

Coronavirus – FX perspective

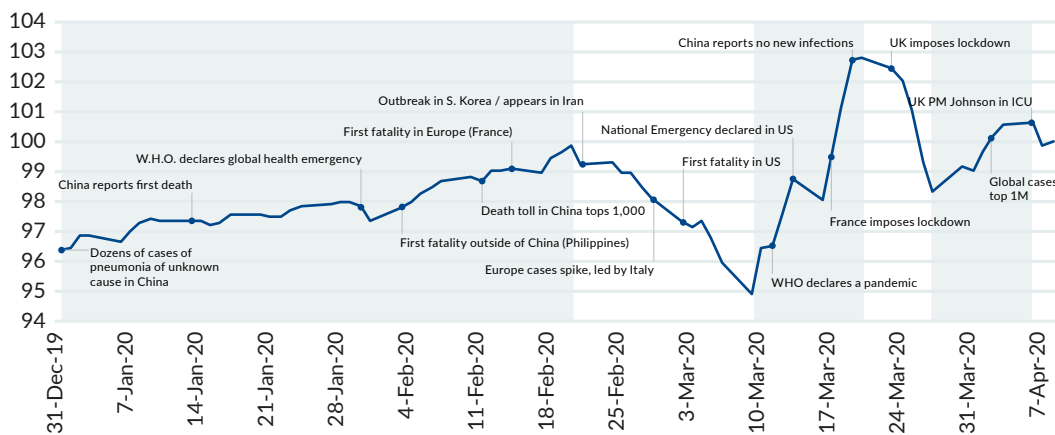
Companion piece

As the second quarter of 2020 begins amid the coronavirus epidemic, the financial market reactions have reflected the magnitude of concern felt by the world on a global scale, with currency risk weighing heavily on international investors.

Since our previous paper in late February, risky assets have continued to be under pressure, with peak-to-trough drops of -34% in both the S&P 500 and MSCI World thus far this year. The safe-haven qualities of US dollar have attracted investors, particularly during the episodes of equity weakness, as periods of risk-off have dominated the marketplace.

We have updated the timeline below (Figure 1) through early April, tracking the Dollar Spot Index with corresponding events related to the coronavirus. While US dollar has appreciated overall during this period of uncertainty as both a safe-haven and funding currency, the volatile nature of currencies has been evident during these turbulent times. Three periods of outsized appreciation have been shaded, with US dollar strength of +3.61%, +8.35%, and +2.36%, respectively. The periods of weakness, spurred initially by proposed US interest rate cuts and fears over stifled US growth followed by a strong reversal in the equity markets, punctuate the intra-period volatility experienced over the first quarter.

FIGURE 1: DOLLAR SPOT INDEX – CORONAVIRUS TIMELINE



Source: Bloomberg, The New York Times (<https://www.nytimes.com/2020/02/13/world/coronavirus-timeline.html>). Past results are not necessarily indicative of future results. Actual results may materially differ from those shown above. Please refer to the disclaimer page for important additional information.

For educational and informational purposes only. Mesirow Currency Management (“MCM”) is a division of Mesirow Financial Investment Management, Inc. (“MFIM”), an SEC-registered investment advisor. The information contained herein is intended for institutional clients and Qualified Eligible Persons only and is for informational purposes only. MCM provides discretionary investment management services to managed accounts held on behalf of qualified investors only and not to funds. MCM will not act as agent or intermediary in respect of the execution of a discretionary investment management agreement. Nothing contained herein constitutes an offer to sell an interest in any Mesirow investment vehicle. It should not be assumed that any trading strategy incorporated herein will be profitable or will equal past performance. Please see the disclaimer at the end of the materials for important additional information.

When we last looked in late February, we noted the surge in FX volatility from elevated uncertainty. When comparing COVID-19 to the other coronavirus variants, SARS and MERS, a common increase in FX volatility over a month’s period during the early days of each outbreak was evident. Updating over the next month, the JPM Global FX Volatility Index during COVID-19 has exploded beyond the 25% increase we saw before, peaking at a 160% increase from the start of February (Figure 2), dwarfing the moves in SARS and MERS over an analogous number of trading days.

