# COVID-19 Asset Management Weekly

Updated April 27, 2020
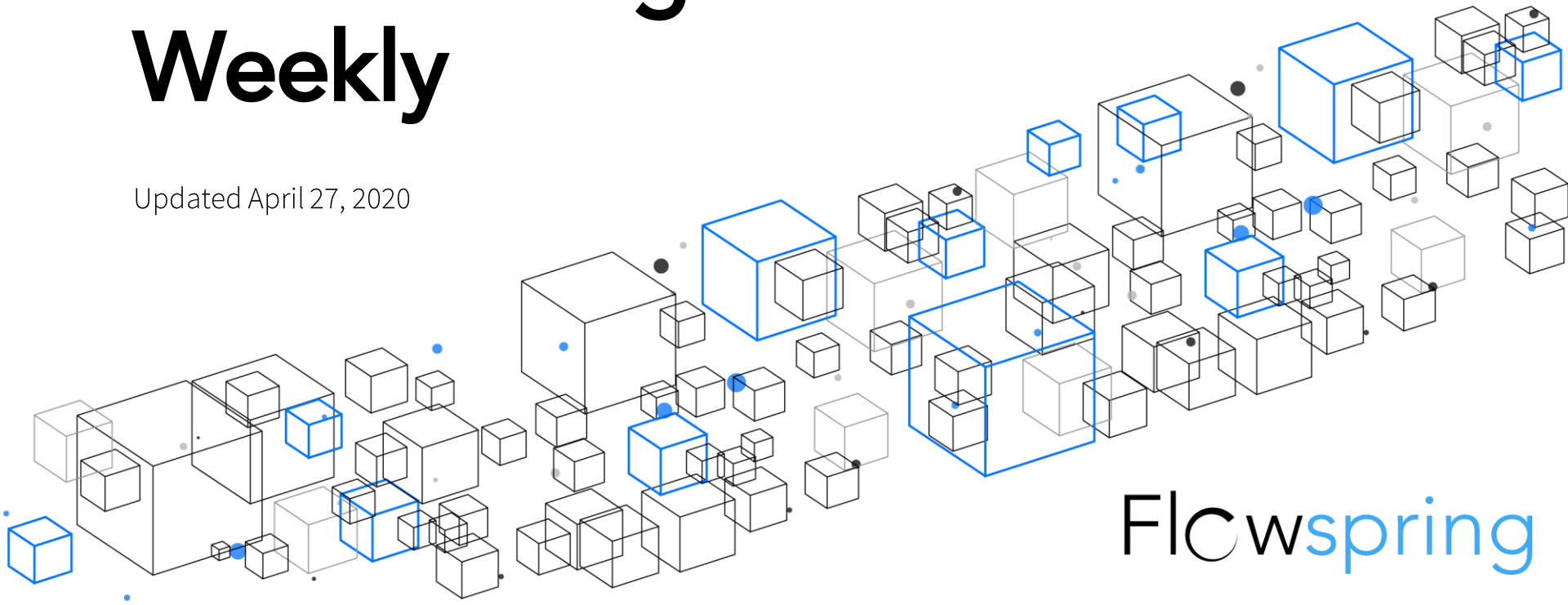
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# Disclosures

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# Commentary

The new cases in the US rose 29% this week, down slightly from 30% the prior week. While this was a meager improvement, the rate of growth in deaths fell from 72% to 36%. Recoveries also picked up steam, growing 67% from the prior week. Still, in absolute terms, the number of new cases is nearly 5x the number of new recoveries meaning we have not yet reached the peak number of active cases in the US.

Most experts now agree that significant increases in testing capacity are needed before making educated decisions about re-opening the economy. Fortunately, the US performed 49% more tests this week at an average of 224k test per day.

Still, this will not be enough testing to accurately gauge viral levels in the population. Additional studies have confirmed from methods ranging from viral testing of sewage water to randomized antibody testing that most cases are asymptomatic, and that the percent of population that has been infected is higher than current testing reflects. This, counter-intuitively, would be great news as it means the coronavirus is less deadly and our herd immunity is already greater than expected.

Some states have decided to re-open their economies to various degrees led by Georgia. While each state is at a different place on the viral trajectory, none are far enough from a peak that the virus can't begin to grow uncontrollably again.

Measured by seasonally-adjusted initial unemployment claims, the United States has lost 26 million jobs in the last 5 weeks due to the coronavirus shut down. This represents more than 16% of the entire civilian labor force. The speed of this reduction is unprecedented in modern times, and the natural question in the financial zeitgeist is the shape (V, W, L etc.) of the recovery.

Adding to the confusion is the latest actions of the Federal Reserve who announced a $2.3 trillion monetary stimulus plan aimed at protecting asset prices and preserving liquidity for high yield borrowers who may otherwise have fallen short of commitments. This has led to an increasing disconnect between asset prices which are artificially propped up, and the deteriorating economy.

Still, as the viral growth rates have slowed, so have the measures of fear in the market subsided. However we are not back to "normal" levels yet, and the VIX, for example, remains elevated at 33.

Asset managers are experiencing some acceleration in long-running trends like the pursuit of low-cost investment products. While other trends, namely the emphasis on ESG investing, have faltered as investors put their social concerns in the back seat.

In normal times, investors spend an average of 1 hour per month thinking about their investment portfolio. Those numbers spike dramatically in crisis times as they reconsider everything from asset allocation to security selection. Asset managers should consider that an enormous amount of assets are now "up-for-grabs" as investors are trying to align their portfolios with their new expectations. Asset managers that can align their product, marketing and distribution teams to capture these assets (and hold on to their existing investors) will grow rapidly and have much better competitive positioning in the ensuing recovery.

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# Summary of the week of April 20th

| | US | Global |
|---|---|---|
| New Cases | 221,709 | 585,560 |
| New Recovered | 47,528 | 251,639 |
| New Deaths | 14,795 | 41,769 |

### Daily Growth Rate of Active Cases



New cases and deaths in the US and globally have slowed on a percentage basis. However, new deaths grew on an absolute basis.

Newly recovered cases grew in the US on both an absolute and percentage basis. However, new cases still outpaced new recoveries by 4.7x.

On a positive note, testing capacity increased for the first time in weeks, reaching an average of 224k per day in the past week. Significant increases are still needed to reach a level of testing that accurately reflects population-wide infection levels, but this is a step in the right direction.

Deaths in the US, which are a better reflection of true cases, have declined in percentage terms from 72% to 36%, and for the very first time in absolute terms as well from 17k to 14.8k.

Sources: http://worldometers.info/coronavirus/coronavirus-cases

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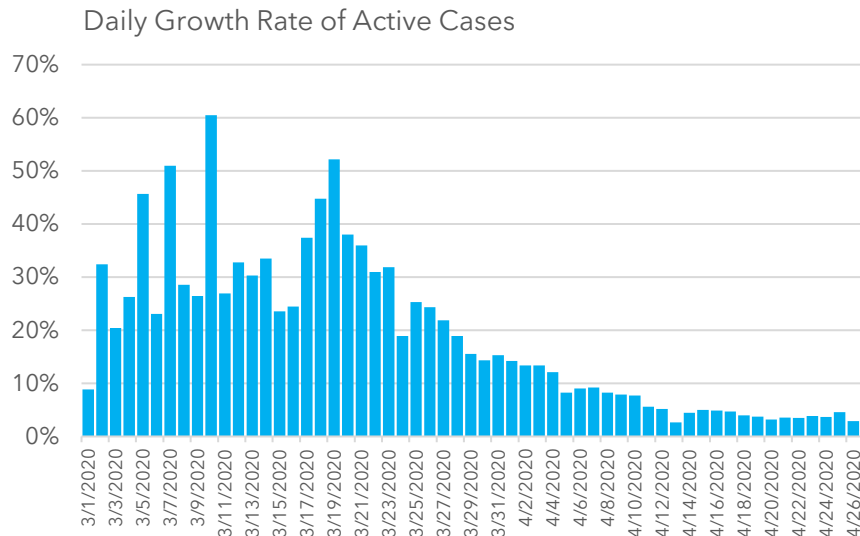
# COVID-19 crisis to date

