

INVESTMENT INSIGHTS

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Editorial View

Isolated Yet Connected

- Social distancing brings many challenges but also the opportunity to study and work differently
- AI, chatbots and extended reality are transforming the online learning experience
- Remote working is a win-win solution – for employees, employers but also the environment

In these trying times, we trust that this month's edition of our Investment Insights finds you and your close ones in good health. With more than a third of the world population currently in confinement, as governments attempt to slow the spread of the virus, human gregarious instincts are being put to test. Fortunately, the Covid-19 outbreak has hit us in a time and age when technological tools can help alleviate the feeling of isolation. Still, it is forcing society at large to rethink – perhaps durably – the way we interact, study and work.

The term “e-learning” was coined already back in 1998 and online training/education has since become a big business, gaining traction in both the corporate and academic world. But, with roughly a billion of children having just seen their schools shut down abruptly, and their teachers forced to resort to remote instruction methods, it is now undergoing an extraordinarily large-scale experiment. Which, incidentally, comes at a moment when several trends were poised to revolutionise its very underpinnings.

Artificial intelligence (AI), for instance, promises more personalised – thus more effective – curricula. Consider Duolingo, an AI-powered language learning platform that already boasts more than 300 million registered users worldwide. Not only does it engage students by mirroring the features of a video game, but it also calibrates the pacing of vocabulary repetition necessary for durable memorisation. Chatbots are also rapidly becoming key features in the world of online learning, helping simplify interactions between students and their computers. And then

there is extended reality, be it virtual, augmented or mixed, which serves to create different, immersive, learning experiences.

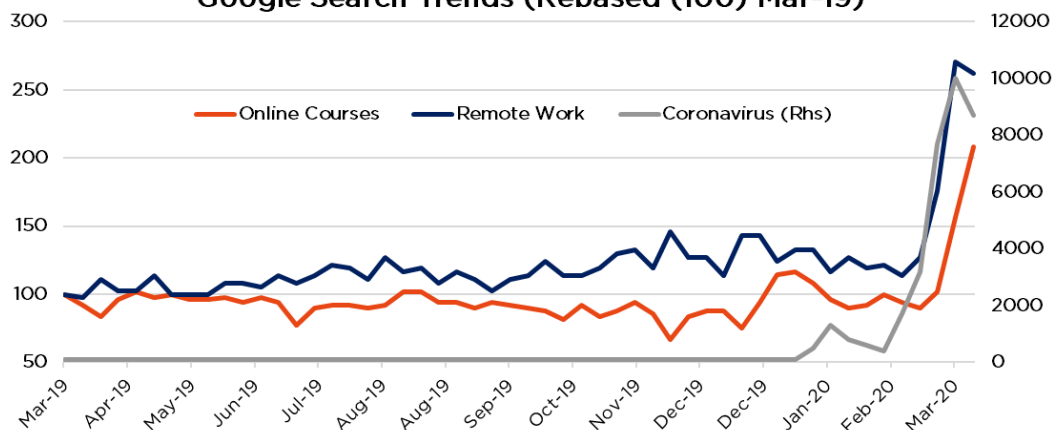
Remote working is no new trend either, but one whose adoption rate also stands to accelerate with this sanitary crisis. For some time now, employees have been craving more flexible work arrangements, lauding the many advantage of telecommuting: lesser stress, better health and quality of life, not to mention clear savings on transportation, childcare, clothing and even food.

Many employers have, however, been somewhat reluctant to embrace the model. By imposing it on them, this unprecedented situation might help convince corporations of the many benefits that can be reckoned with: access to a larger pool of talent, improved employee morale (hence also productivity), greater loyalty, material cost savings (on office rent/furniture/supplies, utility bills, etc.) and, last but not least, reduced greenhouse gas emissions (to the tune of 54 million tons per annum per some estimates).

But while the silver lining to this pandemic might be enhanced learning and working environments, with the companies that provide innovative solutions standing to profit, there will undoubtedly also be losers. The other risk is that a number of people be left on the sidelines. For not all countries, categories of workers, schools or families have the same means and access to technology. In any case, we will have to learn all the lessons from this crisis in order to be even better prepared next time. After all, aren't evolution and adaptation the hallmark of mankind?

