

LETTER FROM EDOUARD CARMIGNAC

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EDOUARD CARMIGNAC'S LETTER

Edouard Carmignac writes on current economic, political and social issues each quarter.



Paris, April 14, 2020

Dear Investor,

Due to its severity, magnitude and uncertain duration, the current pandemic is a source of boundless anxiety. Little wonder, then, that so many pundits, often sporting dubious expertise, have been busy churning out doomsday prophecies based more on ideological bias than on sober forward-looking analysis. Populists claim the current crisis reveals the limits of globalisation. Eco-activists call for a green economy as the ultimate rampart against contamination risk. Last but not least, Marxists, often covert but by no means discouraged, predict for the umpteenth time the demise of capitalism.

Should we infer that globalisation brought about the Spanish flu in 1918 or the Black Death – all the way back in 1350? Likewise, though air travel has unquestionably hastened the spread of the virus, can anyone seriously believe that mass tourism is on its way out? That our British friends will turn their backs on our sunny Mediterranean seaside to bask under the discreet charm of the Brighton Riviera? And while we're at it, why not start fantasising that this interminable confinement will eventually lead mismatched couples to discover the joys of fidelity?

Allow me to have quite a different take. As Lenin once highlighted, the history of humanity is non-linear, progressing at an uneven pace. **The current pandemic caught us by surprise and will soon be surprising us even more as it accelerates history.** Perversely, this crisis has revealed too much globalisation isn't the problem; poor globalisation is. It rather calls for a management improvement and greater solidarity. Shouldn't we consider the U-turns with regard to Covid-19 engineered by the two champs of populism, Donald Trump and Boris Johnson, downright pathetic – not to mention dreadful for the British and American people? Moreover, wouldn't it have been wiser for the West to try to learn from how China and South Korea handled the outbreak? And couldn't a worldwide mask production programme have been put in place as of late January? Leaving aside the current crisis, mitigating epidemic risk is a categorical imperative. We have grown quite numerous on this beautiful planet, and we need to realise just how vulnerable we have become. The World Health Organization (WHO) should accordingly be provided with sufficient resources both to operate as an epidemic-risk control tower and to be in a position to coordinate national antiviral research programmes.

As the current crisis is particularly damaging to the most vulnerable, a surge of financial solidarity is required. Wealthy nations must preserve the purchasing power of their least fortunate citizens. Countries in Northern Europe have begun lending a helping hand to their southern neighbours, thus bringing us closer to a long-awaited move towards EU debt mutualisation. Lastly, the pandemic has dramatically destabilised many emerging economies, particularly in Africa, and this should convince developed countries to assist them – as a legitimate generous gesture but also in their own self-interest.

What of our investment outlook? The price-tag for putting in place such safety nets will indeed be hefty. But a huge surge in public debt – absorbed for the most part by central banks – will reduce the bill. The scenario we predicted exactly a year ago of across-the-board zero interest rates, accompanied by a loss of value for government paper and currencies, is now unfolding at a dizzying pace. As a result, bond portfolio managers will have to shift their attention from managing interest-rate exposure to managing credit risk for both government and corporate bonds. Forex risk management will also regain its former lustre and in the process enhance the appeal of the ultimate reference currency – gold. As to equities, the current crisis vindicates our key investment themes. We are now strongly enticed to conduct a rising share of our daily activities online: work, shopping, payments, gaming and even medical consultations. The healthcare industry, historically buoyed by the promises of improved life expectancy, becomes a priority. Last but not least, China emerges from this crisis as a clear victor. It can claim to have overcome the virus on its own and put its economy back on track with enviable speed. While the western world's timetable for ending confinement is still up in the air, the reliability of China's healthcare sector and manufacturing base deserves and commands our respect.

Allow me to conclude with the hope that you will not find this seemingly endless lockdown too unbearable.

Yours sincerely,



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