### US Case Count
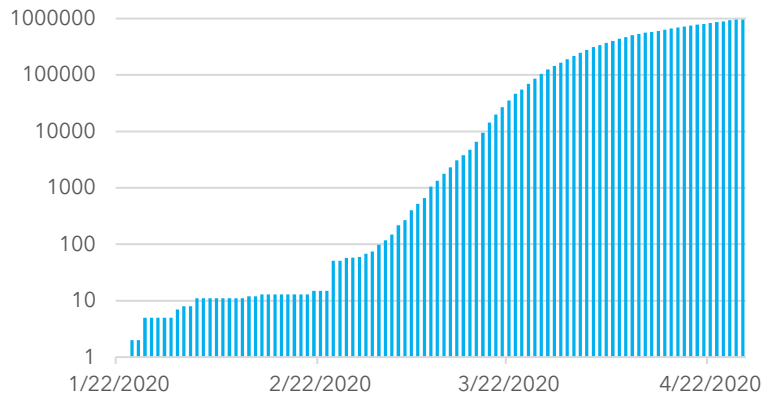


### Number of Tests per Day and Percent Positive for SARS-CoV-2



New Tests ▬●▬ % Pos
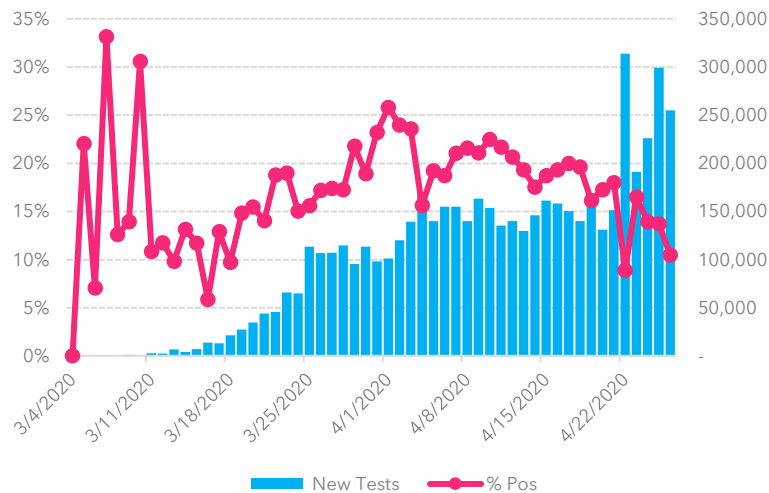
**November 17:** First COVID-19 case originated in a 55-year old man in China's Hubei province
_____

**December 31:** China confirms they are treating dozens of cases of a new virus
_____

**January 11:** China reports first death from SARS-COV-2, a 61-year-old man
**January 20:** First confirmed cases outside mainland China appear in Japan, South Korea, and Thailand
**January 21:** First case confirmed in United States
**January 23:** Wuhan, China cut off by Chinese authorities
**January 30:** WHO declares global health emergency
_____

**February 2:** First death reported outside of China
**February 5:** The Diamond Princess cruise ship is quarantined in Japan
**February 6:** First death in United States
**February 14:** First death in Europe
_____

**March 3:** Federal Reserve cuts interest rates by 50 basis points
**March 13:** President Trump declares a national emergency
**March 16:** Federal Reserve cuts interest rates to 0%
**March 18:** President Trump signs coronavirus relief package into law
**March 25:** Congress passes $2 trillion fiscal stimulus bill
**March 26:** US reports a record 3.3 million new unemployment claims
**March 31:** US deaths surpass China
_____

**April 3:** CDC Urges Americans to wear masks when outside their homes
**April 6:** New York cases and deaths appear to be slowing
**April 6:** Prime Minister Boris Johnson moved into intensive care
**April 9:** Federal Reserve announces $2.3 trillion lending plan to bolster economy
**April 12:** Boris Johnson leaves hospital
**April 14:** President Trump announces the US will halt funding for WHO
**April 15:** Large-scale protests of stay-at-home orders begin in Michigan
**April 16:** Trump administration releases guidelines for re-opening the economy
**April 20:** Trump administration announces suspension of immigration to the US for 60 days
**April 21:** Autopsy reveals first coronavirus death in US 3 weeks earlier than previously thought

Sources: New York Times, CNN, http://worldometers.info/coronavirus/coronavirus-cases

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# Asset flows by country 2020 YTD

| Country | Flow |
|---|---|
| Japan | $30.0bil |
| China | $10.6bil |
| Canada | $9.5bil |
| Australia | $8.9bil |
| Cayman Islands | $4.7bil |
| South Africa | $4.2bil |
| Switzerland | $3.0bil |
| Jersey | $1.9bil |
| Mexico | $1.1bil |
| Belgium | -$0.7bil |
| Austria | -$1.6bil |
| Germany | -$1.9bil |
| Netherlands | -$3.4bil |
| Finland | -$3.7bil |
| Sweden | -$5.5bil |
| Spain | -$5.8bil |
| Italy | -$7.6bil |
| Thailand | -$12.5bil |
| United Kingdom | -$15.1bil |
| India | -$17.0bil |
| Brazil | -$18.0bil |
| Ireland | -$27.6bil |
| France | -$38.7bil |
| Luxembourg | -$93.9bil |
| United States | -$346.3bil |

Source: Flowspring Data

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# Most extreme investor preferences among top 25 categories since first US case confirmed

These numbers represent the expected organic growth rate of each category attributable to investors' aggregate preference for that category. With an overarching theme of flight to safety, we are finding investors are also expressing geographic, asset class, and duration preferences while reallocating their assets across various fund categories.

| Category | Growth Rate |
|---|---|
| Japan Large-Cap Blend Equity | 4.0% |
| Intermediate Core Bond | 2.5% |
| Small Blend | 1.7% |
| Global Large-Cap Blend Equity | 1.6% |
| Foreign Large Blend | 1.3% |
| Short-Term Bond | 1.3% |
| EUR Moderate Allocation - Global | 0.9% |
| Other Bond | 0.7% |
| Foreign Large Growth | 0.6% |
| GBP Money Market - Short Term | 0.5% |

| Growth Rate | Category |
|---|---|
| -4.8% | High Yield Bond |
| -2.3% | EUR Money Market |
| -1.9% | Ultrashort Bond |
| -1.9% | Large Growth |
| -1.9% | USD Money Market - Short Term |
| -1.9% | Mid-Cap Growth |
| -1.7% | Allocation--50% to 70% Equity |
| -1.6% | US Large-Cap Blend Equity |
| -1.1% | Mid-Cap Blend |
| -1.0% | World Large Stock |

Source: Flowspring Estimates

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# Investor preference for ESG rebounds from unusually low levels

These numbers represent the expected organic growth rate of funds attributable to their investors' preferences for ESG mandates.
It seems that investors, while still preferring ESG, place much less emphasis on it when capital markets are declining.



