

# Pathfinder Investment Outlook

For the week ending February 21<sup>st</sup>, 2020

## Geopolitical Events & Fear: Continued... Pandemics

We have been writing and studying Geopolitical events since the start of the year as they have been taking headlines in the regular and financial press (presidential impeachment, middle east crisis, COVID-19 pandemic risk etc.). We have previously noted that, while we pay particular attention to these events, they do not drive our investment management process. This week, we write about Pandemics. Fundamentally, we believe that Pandemics have a more economic risk because of the potential for broad slowdown in overall economic activity which is what typically causes a recession. Current events readers will note that with COVID-19, China has implemented extreme quarantine measures, isolating 60 million people. This has resulted in stalled manufacturing activity that has impaired global supply chains. The result has been a decrease in products sold, a drop in GDP and a potential increase in unemployment. If this were to happen for an extended period of time, a recession would ensue. Financial markets anticipate this, and the result is “drawdown”. Readers will note during this past weekend market participants and the press are finally paying attention to this risk.

- Figure 1 presents Pandemics events. From the data, we cannot see any type of general investment strategy for trading against Pandemics, other than just ignoring them. Indeed, for the most part there is limited drawdown and an almost immediate recovery.
- As was similar with previous data, international markets fared twice as worse on average than North American markets but rebounded equally after one year. Again, for essentially all events, the one-year return was positive.

Figure 1: Geopolitical Events - Pandemics February 24, 2020

Event	Date	One Day	Total	Days to	1 Yr.		
		Drawdown	Drawdown	Bottom	Recovery	Change	
Spanish Flu - Start of 1st Wave	1918-06-28	-0.9%	-0.9%	3	7	30.8%	
Spanish Flu - Peak of 1st Wave	1918-07-12	-0.8%	-0.8%	3	4	39.3%	
Spanish Flu - Start of 2nd Wave	1918-09-18	-0.3%	-0.3%	1	2	29.6%	
Spanish Flu - Peak of 2nd Wave	1918-11-12	-0.5%	-8.3%	87	118	28.5%	
Spanish Flu - Start of 3rd Wave	1919-02-10	0.7%	na	na	na	13.0%	
Spanish Flu - Peak of 3rd Wave	1919-03-07	0.0%	na	na	na	10.0%	
Asian Flu - Discovered	1957-02-07	-0.7%	-2.8%	5	13	-4.2%	
SARS - Hong Kong announces school closures	2003-03-27	-0.6%	-2.3%	4	6	30.0%	
SARS - WHO issues travel warning	2003-04-02	-0.5%	-1.7%	7	12	31.3%	
SARS - Peaks in google searches	2004-04-26	0.2%	na	na	na	1.6%	
H5N1 Bird flu - Peaks in Google Searches	2005-10-10	-0.2%	-0.9%	3	7	13.9%	
H1N1 - WHO declares Public health Emerg.	2009-04-24	-1.0%	-1.3%	4	5	41.3%	
Swine Flu - US declares public health Emerg.	2009-04-24	-1.0%	-1.3%	4	5	41.3%	
H7N9 Bird flu - H7N9 Peaks in google searches	2013-04-15	1.4%	na	na	na	18.3%	
MERS - MERS peaks in google searches	2013-06-07	0.0%	-1.9%	5	11	18.8%	
Ebola - WHO confirmed resurgence	2014-03-25	-0.7%	-0.9%	2	6	11.0%	
Zika - WHO declares Public Health Emergency	2016-02-01	-1.9%	-5.7%	10	21	19.9%	
COVID-19 - CDC issues travel watch level 1	2020-01-06	-0.3%	-0.3%	1	2	??	
COVID-19 - ex-China Outbreak	2020-02-21	-3.4%	??	??	??	??	
<b>Average</b>			-0.6%	-3.1%	15	23	22.8%

Source: Pathfinder Asset Management, Bloomberg Markets LP, S&P Dow Jones Indices

“This means that” we would draw the same conclusion as our other reports: “We do not spend much energy trying to manage our portfolios for this type of risk, as the opportunity cost from mistiming the events could be very large”. However, with respect to Pandemics, there is the real possibility that a severe long-term Pandemic could impair the value of our portfolio companies. So, from a fundamental perspective (not a trading perspective) we would be concerned if a Pandemic takes hold and causes companies to cease operations for an extended period of time. However, while the human cost would be terrible, the financial damage appears to be transitory. Even with the Spanish Flu, where an estimated 50 million people died over 3 years, the economy and financial markets ultimately recovered in each of those three Pandemic waves.

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Sources: Bloomberg, Pathfinder Asset Management Limited

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\*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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