



Jae Park and Michael Giles on the COVID-19 Crisis, Credit Cycle and Investing with Conviction

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This time really is different

Jae Park

It's been said before, but the truth is, this crisis appears to be very different than others we've experienced. It's not an asset bubble tied to exuberance, greed, default, fraud or mismanagement of a country, currencies or anything else in our man-made economic system. This crisis has potential for a much more severe impact because all non-essential economic activity has halted abruptly. The question is, where is the bottom? The answer depends on policy actions and how we all collectively handle this crisis.

Macro insights

Jae Park

We have entered the downturn and the credit cycle is resetting. Every day we go without a nationwide lockdown order in the US, the odds of a severe downturn rise. There's a multiplier effect on the length and severity of the downturn as the virus spreads exponentially. The start date of an effective, broad US shutdown is the critical factor.

Our Macro Strategies team has laid out the following base case. Assuming the US essentially shuts down around April 1, the US economy should recover in the third quarter. The virus would peak around April 20, with new cases slowing at that point and quarantine being lifted in early May. The US economy would trough around June 1. However, delaying lockdown by even a month would overwhelm the healthcare system, risking greater loss of life and no economic recovery until the fourth quarter or beyond.

Defensive positioning

Mike Giles

Going into this crisis, our teams were very defensively positioned. They had ample liquid reserves on hand because we've been anticipating the end of the cycle and eventual downturn for quite some time. The reserves have been useful for opportunistically legging into risk positions when potential attractive valuations appear. Loomis Sayles tends to be a provider of liquidity when there's panic selling in the markets. Our investors take positions in securities that they believe will revert to normal valuations in the long run. This is the type of environment where we rely on fundamental research to build long-term value into client portfolios.

Each of our investment strategies has clearly defined risk/return objectives and the means to seek consistent alpha over time and in every market environment. We have a wide range of products in fixed income and equity from the lowest risk to very aggressive opportunistic products and my role, which is an extension of Jae's position as CIO, is to monitor the opportunity sets emerging during this period of volatility and make sure our teams can execute effectively.

Role of the Investment Risk team

Mike Giles

My team's main responsibility is to provide oversight across all of our investment strategies and ensure there are no surprises regardless of the market environment. Every Loomis Sayles product meets five key standards, or pillars, which include:

- Sound philosophy
- Rigorous, repeatable process
- Proprietary research
- Disciplined portfolio construction

- Integrated risk management

These pillars, which we review with teams on an ongoing basis as part of our CIO review process, help us set risk/return and performance expectations through various market cycles. In environments like this, they help us as we monitor portfolios, ensuring all strategies are adhering to their processes and adding risk when they're being compensated adequately.

Are Loomis Sayles investment teams prepared?

Jae Park

We've invested significantly across the organization to prepare for events like this. The infrastructure we have in place was designed to weather the most severe storms. My role, along with Mike and others in senior management, is to work with all our investment teams to ensure that they are able to capture opportunities and manage risks.

Because we don't mandate a single investment approach, outlooks and opportunities are going to vary across teams. Every Loomis Sayles team and product, from the lowest-risk fixed income to global and multisector high yield, to our global and US equity strategies, follows a differentiated investment philosophy and approach.

In a period like this, our equity teams rely on their research-driven foundations and disciplined processes. This means they aren't interested in timing the market beta, but instead use periods of volatility to add to high-conviction positions.

Our fixed income teams use dislocations to buy or add high-conviction names that are trading at a discount. Each team has a different opportunity set, which reflects their unique investment approach. These opportunity sets are established and monitored on an ongoing basis. One of the ways they do this is through our sector team process. These teams are led by a mix of research analysts, including members of our credit research group, traders and portfolio managers who are responsible for identifying value within specific sectors and industries. Investment teams draw on this input to build conviction in their trades and positioning. The potential opportunities at the broad sector level are evaluated through rigorous valuation frameworks developed by our Macro Strategies and Quantitative Research teams. We also have strategic teams like our Yield Curve Committee and our Global Asset Allocation team, which provide additional support to the sector teams and product teams.

Is it time to buy?

Jae Park

Current valuations across many sectors indicate there may be compelling value right now. We want to be sure to leg in before it's too late. Our teams are focused on security-specific stock and bond opportunities.

Mike Giles

We're seeing some stabilization in the markets. Over the past few weeks, it's fair to say certain markets appeared broken, including stalwarts like municipals and Treasuries, which experienced unprecedented volatility. The Fed's clear commitment to doing whatever is necessary to keep markets functioning and the federal relief legislation seem to have had a calming effect.

Here for our clients

Jae Park

Every investment we've made in Loomis Sayles has been dedicated to improving the investment capabilities that serve our clients. I've been told that I don't think like a typical chief investment officer – I attribute this to my days as a Loomis Sayles client when I was at IBM as director of fixed income investments. I'm convinced that having that background and continuing to think like a client is the right thing to do and contributes to our ongoing evolution.

We are in an excellent place to serve our clients today. All of our investment teams are in this for the long haul and are poised and ready to take advantage of these volatile markets that should lead to long-term value and performance our clients have come to expect.

We wish you the best of health now and in the future and thank you for the continued confidence you place in Loomis Sayles.

For more of our COVID-19 coverage, please [click here](#).

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