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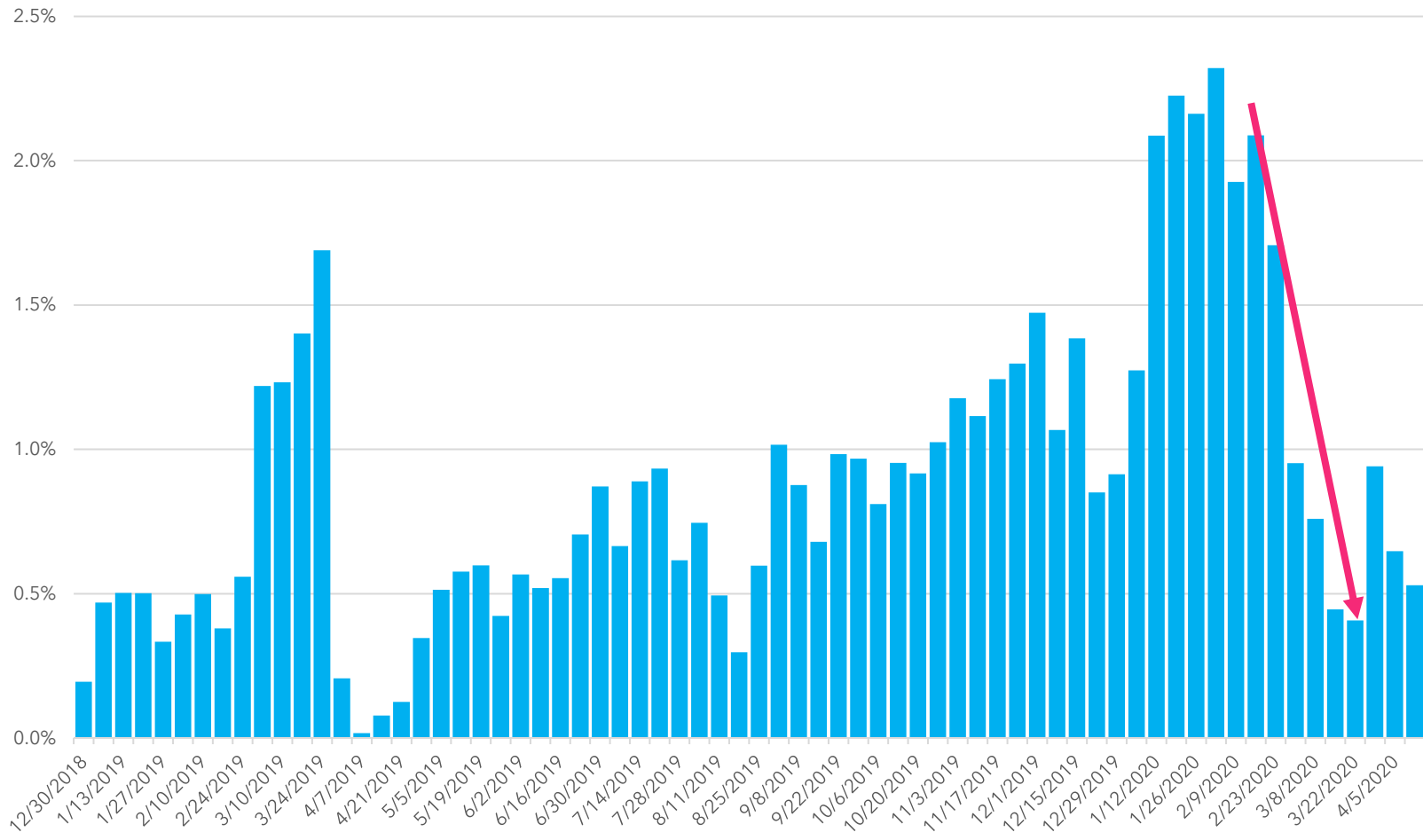
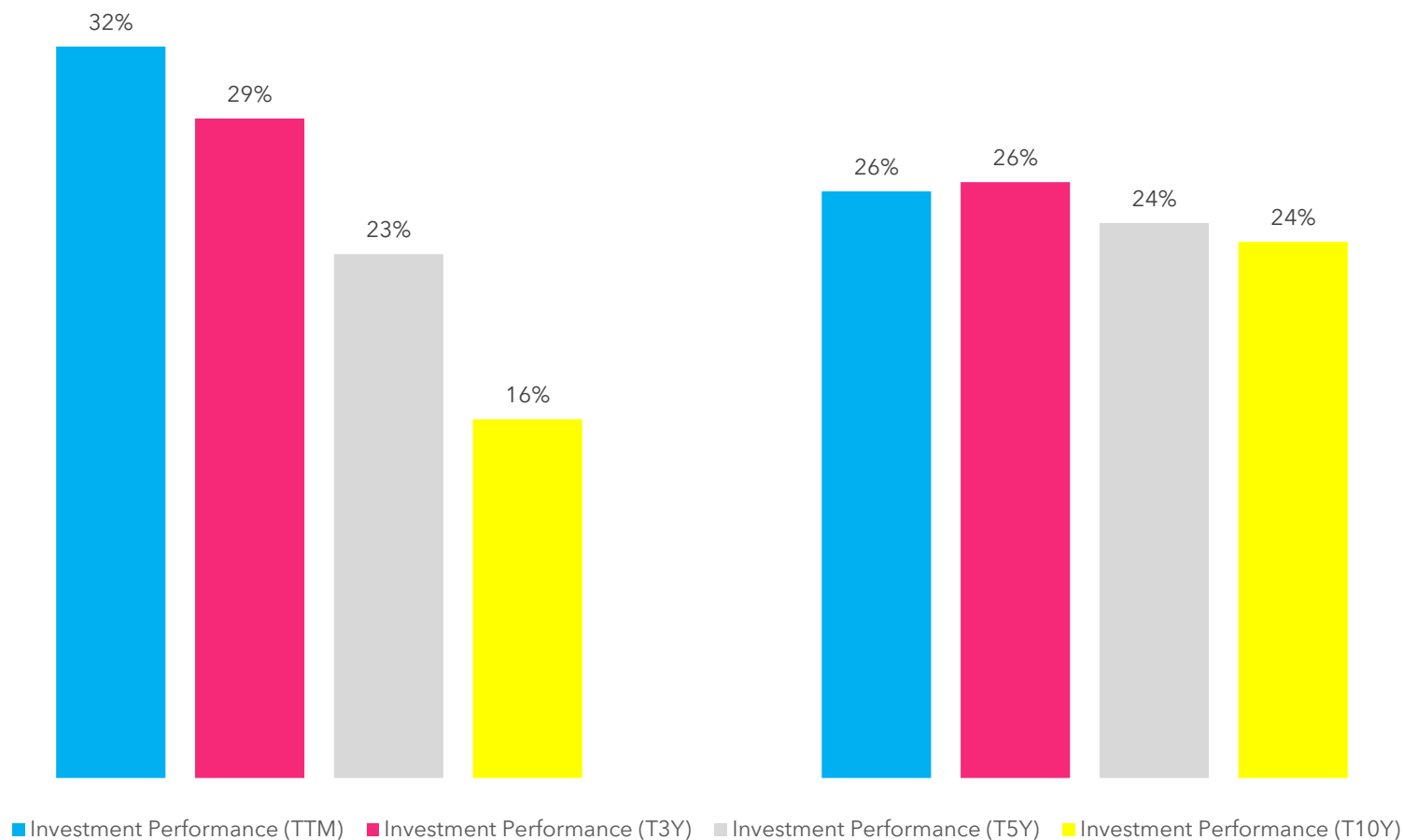# Investor preference for low fees diminishes to normal levels

These numbers represent the expected organic growth rate of funds attributable to their investors' preferences for low expense ratios.
Contrary to what many may think, investors are not seeking the expertise of high-cost active managers, but rather accelerating their preference for low-cost passive funds.



