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Carmignac: Aktueller Marktausblick

How Carmignac analyzed and managed the crisis

- Back in February, our concern as Risk Managers was to understand the nature of the risk which presented itself for the markets. Because it was a viral crisis, the risk in our opinion was taking, maybe surprisingly, the same *shape* as we had experienced during the banking crisis of 2008 (even if everything seems to distinguish the two market crises). This shape was that of an exponential curve.
- In other words, we saw a pattern that starts with a phase of acceleration, followed by a receding phase, also possibly very fast depending upon how well the crisis was going to be managed. The key in this type of crisis (like in 2008 with the fast contagion of the Lehman crisis to the global banking sector) is first to reduce your risk profile quickly. Because in an exponential acceleration, the danger is to constantly run behind the curve.
- Therefore, the implementation of a genuine flexibility in managing the equity exposure of a fund was essential. And then the imperative of flexibility was the same when the markets reversed, like in March 2009, because in this type of pattern the reversal can go very fast as well.
- So, the understanding of the crisis dynamic, and the reality of a very disciplined implementation of the analysis into risk management was the first condition of a successful navigation of this period.
- In this respect, the rest of the year might be quite different. Beyond the rebound from extreme levels, what is starting is a period of “tension” between the control of the pandemic and the speed of the economic recovery.
- For instance, one can already observe that the attempt in the US of a very early reopening of the economy is starting to backfire in the form of a reacceleration of cases, and might actually endanger the recovery of the second half of the year. The number of hospitalizations is now rising again, which might affect consumer confidence, all the more so of course if this trend leads to a reversal in the trend of casualties, which had been falling steadily so far. Conversely, the situation seems to have been better managed in Europe, and as the high-frequency activity index provided

by Google suggests, this could allow for more activity momentum going into the second half of the year.

- When considering the patterns of economic recovery in the coming quarters, China is looking to be a clear winner, because it managed the crisis well, so it can more rapidly reach its pre-crisis activity levels, or even exceed them in certain sectors, which will help some other emerging markets; followed by Europe, and then the US which reopened early but might now be paying the price of its precocity. It is the way countries, companies, consumer adapts to this new life with the Covid which will influence the relative performance of various sectors, in equities and in credit.
- The second unique feature of this crisis is of course the unprecedented intervention of policy makers. Here as well, the experience of managing assets in previous crises was helpful. Because what we observed was that western Governments by and large were not prepared to deal with the health crisis, but what we were convinced of was that Governments were well prepared to deal with a financial crisis. They had learnt from the Great Financial Crisis that not only intervention must be immediately very forceful, but also, most importantly, that Governments need to share the burden of economic support with central Banks, which had not been the case in 2008.
- I won't go through the astronomical amounts at play, they are well known and they will most certainly rise further. The US Congress will certainly vote a new stimulus program in the coming weeks, and the European Union will also get to approve a much-awaited European recovery plan. In the short term this is obviously supportive of risk assets.
- However, a first problem with this management of markets by central banks is that this dynamic attracts short term investors into a speculative mindset. The case is already quite visible for the domestic Chinese equity index, a market which behaves more like a casino where Chinese retail investors love to bet rather than invest. This phenomenon suggests that markets now risk being prone to bouts of volatility. This is the reason why the equity portfolio of CP has remained very selective during this bull phase, very non-benchmarked, really focused on fundamental bottom-up convictions. We consider that this is also part of Risk Management.
- Another lesson drawn from the past years helps understand the false paradox of a huge monetary stimulus that benefits equity markets a lot more than economic growth, even if this paradigm might be soon reaching its limits: it is the fact that as long as the economic activity remains weak, with very wide output gaps, and high unemployment, all the money creation cannot produce price inflation, and therefore produces only

asset price inflation. The persistence of very low bond rates despite strong equity markets is also largely explained by this logic.

- The consequence of this divergence between equity markets and economic reality is that Value or cyclical stocks, which normally would be expected to outperform in a market recovery remain underperformers, in particular in the US. The message is clear: even if, as we believe, European and emerging markets are managing to stop their underperformance compared to the US equity market, the growth style continues to dominate globally.
- Based on this understanding of the situation and our positioning, we are of course watching many indicators on our dashboard: the evolution in savings rates, which will influence the rebound in consumption, corporate indebtedness, which will impact capex, the job market, and of course the pandemic, among others. But what keeps us awake at night is more this explosion of policy makers involvement.
- Because this return in Big Government needs to avoid two pitfalls: first a sudden slowdown, a return to financial orthodoxy, and second: a loss of control of the Central banks balance sheets. In the first case, western economies would be exposed to an economic relapse, together with high unemployment levels, a cocktail which could rapidly be socially explosive and would certainly be taken quite negatively by markets. In the second case, the loss of control of central banks balance sheets, which would come from limitless monetization of government debt, would lead to a loss of trust in fiat currencies, a very destabilizing event for risk assets.
- The visibility on this type of tail risks is very low today, and the question may feel premature. But it seems to us that holding the equivalent of an insurance policy is warranted and this is the role played by the holding of Gold miners in Carmignac Patrimoine equity portfolio.
- So here we are. These first six months of the year have provided a good summary of what an all-weather fund is meant to deliver: a real flexibility in periods of high turbulence, a permanent focus on long term convictions, an attention to tail risks, and the conviction that preparedness should prevail over predictions.

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Über Carmignac:

Carmignac ist eine unabhängige Vermögensverwaltungsgesellschaft, die 1989 auf der Grundlage von drei Prinzipien gegründet wurde. Diese gelten bis heute: Unternehmergeist, durch Menschenverstand getriebene Erfahrung und aktives Engagement. Unser unternehmerisches Denken ist seit unseren Anfängen ungebrochen. Unser Team von Fondsmanagern hat die Freiheit und den Mut, unabhängige Risikoanalysen durchzuführen und die daraus gewonnenen starken Überzeugungen umzusetzen. Wir pflegen eine Kultur der Zusammenarbeit, in der Austausch, Besuche vor Ort und internes Research eine zentrale Rolle spielen. Dadurch können wir datenbasierte Analysen immer mit dem nötigen Sachverstand betrachten, um so ihre Komplexität besser zu managen und verborgene Risiken einzuschätzen. Wir sind aktive Fondsmanager und aktive Partner. Wir engagieren uns für unsere Kunden, machen unsere Anlageentscheidungen transparent und übernehmen dafür jederzeit die Verantwortung. Mit einem Kapital, das sich zu 100% im Besitz seiner Verwaltungsratsmitglieder, Fondsmanager und Mitarbeiter befindet, ist Carmignac heute einer der führenden Vermögensverwalter auf dem europäischen Markt und operiert von acht verschiedenen Niederlassungen aus. Wie in der Vergangenheit, sehen wir es auch heute als unsere wichtigste Aufgabe, durch ein aktives Management langfristig eine hervorragende Wertsteigerung der Anlagen unserer Kunden zu erzielen.

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