WHAT WILL BE COMING NEXT?

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Although it is difficult to assess the current economic impacts of a global lockdown, economists are now starting to forecast growth in order to estimate the degree of contraction of the activity. One thing is certain, a global recession for the year 2020 will succeed to the major health crisis the world is experiencing. The questions will now lean towards the gravity of the recession and the form of the expected recovery.

Unlike previous crisis, governments and central banks reacted quickly and strongly, like the ECB, with a € 750 billion asset buy-back program, and the Fed, with a no size limit "Quantitative Easing".
Debates will soon open regarding the cost of this situation, the debt sustainability and on the treatment of these exceptional deficits.

The markets have obviously understood the challenge that the world is facing. All asset classes have been impacted and allocating assets has been made more complex, while the lack of liquidity has sometimes complicated the work of the portfolio managers.
We will have to gradually refine our economic forecasts to be able to adjust the valuation of asset classes of which some parameters have radically changed

Jean-Luc HIVERT
Head of LFAM

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HISTORICAL CRISIS… HISTORICAL RECOVERY PLANS

The global economy is on hold and no one knows how long this situation will last.
However, economists are trying to adapt their growth forecasts to this new highly uncertain environment, and the shock looming ahead of us now seems unprecedented.
Some US investment banks **are forecasting -25% to -30% annualized growth in Q2**, a drop two to three times greater than the worst drop recorded in American history.
We definitely can imagine Europe experiencing an equivalent shock of 20%.
These figures are impressive, with effects undoubtedly even greater in the most affected industries such as casinos (-95% of revenues), sports (-80%) or even hotels (-75%). **The global recession is no longer a possibility today but is almost a certainty**. Moderate at first, in their responses, Authorities seemed to take the issue very seriously since last week. What are these responses?

1. Monetary responses

Central banks have put in place measures that remind us 2008's most difficult moments:

- The ECB has set up a €750 billion asset programme; this programme, known as the Pandemic Emergency Purchase Programme (PEPP), could increase if necessary, despite the reluctance of Germany and the netherlands. It could also deviate from the "capital key" and adjust its own constraints if necessary. If we add to this the possibility for countries to call on the OMT[2] (with fewer constraints than before), the ECB's action seems credible to us and it is a powerful signal regarding the action capacity for any country under "fiscal stress".

- The Fed lowered its rates to -0.25%[4] (i.e. a 150bps drop since the beginning of the month) and first announced that it would resume its "quantitative easing" programme by buying $700 billion worth of US government bonds and then make this programme "open ended", i.e. without any size limit. The Fed also reinstated various lending mechanism programmes to reduce the risks to the economy (CPFF (commercial papers), PDCF (primary dealers), etc.). Finally, and perhaps most importantly, the Fed has provided almost infinite swap lines to all central banks in order to meet the exponential demand for dollars.

- Other main central banks have taken similar action, by lowering their rates and/or increasing their asset buyback programmes (England, Switzerland, Japan, etc.).

Generally speaking, after a period of uncertainty, **these announcements show that the monetary authorities will do everything possible to ensure the system's survival:** provision of liquidity and easing of financing conditions for banks, governments and, indirectly, companies.

2. Budgetary responses:

Governments have announced budgetary measures never seen before; while the lack of a coordinated European response is regrettable, all European countries have said **they are prepared to do everything possible to support economies** and **provide multiple aids to firms**. And the same is true on the other side of the Atlantic or the Channel. While these announcements have not yet been finalized or definitive, they at least seem to show that **governments have grasped the magnitude of the challenge** affecting our economies. Let's look back at some of these announcements:

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1 Source: Bureau of Economic Analysis, March 2020 ex: Goldman Sachs -24%, BofAML -25%, Morgan Stanley -30% [1] OMT: Opérations Monétaires sur Titres [2] Source ECB, March 2020 [3] Source Fed[4], March 2020

- United States: Since March 13, The American government has taken multiple measures to fight the future growth decline: Declaration of the state of emergency ($50Bn), delays for paying taxes ($300Bn in credit), and above all, lately, an agreement would have been reached at the senate regarding a massive fiscal stimulus plan, according to a white house adviser. This plan should be signed by the house of Representatives quickly and the latest information suggests $2000Bn (or 10% of GDP) for supporting both households and businesses. We are very close to what is called "helicopter money", especially considering that the Treasury may issue 50-year bonds (never seen before) to finance this stimulus, and that the Fed will probably be the main buyer.

- Germany: So far unthinkable, Germans have recently announced major measures. Finance Minister Olaf Scholz said he was planning a crisis budget of €150 billion, or about 4.4% of German GDP.

- France: It is very difficult to put a figure on all the measures announced, but they are very substantial: a €45 billion recovery plan, deadlines for social security contributions, tax cuts, guarantees for SME loans, etc.