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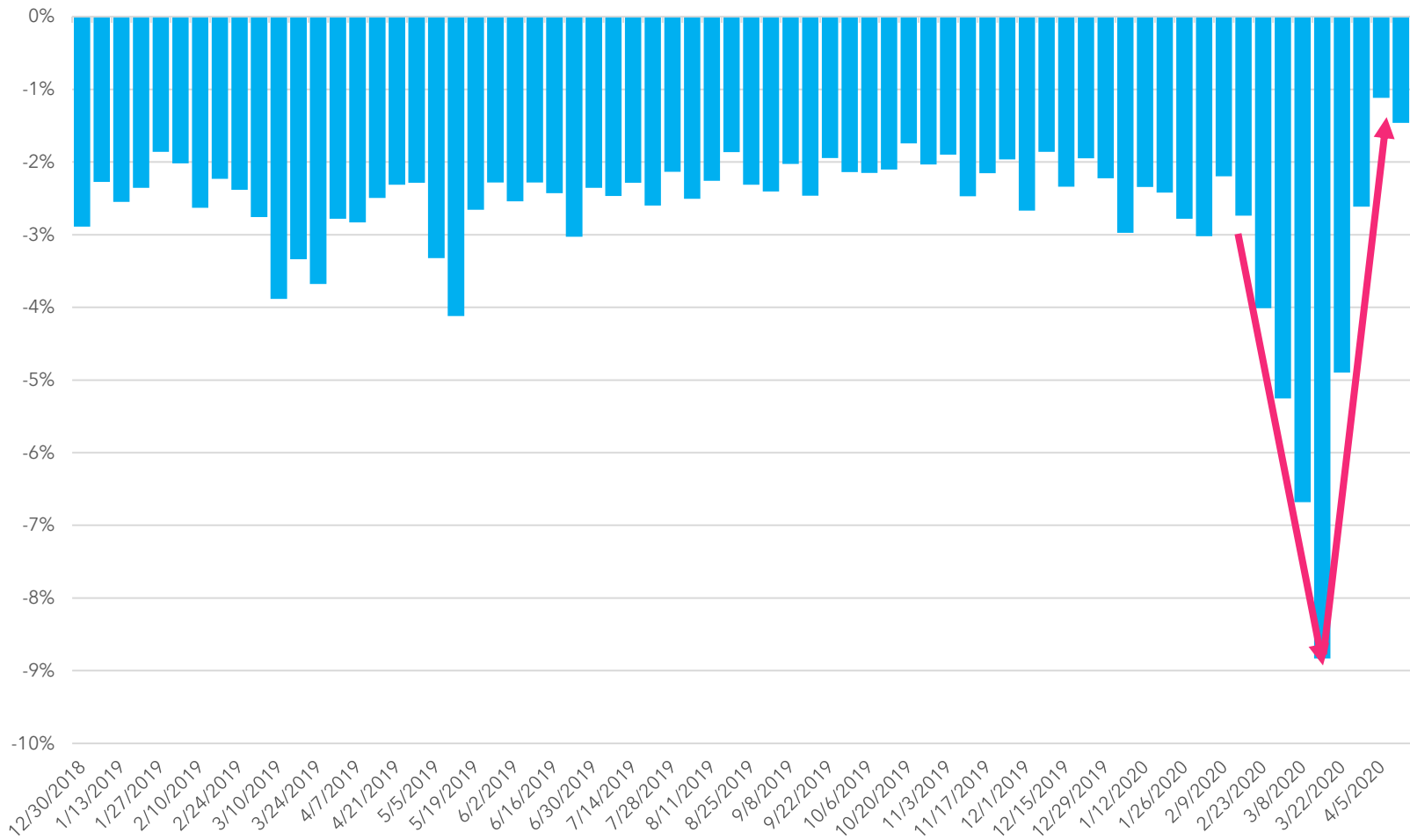
# Good news: Investors not as short-sighted in pandemic

Typically, investors are driven by recent performance, allowing as much as 32% of their performance-driven flows to be determined by the trailing 1-year results, while only 16% are informed by 10-year results. However, since the pandemic began, investors have placed much greater weight on longer-term returns and less on recent numbers. There's still a long way to go, but this is a move in the right direction.



Legend: ■ Investment Performance (TTM)  ■ Investment Performance (T3Y)  ■ Investment Performance (T5Y)  ■ Investment Performance (T10Y)

First group: 32%, 29%, 23%, 16%
Second group: 26%, 26%, 24%, 24%

Source: Flowspring data

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# Flowspring is forecasting the lowest organic growth rates in our history

We now expect the industry as a whole to shrink by 4% organically over the next 12-months, with more than 40% of asset managers shrinking by more than 10% on an asset-weighted basis. This is slightly more optimistic than we were last week.



Asset weighted average organic growth forecast for all global investment products for the next 12-month period using Flowspring's proprietary flow forecasting factor model.

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# Concentration of assets in the asset management industry spikes

As investors pursue low cost passive products, the large asset managers continue to get larger. This is a continuation of a trend that's been in place since the global financial crisis but had plateaued in 2019. The largest 1% of asset managers now manages 226x the amount of assets that the smallest 50% of asset managers manages.



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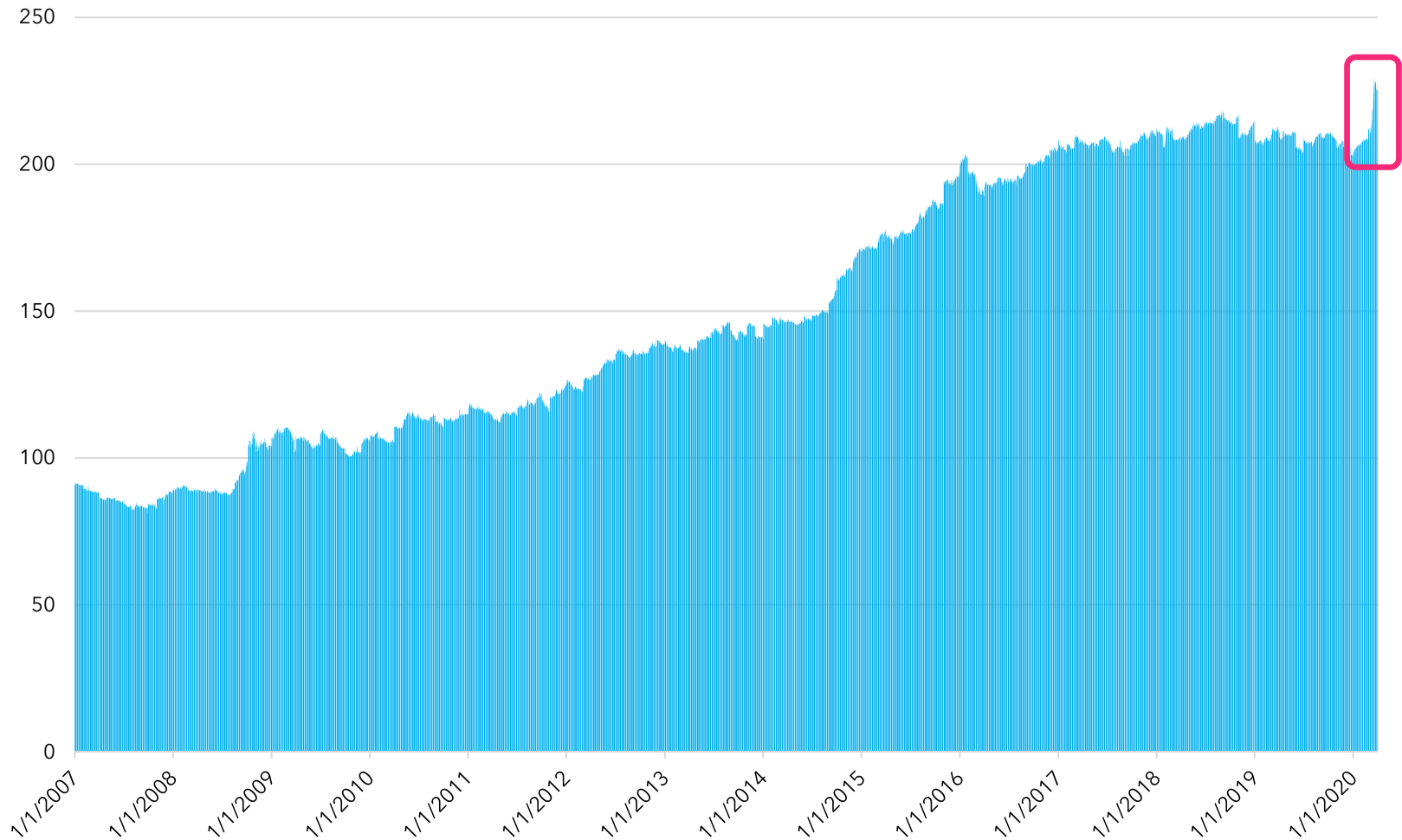
# Largest flows among major fund families since first US Case