Chart of the Month

Google Search Trends (Rebased (100) Mar-19)



Please see appendix at the end of this document for information on sources, important disclosures, and disclaimers

Global Strategy

Looking for the light at the end of the tunnel

- Coronavirus as the ultimate black swan leading to a triple witching crisis
- The “whatever it takes” cavalry is coming, but uncertainty remains elevated
- Cautious approach warranted with a focus on quality, liquidity and simplicity

What a sea change since our last Insights! The last few weeks have turned out to be brutal and eventful in many respects, not least because of the coronavirus spread outside China which made it a global pandemic, acting as the ultimate black swan for the economy, national health systems, and financial markets worldwide.

For the time being, governments’ top priority is to save as many lives as possible by trying to “flatten the curve” of new infections. As a result, drastic social distancing measures have now been implemented across the globe, paving the way for a temporary collapse in the economy.

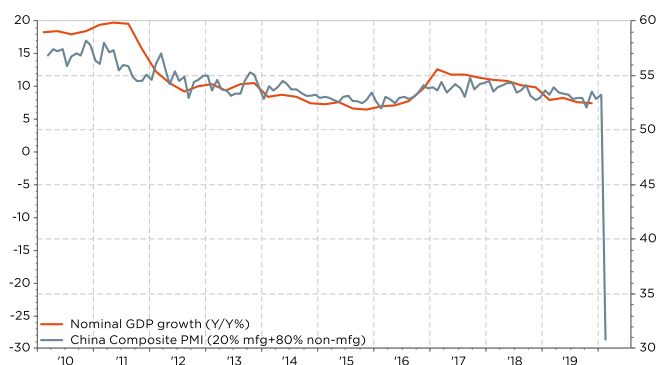
Numbers and facts are breathtaking: GDP growth for the coming quarter may fall as much as 20% in several G7 economies, while several tens of trillions of dollars of wealth will have evaporated on financial markets. As a result, central banks have slashed interest rates to zero and relaunched massive QE programs, doing “whatever it takes” to provide liquidity, ensure “normal” markets activity and avoid a credit crunch that could lead to a deflationary spiral.

Overall, their current task is to ease pandemic fears and limit as much as possible unwarranted spillovers into the real economy once the health crisis will be under control. Unfortunately, monetary policy alone cannot cure the disease nor offset the severe economic damages. For the latter, fiscal policy remains crucial and government rescue packages have indeed started to take shape – the lessons of 2008 having been learnt in terms of the importance of acting swiftly and boldly. As a result, no doubt that most countries involved will undergo a “war time” public deficits in the coming years. But that is an issue for another day, particularly since central banks are committed to support the bond market.

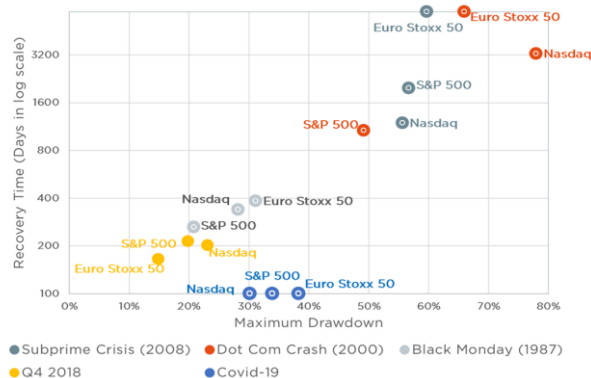
While it is obviously still too early to declare victory, given the lack of visibility on a return to “normality”, these measures will at least allow the economy to buy some time and bring us, as safely as possible, closer to the other side of the bridge.

At the portfolio level, considering the rapid unfolding of our coronavirus worst-case scenario, we implemented various de-risking changes during the month of March – so as to reflect a cautious stance. More specifically, we gradually reduced our equity allocation across the board, though keeping a relative preference for more resilient and diversified markets such as Switzerland and the US. In terms of sectors & styles, we continue to favour high-quality (solid balance sheet with superior visibility & ROE) large cap stocks with a defensive growth bias. In fixed income, we decided to cut our allocation to local currency EM bonds, given the significant deterioration in the macro backdrop. Moreover, considering the overall poor liquidity conditions, recent dislocations in the bond market, and ongoing deleveraging process, we also revised our tactical stance on alternatives, adopting a slightly more cautious view on both hedge funds and private equity. Gold now accounts for a greater portion of our portfolios: we keep a constructive stance, even if it did not work as a perfect hedge during these challenging times (it has nonetheless fared better than most other assets). Going forward, it should benefit from much lower real rates and debt monetisation. Finally, regarding currencies, we keep a limited unhedged exposure across portfolios, though still favouring the USD, JPY and CHF. In particular, we avoid EM currencies, their carry no longer being sufficient to offset further depreciation risks.