It is likely that other stimulus packages will emerge in the coming weeks, with a mantra that seems to be shared by most of our governments: **"whatever it takes"**. It is impossible for us to know what the future of this crisis will be, but these different actions will have **long-term impacts** for all financial markets, impacts that we must keep in mind to be able to correctly analyse the current state of these markets.

LA FRANÇAISE LUX - MULTISTRATEGIES OBLIGATAIRES[1]

The objective of La Française Multistrategies Obligataires is to achieve income and capital growth (total return). Specifically, the sub-fund seeks to outperform (net of fees) the reference benchmark by at least 3.5%, over any given 3-year period
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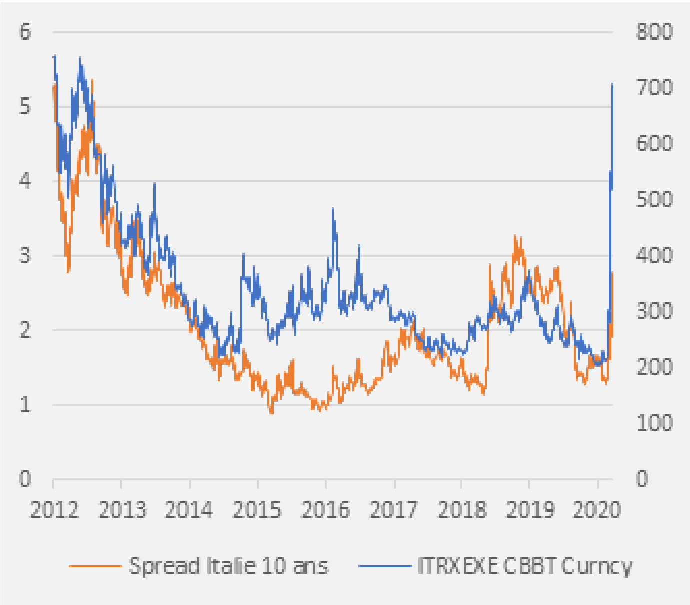
We are focusing today on strategies that are reaching extreme valuation levels and for which monetary and budgetary responses are at least partial:

- **The portfolio sensitivity** is again at high points of the authorized range insofar as the QE announcements will contain, in the future, any tension on rate debts meant to increase, concomitantly with a fiscal stimulus

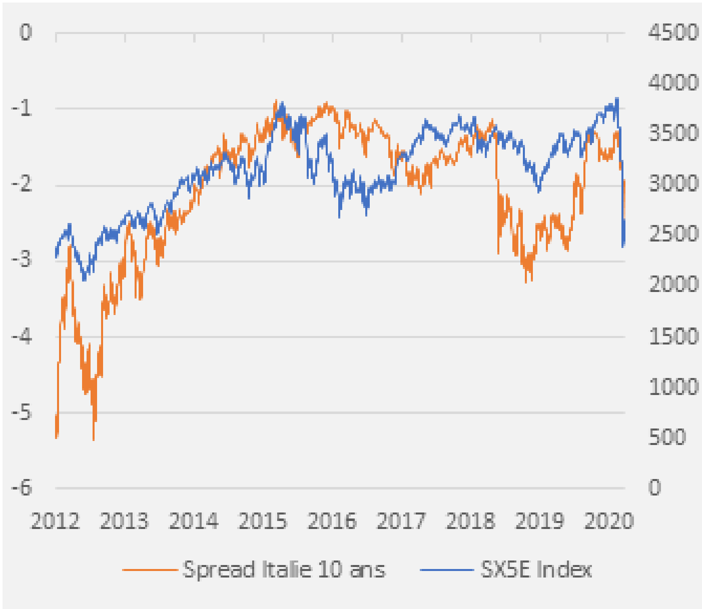
- **The debt of peripheral countries,** without having experienced similar stress in May 2018 or 2011, now benefit from a QE of the ECB whose size and flexibility are very important. Its limited nature is transformable if, as it is suspected, negotiations in Europe show a loosening of conditionality criteria to appeal to the ESM mechanism via OMT. The launch of the PEPP is, in our view, the first step towards the issue of European bonds, which would be very favourable to peripheral countries

Source Bloomberg, March 2020
The La Française LUX prospectus was approved by the CSSF on March 9, 202020. The Lux SICAV was created on 10/28/1998 (under the name "global strategy"). The sub-fund, La Française Lux-Multistratégies Obligataire was created in 2013.