| Flow (Since 2020-02-01) | From | To |
|---|---|---|
| 22,374,973,912 | iShares | Vanguard |
| 12,950,346,698 | State Street | iShares |
| 11,654,980,853 | T. Rowe Price | Vanguard |
| 11,608,401,373 | Invesco | Vanguard |
| 9,638,025,552 | Invesco | iShares |
| 9,154,964,563 | Fidelity | iShares |
| 8,634,528,232 | Dimensional | Vanguard |
| 8,418,021,617 | T. Rowe Price | iShares |
| 7,158,153,483 | iShares | Charles Schwab |
| 6,617,220,820 | JPMorgan | Vanguard |
| 6,312,131,192 | Fidelity | Invesco |
| 6,184,329,690 | State Street | Vanguard |
| 6,050,144,380 | Natixis | Vanguard |
| 4,913,075,592 | American Funds | Fidelity |
| 4,533,243,073 | Invesco | JPMorgan |
| 4,447,117,889 | BlackRock | Vanguard |
| 4,416,455,357 | JPMorgan | American Funds |
| 4,238,231,381 | John Hancock | Fidelity |
| 4,009,199,519 | Invesco | American Funds |
| 3,894,495,403 | TIAA | Vanguard |
| 3,850,654,362 | Bradesco | Itaú |
| 3,697,227,342 | PIMCO | Vanguard |
| 3,611,111,318 | T. Rowe Price | TIAA |
| 3,351,244,675 | PIMCO | Fidelity |
| 3,252,198,339 | T. Rowe Price | State Street |
| 3,176,917,993 | American Century | Vanguard |
| 3,087,354,045 | SEI | Vanguard |
| 3,021,342,985 | JPMorgan | TIAA |
| 2,997,002,403 | Jackson National | Fidelity |
| 2,969,438,170 | Invesco | MFS |
| 2,963,309,170 | Franklin Templeton | American Funds |
| 2,835,396,146 | T. Rowe Price | Invesco |
| 2,804,517,248 | Itaú | Caixa |
| 2,737,358,867 | Natixis | Fidelity |
| 2,703,484,898 | Principal | Vanguard |
| 2,654,992,874 | Invesco | BlackRock |
| 2,625,052,784 | GMO | Fidelity |
| 2,624,753,925 | Franklin Templeton | JPMorgan |
| 2,617,236,416 | Franklin Templeton | Vanguard |
| 2,604,553,359 | American Funds | State Street |
| 2,586,712,638 | Matthews | Vanguard |
| 2,402,825,369 | Natixis | PIMCO |
| 2,364,539,496 | Harbor | Vanguard |
| 2,289,166,848 | Fidelity | State Street |
| 2,257,446,918 | Invesco | State Street |
| 2,211,929,673 | American Funds | iShares |
| 2,096,970,293 | Eurizon | Pramerica |
| 2,044,493,081 | State Street | Charles Schwab |
| 2,031,925,006 | John Hancock | American Funds |
| 2,010,759,326 | T. Rowe Price | American Funds |

Vanguard is the big winner of competitive flows thus far in 2020, winning huge amounts of capital from iShares, State Street, Invesco, and JPMorgan.

However, iShares isn't asleep – they've done well against Invesco, State Street, T. Rowe Price, and Xtrackers over this time period. We expect asset flows to be even more impactful as the volatility in capital markets dies down and investors contemplate their asset class allocation and fund selections in the wake of this crisis.

Source: Flowspring Estimates

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# Fund family asset changes 2020 YTD

| Fund Family | Asset Change | Asset Growth | Organic Growth | Capital Appreciation |
|---|---|---|---|---|
| T. Rowe Price | -231,607,770,592 | **-26.4%** | -13.6% | -12.8% |
| Natixis | -70,237,466,809 | **-24.4%** | -9.5% | -14.9% |
| Dimensional | -107,991,443,015 | **-21.8%** | -2.1% | -19.7% |
| Bradesco | -38,979,696,749 | **-19.5%** | -6.7% | -12.8% |
| Itaú | -60,616,270,292 | **-19.3%** | -2.5% | -16.8% |
| Amundi | -83,426,660,264 | **-16.7%** | -7.9% | -8.8% |
| Jackson National | -38,009,262,069 | **-16.3%** | -1.8% | -14.5% |
| Invesco | -120,372,941,702 | **-16.3%** | -4.8% | -11.5% |
| John Hancock | -30,876,390,223 | **-16.1%** | -2.0% | -14.1% |
| Goldman Sachs | -40,749,381,881 | **-15.7%** | 6.4% | -22.1% |
| AllianceBernstein | -31,412,760,957 | **-15.6%** | -3.1% | -12.5% |
| BNP Paribas | -32,906,020,328 | **-15.4%** | -4.2% | -11.2% |
| BB | -49,803,330,298 | **-15.3%** | 3.3% | -18.7% |
| Charles Schwab | -41,109,352,409 | **-14.7%** | 1.3% | -16.0% |
| iShares | -320,052,338,464 | **-14.0%** | 0.2% | -14.3% |
| MFS | -50,130,064,237 | **-13.9%** | 0.0% | -13.9% |
| AXA | -35,188,288,925 | **-13.4%** | -2.3% | -11.2% |
| UBS | -53,618,301,460 | **-12.8%** | -2.2% | -10.6% |
| State Street | -111,469,594,950 | **-12.5%** | 0.3% | -12.7% |
| American Funds | -248,378,083,110 | **-12.4%** | -0.8% | -11.7% |
| DWS | -32,623,029,365 | **-12.3%** | -2.3% | -10.0% |
| BlackRock | -99,750,157,161 | **-10.8%** | -1.7% | -9.1% |
| JPMorgan | -80,784,724,438 | **-9.7%** | 0.1% | -9.8% |
| Fidelity | -142,085,916,353 | **-5.8%** | -1.6% | -4.3% |
| Vanguard | -294,880,837,476 | **-4.7%** | -0.2% | -4.6% |

Source: Flowspring Data

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# Investor fear has moderated, but not fully receded

