

COVID-19 – la prochaine étape

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Nous sommes actuellement confrontés à une deuxième vague des infections à la COVID-19 dans de nombreuses économies. Dans le même temps, les indicateurs macro-économiques récents ont été mitigés, laissant entendre que la partie « facile » de la reprise après la récession survenue au premier semestre pourrait être derrière nous. Et les actifs risqués (notamment les marchés actions mondiaux) ont subi des pressions vendeuses après avoir touché des plus-hauts historiques début septembre. La deuxième vague aura-t-elle les mêmes effets que la première ? Et quelles sont les perspectives pour l'économie et les marchés ?



deuxième vague ne déferle dans un grand nombre de pays, notamment émergents, nous amenant au niveau actuel d'environ 285.000 nouveaux cas par jour. Dans certains pays d'Europe, notamment l'Espagne et la France, le nombre de cas quotidiens est désormais sensiblement supérieur aux niveaux atteints au printemps.

Ainsi, de nombreux investisseurs ont commencé à craindre que les économies puissent être de nouveau placées en confinement pour enrayer la propagation du virus. En effet, ces derniers jours, l'Espagne a imposé des restrictions strictes dans la région de Madrid, tandis que la France a demandé à des grandes villes comme Marseille de fermer de nombreux établissements ouverts au public.

Nous ne pensons pas toutefois que des mesures de confinement strictes seront réimposées à l'échelle nationale. Les politiques se montrent peu enclins à provoquer une nouvelle récession profonde, compte tenu notamment des montants significatifs des mesures de relance fiscale (comme le plan de 100 Md€ de la France) attendues. Plus l'économie ralentit, plus il sera difficile de financer les plans de relance. Par ailleurs, le nombre

d'hospitalisations et de décès n'a pas connu la même évolution qu'au printemps dernier. A 3 et 6 pour 100.000 habitants, respectivement, le nombre des patients atteints de la COVID-19 hospitalisés en Espagne et en France reste sensiblement inférieur aux pics du printemps (49 et 33). Et au niveau mondial, le nombre des décès a atteint un plus-haut d'environ 7.000 par jour à la mi-avril avant de reculer pour s'établir à 5.300 aujourd'hui. Il y a plusieurs explications possibles à ce décalage entre les infections et les décès. De toute évidence, le nombre de tests réalisés par semaine a grimpé en flèche depuis avril (de 190.000 à 695.000 en Espagne et de 135.000 à 1.050.000 en France), ce qui a bien évidemment un impact sur le nombre des résultats positifs.

Ensuite, les protocoles thérapeutiques dans les hôpitaux n'ont cessé d'être améliorés à mesure que les connaissances médicales sur le virus évoluent. De plus, en été et au début de l'automne dans l'hémisphère nord, les maladies respiratoires comme la grippe et la pneumonie, susceptibles d'aggraver les symptômes de la COVID-19, circulent moins. Il sera donc important de suivre l'évolution des hospitalisations une fois la saison grippale hivernale amorcée.

Alors que les taux d'infection et les hospitalisations se reprennent et que les restrictions ont été renforcées, l'activité économique a commencé à marquer le pas. Aux Etats-Unis, les indices de confiance des chefs d'entreprise et des ménages demeurent robustes, mais la baisse rapide des inscriptions hebdomadaires au

chômage par rapport au T2 a ralenti significativement en septembre.

Dans la zone euro, il y a un contraste saisissant entre l'indice de confiance dans le secteur manufacturier et celui des services. L'indice des directeurs d'achats (Purchasing Manager Index, PMI) de septembre indique que la confiance dans le secteur manufacturier s'élève à 53,7 (bien au-dessus du niveau de 50 points qui marque la frontière entre expansion et contraction), tandis que l'indice des services s'est effondré à 48,0. Les indicateurs mitigés laissent entendre que la reprise sera dorénavant plus lente.