Spread evolution of the 10 years Italy vs Germany (orange curve) vs euro stock index stoxx 50 (blue curve)



Spread evolution of the 10 years Italy vs Germany (orange curve) vs the Xover syntactic credit index (blue curve)

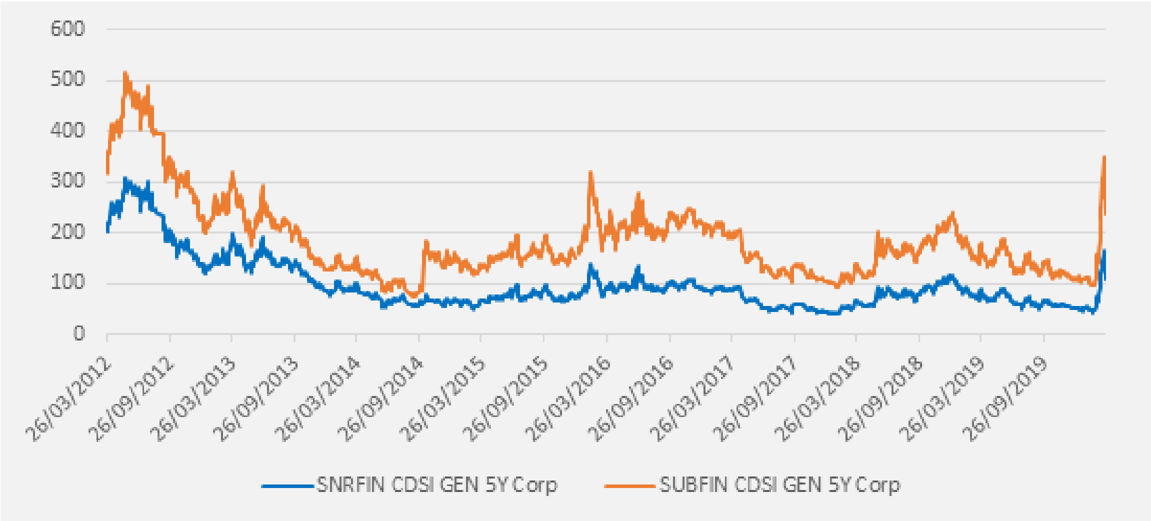


Charts sources: La Française AM, Bloomberg. Data as at March 24, 2020.

- **Within private debt**, Our risk exposure was relatively low before the health crisis. No doubt that, despite all the measures announced, some companies will not recover from this event and high yield defaults will not be avoided. On the IG credit, programs announced by central banks (along with governments) will allow the liquidity to be regulated and will give refinancing conditions at low rates (The Fed will also buy corporate debt). The liquidity support measures for banks and the loosening of quality requirements for collaterals and regulatory ratios are powerful catalysts in this situation. Since 2008, authorities have continuously worked to make their financial sector as strong and risk-free as possible while sacrificing its profitability. With gigantic equity capital, banks also show a much more cautious risk management, which will leave no room to the infamous "moral hazard". Indeed, it seems improbable today to imagine a government not backing up one of its bank, these being the transmission path necessary to the real economy, not to mention the induced bankruptcy bank costs in the current conditions. In this context, the strength of bank bonds decline, senior or subordinated, appear to us disconnected from the bank's current reality

  We are therefore increasing the fund's risk on IG credit, bank, senior and subordinated debt.

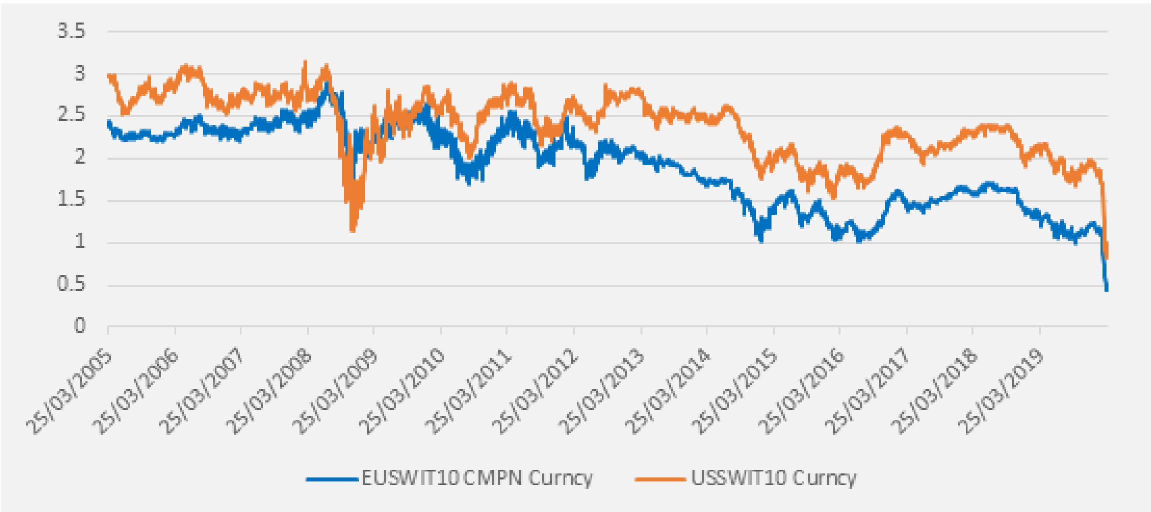
Evolution of the Senior Financial (orange curve) and Financial Subordinates (blue curve) synthetic indices since 2013 (level of spread in basis points)



Source : La Française AM, Bloomberg. Data as at March 24, 2020.