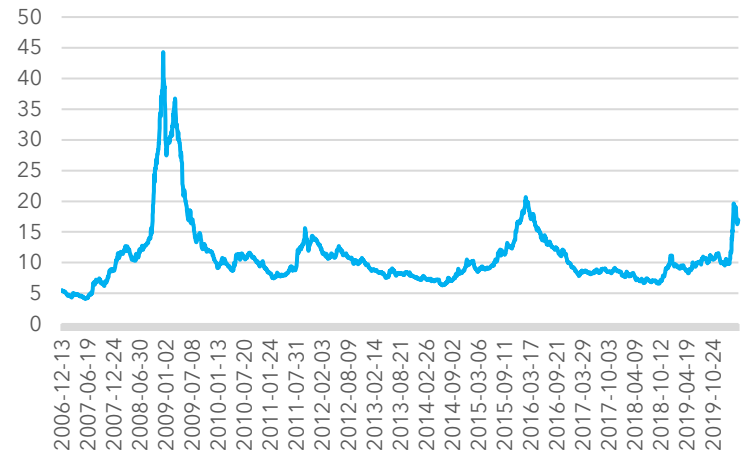Annualized weekly investor preference for high volatility funds vs low volatility funds
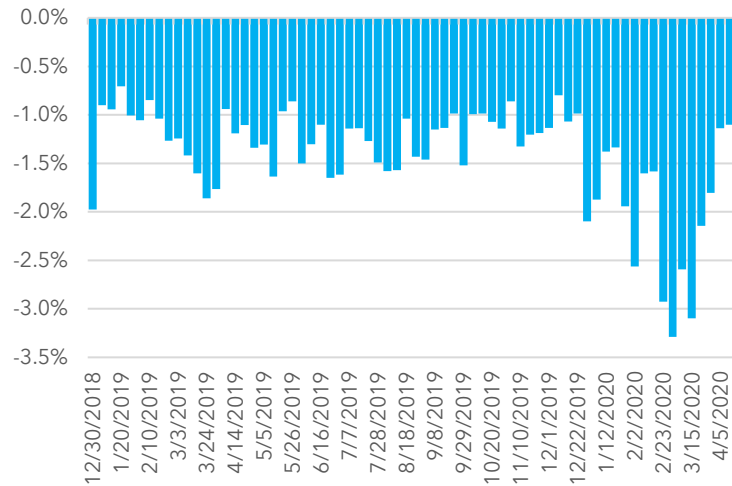
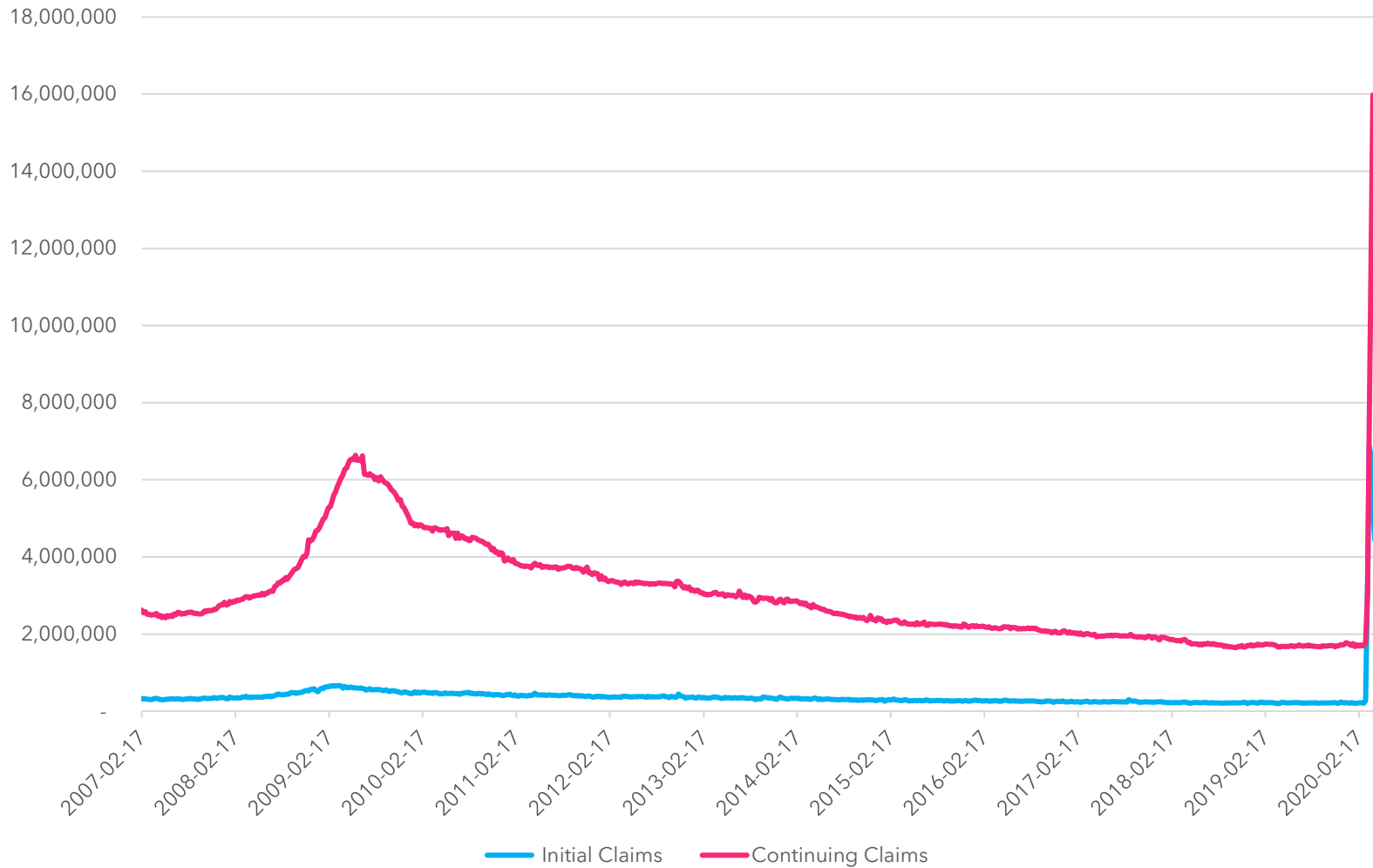VIX Volatility index
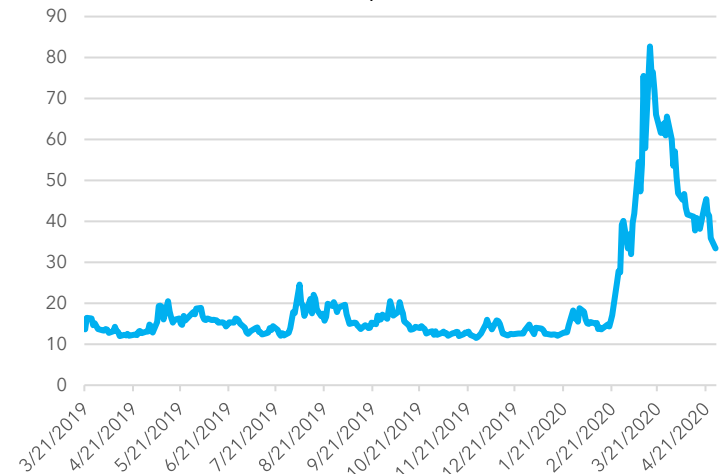
St. Louis Fed Financial Stress Index

BAML Option Adjusted High Yield Spread

Source: St. Louis Federal Reserve

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# Weekly unemployment claims have skyrocketed to record levels



Initial Claims ———  Continuing Claims ———

# Coronavirus saturation?

Google searches for the term "coronavirus" peaked on March 15 and have been experiencing a moderate decline ever since indicating that the populous may have developed a base-level of knowledge necessary to understand the disease, but no longer actively pursue new developments related to the novel coronavirus.



