like "monetisation" of government debt, which is one reason why we have taken large positions in gold-mining.

By increasing the importance of public investment for GDP growth, the new state of play also signals a shift in the macroeconomic landscape that will be crucial for investors.

It's too soon at this stage to gauge how effective those public investments will be. Diverting available capital to fund projects with uncertain profit-generating prospects has rarely been conducive to growth. However, specific, large-scale environmental projects might be an exception to the rule if they adroitly involve the private sector so as to combine responsible investment with economic benefits. Several of our funds are heavily invested in this theme.

Keeping a pulse on consumer attitudes

The gradual re-opening of the economy is what financial markets have been celebrating over the past month, but as the risk of contagion is still there, consumer spending will only pick up to a limited extent.

A further obstacle to such a pickup is fear about the economic future. In the United States and in Europe, precautionary savings are thus likely to increase. In broader terms, the economy will necessarily take a beating from cost-cutting at businesses and skyrocketing unemployment – not to mention the psychological impact of the thousands of deaths caused by the epidemic.



Such a conversion to frugality will not only have macroeconomic repercussions; it will also shift economic activity even further towards the least expensive, most efficient and safest approaches to communicating, retailing, working and teaching.

The current crisis can therefore be expected to accelerate the relentless natural selection process under way for several years now. Companies that have leveraged cutting-edge technology to serve their customers will survive. Tech stocks have thus outperformed since the beginning of the year, and while this is merely a reinforcement of an already existing secular trend, we would be mistaken to believe it's been fully priced in by markets. As before, what is called for of course is careful stock-picking.

The need for a two-pronged strategy

The severity of the shock affecting most economies should not be underestimated. As with earthquakes, we can't entirely rule out aftershocks following a period of quiescence. What appear to be inconsequential cracks today may subsequently develop into full-blown ruptures.

Though agile, technologically advanced firms will emerge from the crisis in better shape than before, natural selection will likewise produce winners in the hardest-hit sectors. Think of air travel: the more efficient airlines will survive – and thrive on the tribulations of their less fortunate competitors as soon as the economy begins to perk up.

Yet investors seem to overlook such subtleties. As investors, we therefore need to pursue a two-pronged strategy to deal with the extreme uncertainty created by the coronavirus outbreak. That means narrowing our portfolios down primarily to long-term strategic winners, while keeping an eye out for pockets of instability no less than for tactical opportunities.

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