The higher magnitude and growth of currency volatility during COVID-19 can be attributed to its infection rate and cross-country contamination, making this more of a global event than either SARS or MERS. COVID-19 has infected over one million people in three months; SARS infected just over eight thousand in eight months; MERS required a year to infect 108 people. COVID-19 has affected 209 countries and territories, while both SARS and MERS were highly concentrated in particular regions, with 87% of SARS concentrated in China and Hong Kong, and all cases of MERS linked to the Arabian Peninsula. COVID-19’s global reach and evolutionary uncertainty threatens to keep currency volatility elevated and to pressure equity markets during this risk-on/risk-off dichotomy, until a more stable situation is reached across the globe.

Mesirow Currency Management continues to recommend having a currency risk management policy in effect at all times to mitigate currency risk and to control for downside

protection in falling currency markets. Without such a policy in place, important and sizable investments in international markets are exposed to unforeseen high volatility periods such as the one we are experiencing with the coronavirus. Please stay safe during these uncertain times.

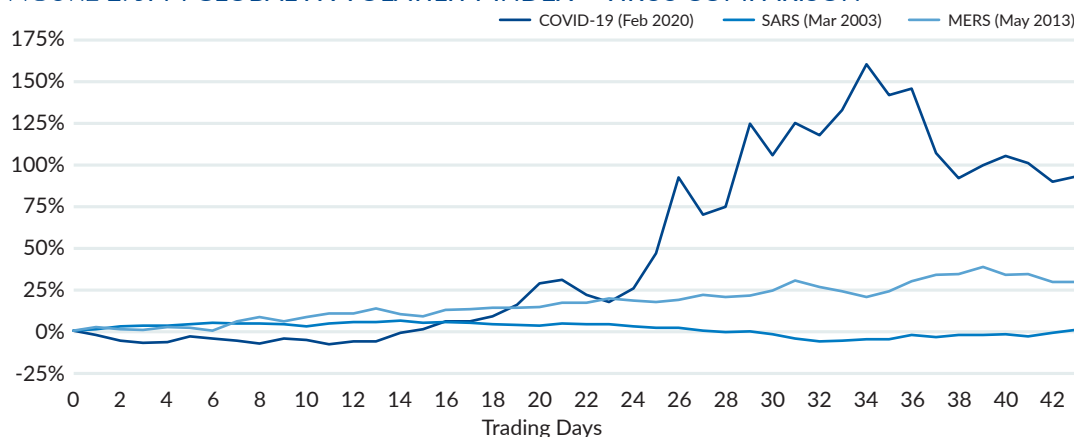
[Link to the original Coronavirus – FX Perspective mesirowfinancial.com/globalassets/currency/coronavirus-fx-perspective.pdf](https://mesirowfinancial.com/globalassets/currency/coronavirus-fx-perspective.pdf)

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our workplace culture. To learn more, visit mesirow.com and follow us on LinkedIn.

To learn more about how Mesirow can help you, please contact Joseph Hoffman at 312.595.7019 or jhoffman@mesirowfinancial.com.

FIGURE 2: JPM GLOBAL FX VOLATILITY INDEX – VIRUS COMPARISON



Source: Bloomberg. Past results are not necessarily indicative of future results. Actual results may materially differ from those shown above. Please refer to the disclaimer page for important additional information.

For educational and informational purposes only. Mesirow Currency Management (“MCM”) is a division of Mesirow Financial Investment Management, Inc. (“MFIM”), an SEC-registered investment advisor. The information contained herein is intended for institutional clients and Qualified Eligible Persons only and is for informational purposes only. MCM provides discretionary investment management services to managed accounts held on behalf of qualified investors only and not to funds. MCM will not act as agent or intermediary in respect of the execution of a discretionary investment management agreement. Nothing contained herein constitutes an offer to sell an interest in any Mesirow investment vehicle. It should not be assumed that any trading strategy incorporated herein will be profitable or will equal past performance. Please see the disclaimer at the end of the materials for important additional information.

Sources:

World Economic Forum - <https://www.weforum.org/agenda/2020/02/comparing-outbreaks-coronavirus-mers-sars-health-epidemic>

The New York Times - <https://www.nytimes.com/2020/02/13/world/coronavirus-timeline>

<https://www.worldometers.info/coronavirus/>

<https://www.cdc.gov/about/history/sars/timeline.htm>

<https://www.npr.org/sections/goatsandsoda/2020/01/22/798277557/how-does-wuhan-coronavirus-compare-to-mers-sars-and-the-common-cold>

<https://www.cdc.gov/coronavirus/mer/us.html>

Mesirow Currency Management (“MCM”) is a division of Mesirow Financial Investment Management, Inc. (“MFIM”) a SEC registered investment advisor. The information contained herein is intended for institutional clients, Qualified Eligible Persons and Eligible Contract Participants and is for informational purposes only. This information has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Mesirow does not render tax or legal advice. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow investment vehicle(s). Any offer can only be made through the appropriate Offering Memorandum. The Memorandum contains important information concerning risk factors and other material aspects of the investment and should be read carefully before an investment decision is made.