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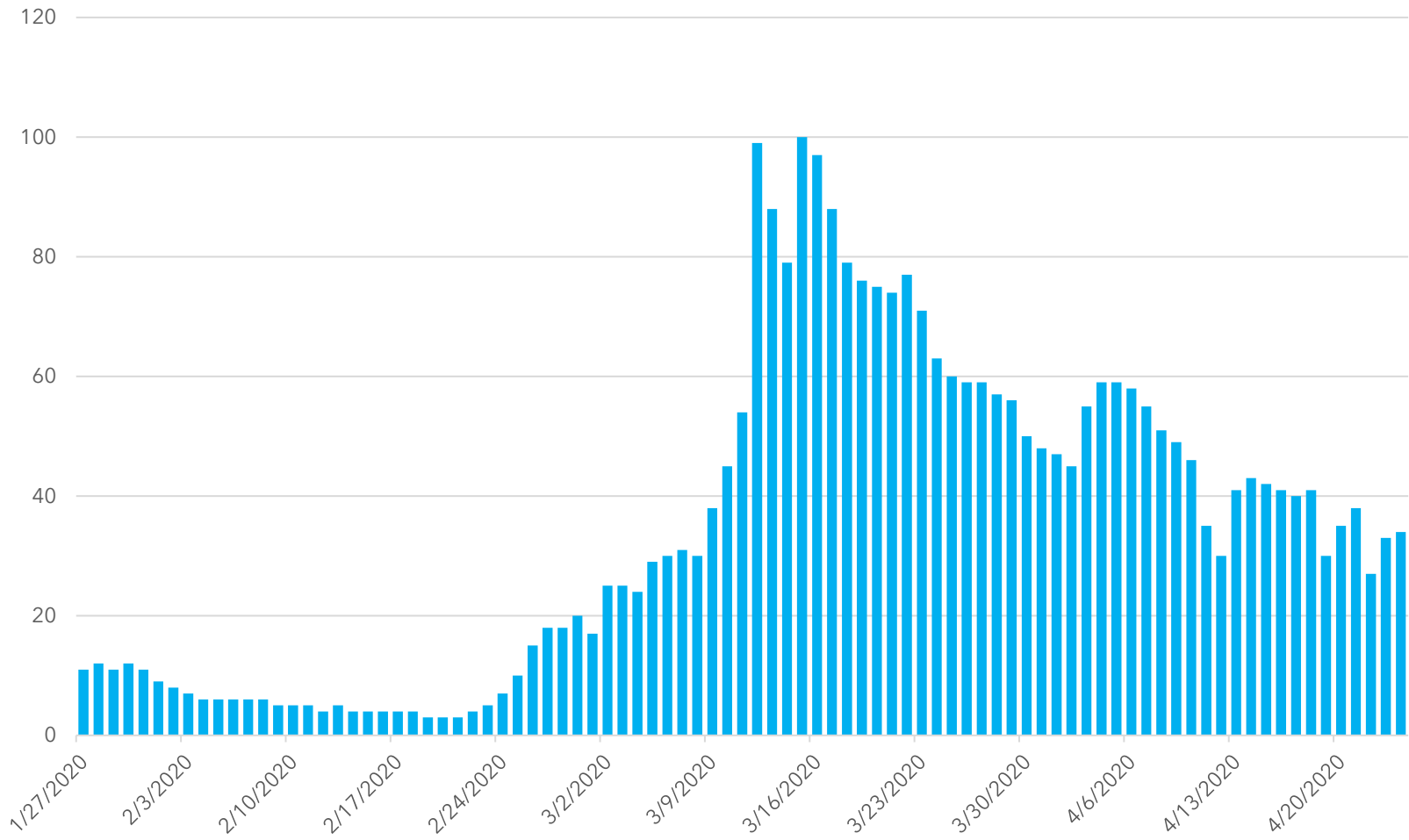
# A possible timeline for future developments

"To analyze management of the coronavirus in the U.S., we recently completed a state-level model that suggests a multiphasic peak. In particular, we expect the coastal regions, led by New York, to peak in mid- to late-April. However, we expect the rest of the country to follow slowly, trailing the coasts by around three weeks. " – Matthe Harrison – Morgan Stanley Research
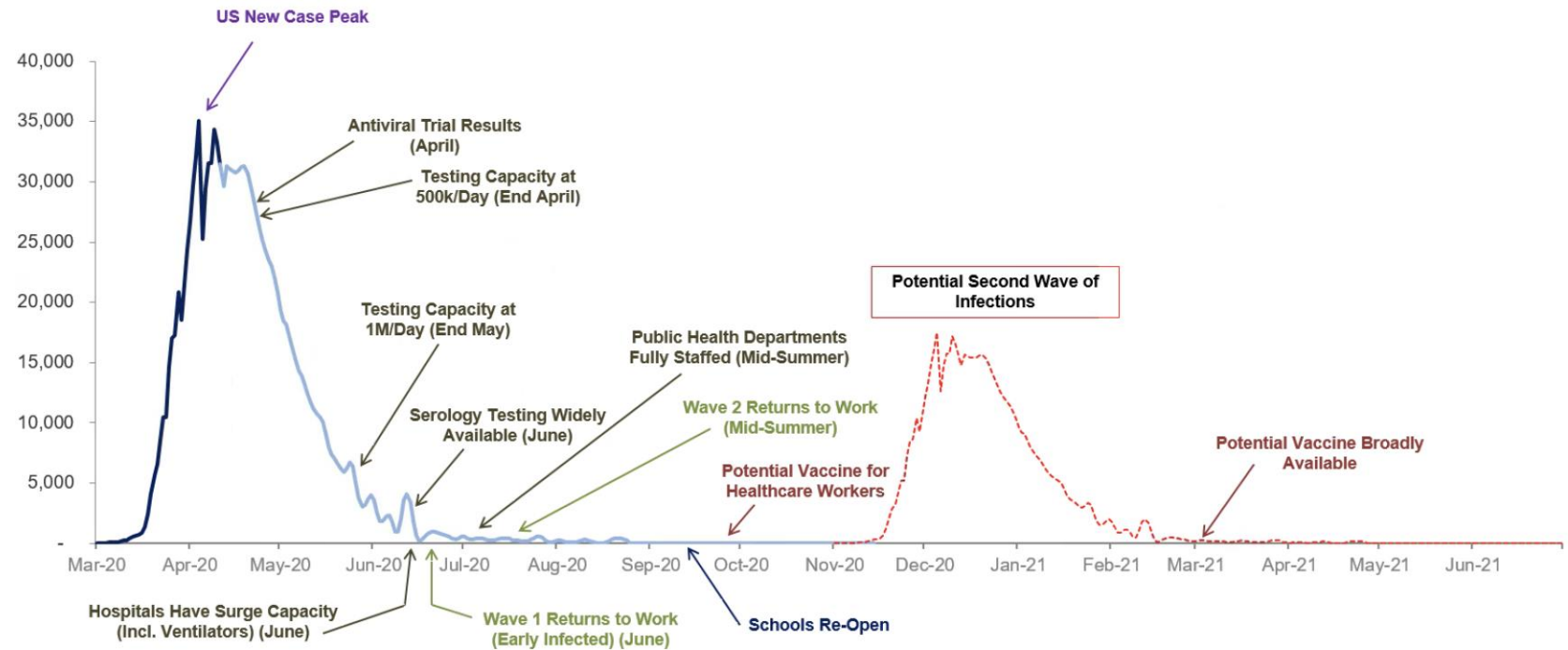


Source: Matthew Harrison – Morgan Stanley Research

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# SARS-CoV-2 transmission and deadliness



Fatality rate
(log scale)

