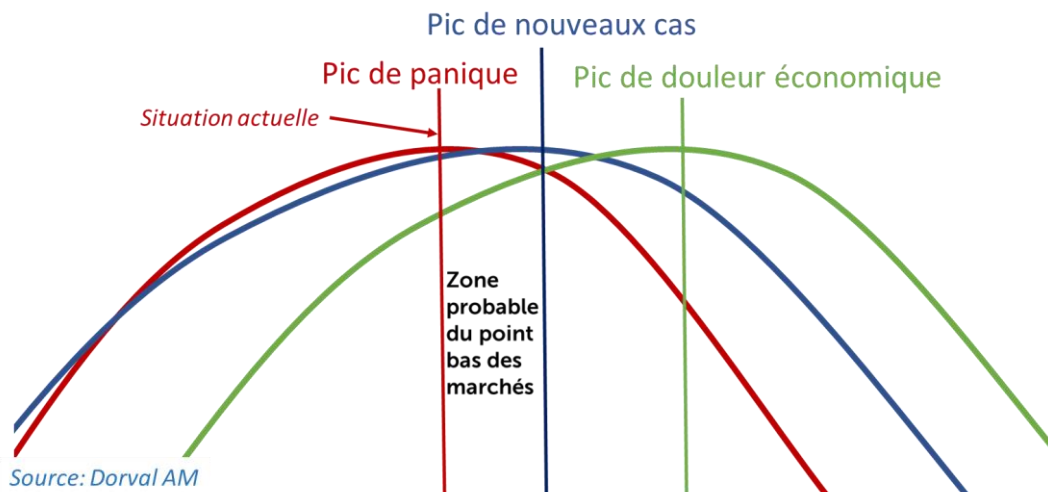




## Exposure rates of the Dorval Asset Management Range – 13<sup>th</sup> March 2020

Dear Clients and Partners,

The stock-market crash over the past few days has primarily been a result of panic surrounding management of the current extensive – but albeit temporary until we see proof to the contrary – health crisis. Despite some hesitations from the European Central Bank on Thursday, March 12 (which it very quickly corrected), the global monetary and particularly fiscal response has been massive and fast-changing. Based on the experience in China and South Korea, we can expect the epidemic of new coronavirus cases in Europe and then the US to peak by around mid-April. We think that the equity market should bottom out – if it has not already done so on Thursday March 12, 2020 – before this peak in the epidemic, so several weeks before the peak of the economic impact (cf. chart 1).



- Peak of new cases
- Peak of panic
- Current situation
- Peak of economic difficulty
- Likely market low

The very swift unwinding of positions over the past two weeks pushed Wall Street market momentum indicators (cf. chart 2) to levels only witnessed five times over the past 25 years i.e. in 1998, 2008, 2011, 2015, 2018. These previous market excesses invariably occurred before phases of major buy opportunities for risky assets. Investors are admittedly right to expect a drastic shock for the world economy in the short term, but this shock will be temporary and there is every reason to think that it will be followed by a gradual but strong and extended economic recovery, which will stretch far into 2021 (J-shaped curve).



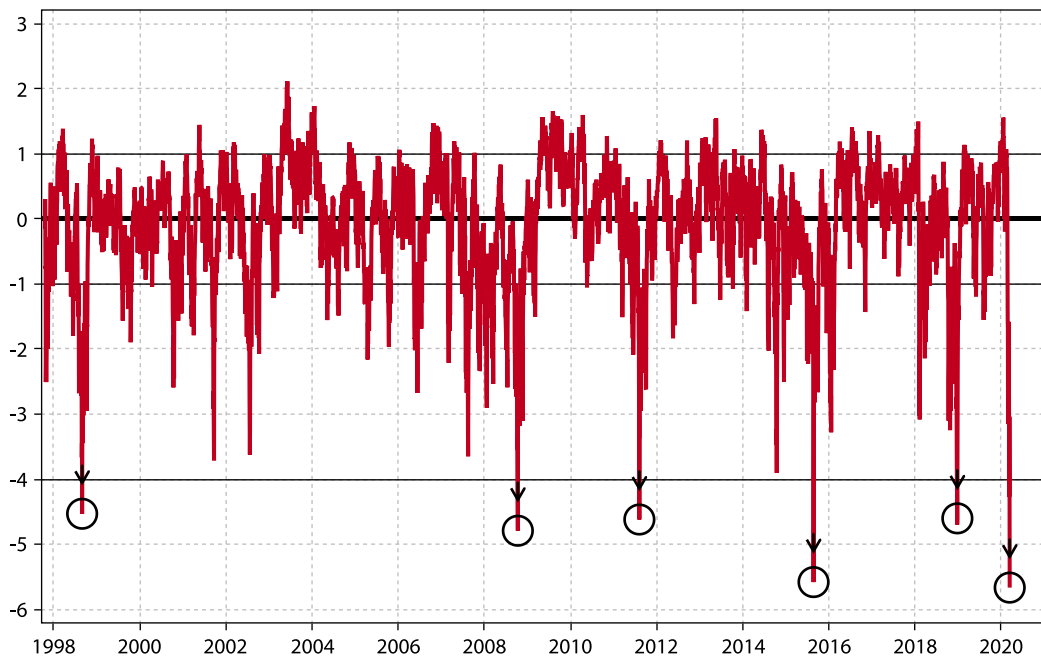


## Fear & Greed index on Wall Street

Composite indicator of several US market variables (volatility, momentum, etc.)