Conclusion

Au vu des facteurs précédents (augmentation du nombre des infections, durcissement des restrictions, précarité de la reprise économique), nous estimons que les politiques fiscales et monétaires resteront particulièrement accommodantes. Même s'il est probable que le Congrès américain ne parvienne pas à s'entendre sur un nouveau projet de loi de lutte contre le coronavirus avant l'élection du mois prochain, nous restons convaincus que des mesures de relance seront mises en place avant début 2021. De la même manière, nous estimons que les 27 gouvernements de l'UE devraient ratifier le fonds de relance de 750 Md€ en temps utile. Et la Réserve fédérale et la Banque centrale européenne se tiennent prêtes à assouplir encore leur politique le cas échéant, plus probablement au travers d'achats d'actifs. Dans l'ensemble, le contexte devrait rester favorable aux actifs risqués.

Global situation of Luxembourg UCI industry of August 2020

As at 31 August 2020, the total net assets of undertakings for collective investment, comprising UCIs subject to the 2010 Law, specialised investment funds and SICARs, amounted to EUR 4,696.762 billion compared to EUR 4,617.395 billion as at 31 July 2020, i.e. an increase of 1.72% over one month. Over the last twelve months, the volume of net assets rose by 4.31%.

The Luxembourg UCI industry thus registered a positive variation amounting to EUR 79.367 billion in August. This increase represents the sum of positive net capital investments of EUR 13.276 billion (+0.29%) and of the positive development of financial markets amounting to EUR 66.091 billion (+1.43%).

The number of undertakings for collective investment (UCIs) taken into consideration totalled 3,655, against 3,664 the previous month. A total of 2,396 entities adopted an umbrella structure representing 13,427 sub-funds. Adding the 1,259 entities with a traditional UCI structure to that figure, a total of 14,686 fund units were active in the financial centre.

As regards the impact of financial markets on the main categories of undertakings for collective investment and the net capital investment in these UCIs, the following can be said for the month of August:

Globally, a better-than-expected second-quarter earnings season in a context marked by the COVID-19 pandemic, sustained accommodative monetary policies among major central banks, rising hopes for a Covid-19 vaccine and the search for riskier assets by investors provided support for equity markets in August. As far as developed countries are concerned, the European equity UCI category has registered positive returns amid better economic indicators, corporate earnings faring better than expected in Q2, the continuous monetary and budgetary support and the progress made in the development of a COVID-19 vaccine, despite of a resurgence in infection rates across several European countries.

The US equity UCI category showed a strong performance on the month under review, mainly driven the better-than-expected earnings season, improved economic indicators and the adoption of an "average inflation target" by the US Federal

Reserve (Fed) rising expectations of continued monetary support from the Fed. While the Japanese equity market rallied in August on the grounds of better economic data, a stabilization of the infection rates in Japan and a continued expansive monetary policy, the depreciation of the Yen against the EUR partly reduced the gains of the Japanese equity UCI category. As for emerging countries, the Asian equity UCI category enjoyed an overall positive performance aided by robust economic projections, the USD weakness and the prospect for a vaccine against the coronavirus. The Eastern European equity UCI category globally rose in August following from the positive returns generated in several equity markets of the region like Russia, Poland and the Czech Republic, amid improved global economic indicators, the rising energy prices and the authorization of a COVID-19 vaccine in Russia.

While August saw mixed developments in Latin America's equity markets, the negative performance in countries like Brazil and Chile in combination with the depreciation of some South American currencies pushed the Latin American equity UCI category globally into negative territory. In August, equity UCI

categories registered an overall positive net capital investment. On both sides of the Atlantic, the yields of highly rated government bonds increased in a context marked by better macroeconomic data, the progress made in the development of a vaccine against the coronavirus as well as expectations of higher long-term inflation in the US following from the Fed decision to switch from a fix to an average inflation target.

Investment grade corporate bonds followed the upward movement in interest rates, but at the same time registered lower spreads amid an increased risk appetite. As a result of rising yields leading to negative returns on bond prices, the EUR-denominated and USD-denominated bonds UCI categories both saw a decline in August. In overall, the Emerging market bonds UCI category tracked sideways, under the impetus of increasing interest rates in the United States, a reduction in risk premiums on emerging market bonds and mixed performances in emerging market currencies. In August, fixed income UCI categories registered an overall positive net capital investment.