- Finally, we are now positive on US and European (10 years) inflation expectations. These policies should first push real rates down in the mid-term. Central bank purchases will keep nominal rates at very low levels while various fiscal actions and future challenges will push inflation upwards. For this reason, the recent movement in inflation expectations does not seem consistent to us at all with this mid-term analysis, since inflation expectations are now at their lowest level in history.

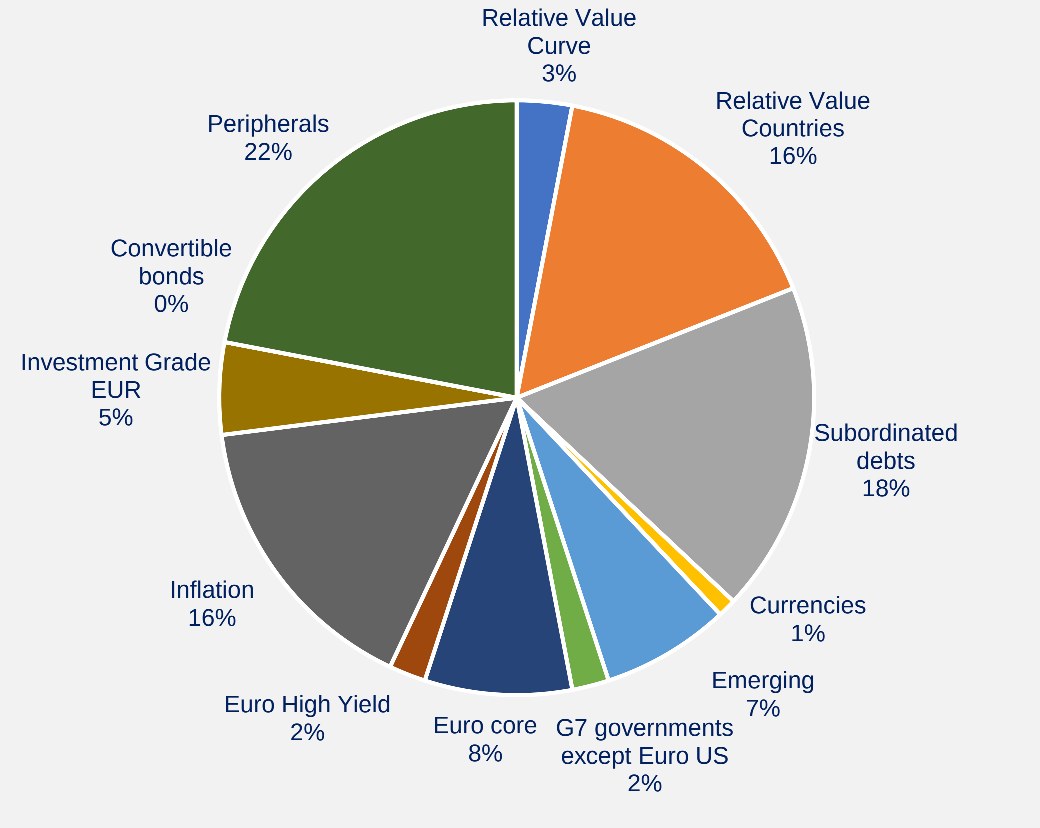
Evolution of American inflation swaps (orange curve) and European (blue curve) at 10 years since 2005 (in %):



Source: La Française AM, Bloomberg. Data as at March 24, 2020.

In March, we favoured the **most liquid assets** for **adjustments to our hedges**, which we continue to do in the risk recovery phase that we make to take advantage of historical volatility movements. Current valuations reflect extremely negative expectations for some assets that we do not always validate.

Breakdown of the risk budget (weighted volatility) by bond strategy on 03/24/2020:



Source: La Française, portfolio positioning on the 24/03/2020 likely to evolve later

Maud Minuit (Head of Total Return and Fixed Income)
François Rimeu (Head of Total Return and Cross Asset)

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Address of the local distributors:
Italy: La Française LFFS Italian Branch, Milan: Via Dante 14 20121 Milano
Germany: La Française Asset Management GmbH: mainBuilding, Taunusanlage 18
60325 Frankfurt am Main
Spain: La Française AM Iberia, Spain: Paseo de la Castellana 92, 28006 Madrid

LA FRANÇAISE
investing together

128, bd Raspail 75006 Paris - France
Tél. +33 (0)1 44 56 10 00
Fax +33 (0)1 44 56 11 00

www.la-francaise.com