### Indicateur "Greed & Fear" à Wall-Street

indice composite de plusieurs variables de marché aux Etats-Unis (volatilité, momentum, etc)



Dorval Asset Management

Monetary and fiscal measures will obviously need to be sufficiently powerful to have the wherewithal to reverse the shock as far as possible, if we are to see this J-shaped curve emerge across the board: this is what we are witnessing, with central banks cutting interest rates, resuming their asset purchase programs and offering strong incentive conditions for banks to maintain and even increase their commitments to companies (including SMEs) and households. They will also take further action if necessary. Meanwhile governments are successively announcing very hefty measures to restrict bankruptcies and curb a surge in unemployment as much as possible, and also fight against economic stakeholders' tendency to overreact. We think that these measures could equate to several points of GDP in Europe i.e. several hundred billion euros. Meanwhile the US is about to follow, after China, Korea, the UK, Australia, Japan, etc.

The oil shock will also help stabilize demand, even if this also means a hit for oil-producing countries. The plunge in oil prices from \$65/bbl to \$33/bbl since the start of the year is the equivalent of a tax cut of close to a thousand billion euros worldwide. Lastly, if – as we expect – economic activity continues to resume in both China and then Korea, economic stakeholders will be able to envisage a world where the virus is under control and economic activity is gradually getting back to normal. Additionally, the reopening of large groups'



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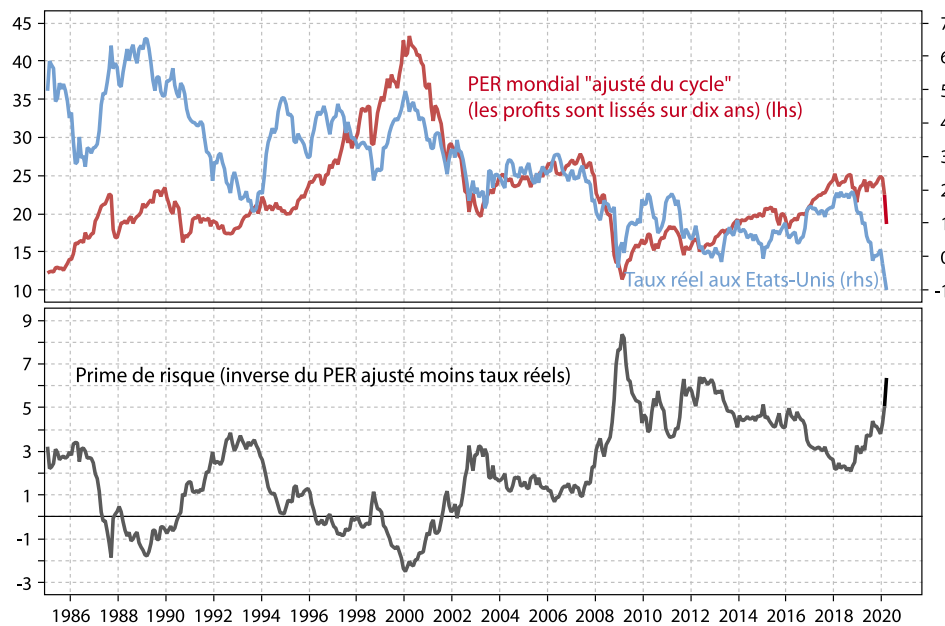


production facilities in China (Apple/Foxconn, Renault, Peugeot, etc.), which should be completed at the end of March, will help ease production chain difficulties.

**Until further notice, our scenario is for a peak in the epidemic of new cases over the weeks ahead, preceded by a peak in anxiety, and a J-shaped curve for the world economy, with a low point of unprecedented severity in the second quarter. Looking to the equity markets, we think that there will be more of a V-shaped recovery profile, at least initially, given the excesses of the past few days. The stock-market recovery could be particularly dramatic as this is an unprecedented situation. The equity risk premium is not only very high as compared to bonds (cf. chart 3), but also as compared to other less liquid assets, such as real estate and unlisted investments.**

**In light of these various factors, we have started to ramp up the equity exposure in our portfolios.**

### Very high “cyclically-adjusted” risk premium for equities Une prime de risque "ajustée du cycle" très élevée pour les actions



Dorval Asset Management

- “Cyclically adjusted” world P/E (profits are smoothed out over ten years - LHS)
- US real rates (RHS)
- Risk premium (inverted adjusted P/E less real rates)

Our exposure rates are as follows:

- **Dorval Convictions:** Our exposure rate is 56%.





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## **DORVAL ASSET MANAGEMENT**

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