Source: CSSF

Research in Finance

On fund performance and turnover

In principle, asset managers should trade more when they discover alpha generating trading opportunities. Thus, the performance of skilled managers should be better after an increase in trades, which implies a positive relationship between an investment fund's turnover and subsequent returns. Pastor, Stambaugh and Taylor (2017) analyse the turnover of investment funds facing time-varying investment opportunities. They develop a model where before fee future abnormal performance, measured by alpha, is a function of current turnover.

In their model, future above fee abnormal performance is concave whereas the trading cost function is convex in turnover. The fund manager is supposed to maximise expected future profit net of trading costs. This leads to an optimal turnover level chosen by the fund. As the authors show, this leads to a strict parametrization of econometric relationships between abnormal return and turnover. It is noteworthy that most earlier studies focus on the cross-section relationship between fund turnover and abnormal performance, while neglecting the time series dimension.

However, given the fact that the current trading costs are related to future performance, the time series effect is stronger than the cross-section effect. The timing of the profit and trading costs are not caught by the cross-section regression and the specificity of Pastor, Stambaugh and Taylor (2017) is that they analyse a regression of abnormal performance on the fund's turnover at adjacent times. The coefficient linking turnover to excess performance is significant, statis-

tically as well as economically. The estimates imply that a one standard deviation increase in the fund's turnover leads to an increase of 0.66% of abnormal performance.

This number substantially exceeds funds' overall abnormal performance. Interestingly, future fund abnormal performance can be conditioned on turnover fluctuations. The estimated parameters are also in line with Edelen, Evans and Kadlec (2013), who document that equity mutual funds exhibit annual turnover of 82.4% and 1.44% of annual fund value in trading costs, which implies a cost of turnover ratio of 1.75%. As the abnormal performance is measured with respect to a benchmark, there might be a risk of benchmark manipulation as documented in Sensoy (2009). Given that the authors use investible benchmarks provided by Morningstar, which can differ from benchmarks disclosed in the prospectus, this problem is not relevant. Benchmarks derived from factor models could also be used, but the authors follow Cremers, et al (2013), that suggest to use index based benchmarks rather than Fama-French type factor benchmarks.

The relationship between turnover and performance is quite pervasive across funds, but the relationship can vary substantially between different types of funds. The relationship is significantly higher for small-cap versus large-cap funds and small funds versus large funds, whereas there is no significant difference between growth and value funds. The potential explanation for such a discrepancy is that small-cap funds and smaller funds trade in less liquid assets where trading costs are higher. With higher trading costs the turnover must be associated with higher future performance. The performance-turnover rela-

tionship is also higher for high fee funds compared to low fee funds, which is suggested to be in line with the fact that higher skilled managers exhibit higher fees and are better in exploiting profit opportunities.

As for skilled fund managers, turnover should be related to profit opportunities, we should observe more trading during periods of mispricing. Three proxies are used to proxy for the likelihood of mispricing. First, the monthly value of the Baker and Wurgler (2006) investor sentiment index. The underlying idea is that in periods of "high sentiment", less rational investors are participating in the market, increasing the likelihood of mispricing. Second, volatility measured by the cross-sectional standard deviation of the return on individual stocks. In principle, higher volatility implies greater uncertainty, which increases the probability of mispricing.

Finally, liquidity is measured by the monthly market liquidity measure developed by Pastor and Stambaugh (2003). Liquidity, however, has two countervailing effects on fund turnover: High liquidity makes the market more efficient, which leads to less profit opportunities, whereas high liquidity also reduces trading costs. Research results indicate that the first effect is stronger and that the lower the liquidity, the higher the increase in fund turnover.

Concerning the effect of the other two measures, namely sentiment and volatility, they bear a strong relationship with fund turnover. Overall, the results seem to indicate that funds more actively trade when there is mispricing. Given that fund turnover is strongly linked to mispricing, it is interesting to check whether the time series of fund turnover can be used to predict fund performance. With that regard, the re-

search indicates that fund performance can be predicted, not only by the individual fund turnover, but also by the average turnover across funds.

The effects could be called the specific and the systematic turnover effects. Interestingly, this increase in trading during phases of mispricing highlights the active role of asset management in the price discovery process. This seems to indicate that, even though the asset management industry may not generate net of fee abnormal performance, it is creating a positive externality by bearing the societal cost of price discovery, a function which is important for efficient capital allocation within the economy.

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