This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If this information was received in error, you are strictly prohibited from disclosing, copying, distributing or using any of this information and are requested to contact the sender immediately and destroy the material in its entirety, whether electronic or hardcopy.

Certain strategies discussed throughout the document are based on proprietary models of MCM’s or its affiliates. No representation is being made that any account will or is likely to achieve profits or losses similar to those referenced.

EU Investors: The information contained herein is intended for Professional Clients as the term is defined by MiFID II and is for informational purposes only. Recipients that are classified under MiFID II as retail clients must opt up to Professional Clients before receiving any services from Mesirow Currency Management.

Japanese Investors: Mesirow Currency Management provides discretionary investment management services to managed accounts held on behalf of qualified investors only. MCM will not act as agent or intermediary in respect of the execution of a discretionary investment management agreement. Please note that this presentation is intended for educational purposes and solely for the addressee and may not be distributed.

Kuwait Investors: These Presentation Materials are not for general circulation to the public in Kuwait nor will any investment strategy be presented to or securities sold to the public in Kuwait. Prior to investing in any investment strategy, it is strongly recommended that a prospective investor seek advice of a consulting body licensed and specialised about the content of these materials and with his, her or its own legal, business and tax advisors to determine the appropriateness and consequences of an investment in any strategy discussed in these materials for such prospective investor and arrive at an independent assessment of such investment.

Swiss Investors: Services are only offered to Regulated Qualified Investors, as defined in Article 10 of the Swiss Collective Investment Scheme Act. There can be no guarantee investment advice will be profitable or meet its investment objectives.

UAE Investors: This information does not constitute or form part of any offer to recommend, issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products or strategies in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority, the Financial Services Regulatory Authority or any other relevant licensing authority or governmental agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

United Kingdom Investors: In the United Kingdom, this communication is directed only at persons who fall within the definition of: (i) “investment professionals” as defined in COBS 4.12 and Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the “PCISE Order”); or (ii) “high net worth companies, unincorporated associations etc” as defined in COBS 4.12 and Article 22(2)(a) to (d) of the PCISE Order (all such persons together being referred to as “Relevant Persons”). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Performance pertaining to the Currency Risk Management Overlay strategies is stated gross of fees. Performance pertaining to the Currency Alpha and Macro strategies may be stated gross of fees or net of fees. Performance information that is provided net of fees reflects the deduction of implied management and performance fees. Performance information that is provided gross of fees does not reflect the deduction of advisory fees. Client returns will be reduced by such fees and other expenses that may be incurred in the management of the account. Simulated model performance information and results do not reflect actual trading or asset or fund advisory management and the results may not reflect the impact that material economic and market factors may have had, and can reflect the benefit of hindsight, on MCM’s decision-making if MCM were actually managing client’s money in the same manner. Performance referenced herein for Currency Risk Management Overlay strategies prior to May 2004, the date that the Currency Risk Management team joined Mesirow, occurred at prior firms. Performance referenced herein for Currency Alpha and Macro strategies prior to October 1, 2018, the date that the Currency Alpha and Macro Strategies team joined Mesirow, occurred at prior firms. Any chart, graph, or formula should not be used by itself to make any trading or investment decision. Any currency selections referenced herein have been included to illustrate the market impact of certain currencies over specific time frames. The inclusion of these is not designed to convey that any past specific currency management decision by MCM would have been profitable to any person. It should not be assumed that currency market movements in the future will repeat such patterns and/or be profitable or reflect the currency movements illustrated above.

Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that a strategy’s returns or volatility will be similar to the indices. The strategy is compared to the indices because they are widely used performance benchmarks.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2020, Mesirow Financial Holdings, Inc. All rights reserved. Investment management services provided through Mesirow Financial Investment Management, Inc., a SEC registered investment advisor, a CFTC registered commodity trading advisor and member of the NFA, or Mesirow Financial International UK, Ltd. (“MFIUK”), authorized and regulated by the FCA, depending on the jurisdiction.