China nominal GDP growth and PMI composite

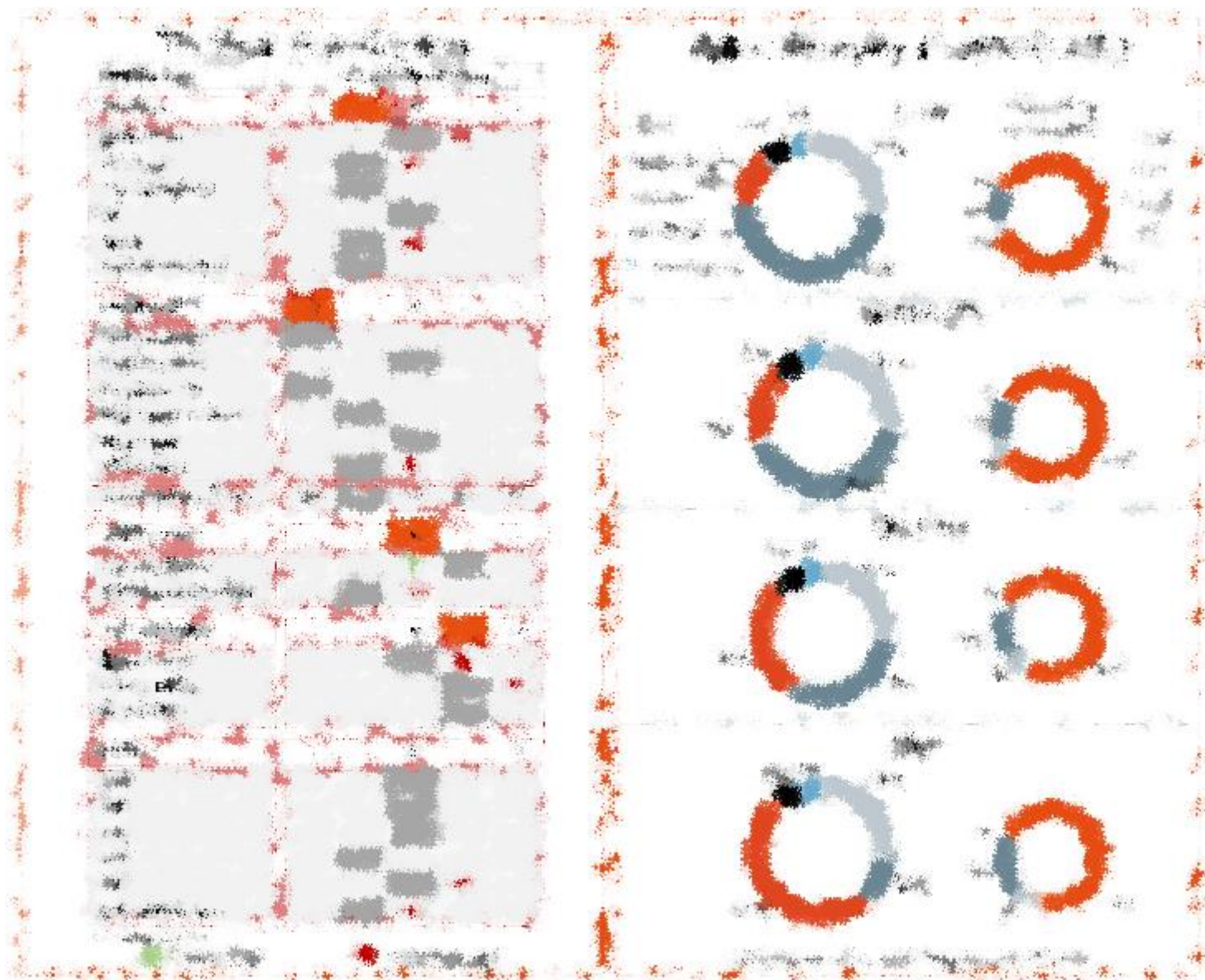


Maximum Drawdown and Time to Recovery



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Asset Allocation



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Contacts

DECALIA Asset Management SA

31, rue du Rhône
Case postale 3182
CH – 1204 Genève

Tél. +41 22 989 89 89
Fax +41 22 310 44 27
info@decaliagroup.com

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Google
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