100% —

Bird flu

50 —  ● Ebola

● MERS

20 —  ● Smallpox

SARS

**More
deadly**

10 —  ●

5 —

Spanish flu

**New coronavirus**
Most estimates put the
fatality rate below 3%,
and the number of
transmissions between
2 and 4.

2 —  ●

**Spreads faster →**

1 —

Seasonal
flu

Measles ●

0.1 —  ●

Polio

●

2009
flu

Common
cold

Chickenpox

●  ●

●

0     1              5              10              15

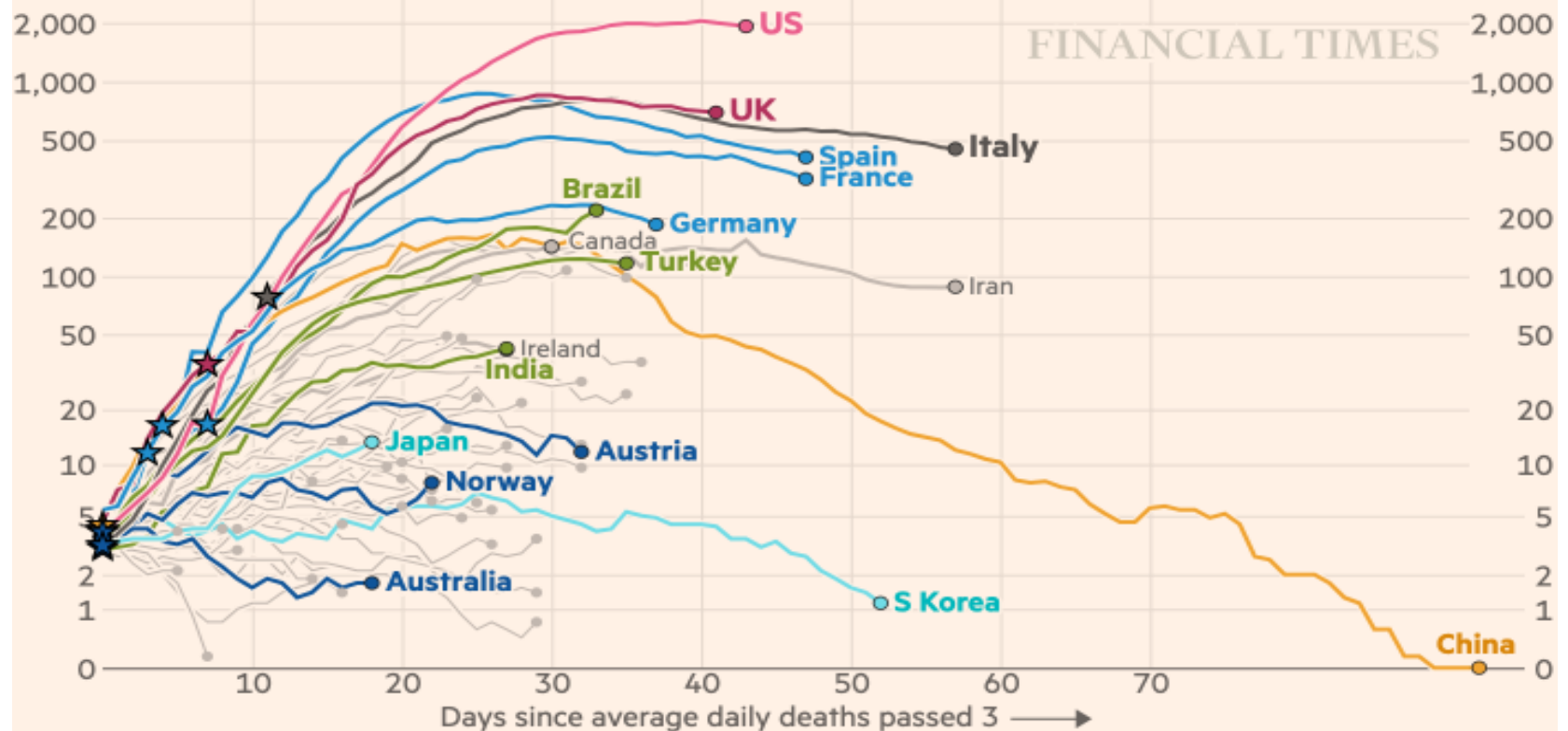Average number of people infected by each sick person
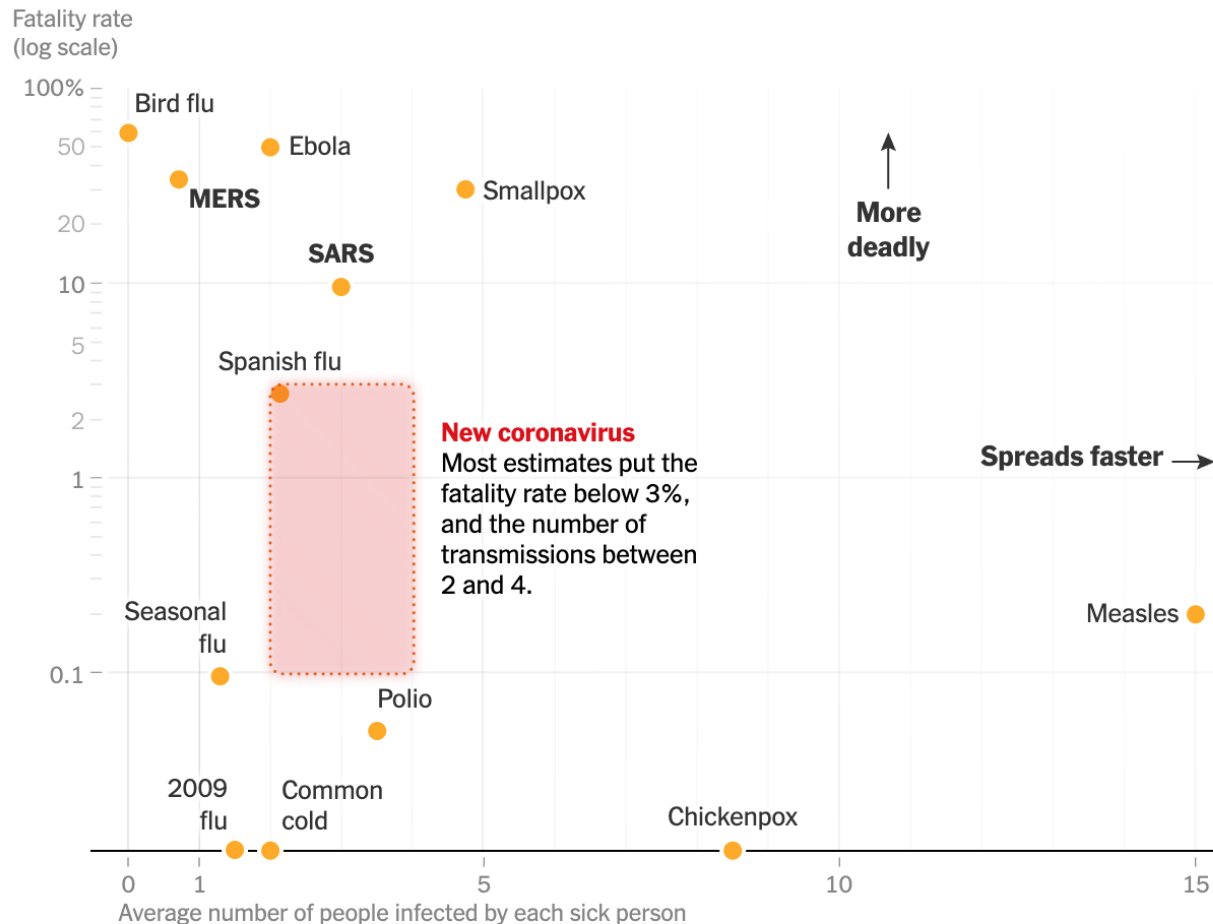
Note: Average case-fatality rates and transmission numbers are shown. Estimates of case-fatality rates can
vary, and numbers for the new coronavirus are preliminary estimates.

Source: New York Times

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# Country trajectories



Daily death tolls are now at their peak or falling in many western countries

Daily coronavirus deaths (7-day rolling avg.), by number of days since 3 daily deaths first recorded

FINANCIAL TIMES

Labels on chart: US, UK, Italy, Spain, France, Brazil, Canada, Germany, Turkey, Iran, Ireland, India, Japan, Austria, Norway, Australia, S Korea, China

Days since average daily deaths passed 3 →

FT graphic: John Burn-Murdoch / @jburnmurdoch
Source: FT analysis of European Centre for Disease Prevention and Control; FT research. Data updated April 25, 20:16 BST
© FT

Source: Financial Times

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# Glossary

**COVID-19 (Coronavirus Disease 2019)** is the infections disease caused by the virus SARS-CoV-2 (Severe Acute Respiratory Syndrome Coronavirus 2). Originating in Wuhan, China, the spread of SARS-CoV-2 has led to a pandemic which has affected nations on 6 of the 7 continents.

**R0** is the basic reproduction number of a virus. It represents the number of people an infected person can expect to pass the infection to.

**CFR** is the case fatality rate. It represents the expectation for the percentage of infected cases that will end in death.

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# Helpful links regarding coronavirus information

**Best Dashboards for Monitoring Global Cases**

https://coronavirus.1point3acres.com/

https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

https://www.worldometers.info/coronavirus/coronavirus-cases/


**World Health Organization (WHO) page on COVID-19**

https://www.who.int/emergencies/diseases/novel-coronavirus-2019


**US CDC COVID-19 page**

https://www.cdc.gov/coronavirus/2019-nCoV/index.html


**Epidemic Calculator – Enter your Assumptions, see how the epidemic unfolds**

https://gabgoh.github.io/COVID/index.html


**General Information**

https://en.wikipedia.org/wiki/Coronavirus_disease_2019

https://en.wikipedia.org/wiki/Severe_acute_respiratory_syndrome_coronavirus_2

https://www.soa.org/globalassets/assets/files/resources/research-report/2020/2020-covid-19-research-brief.pdf

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