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LE COIN TECHNIQUE

The Coronavirus rout and the outperformance of Defensive assets

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Talk about a "Black Swan!", the Coronavirus certainly qualifies. Risk assets have sold-off so quickly that the whole rally since last Summer was erased in 5 trading days. The move is extremely linear with little more than intraday bounces. Even with last Friday's 3% intraday bounce, the S&P500 did finish 1% lower than its previous close. In this short article, we will consider the two main risk-off assets, US Treasuries and Gold and assess their diversification potential in the current crisis.

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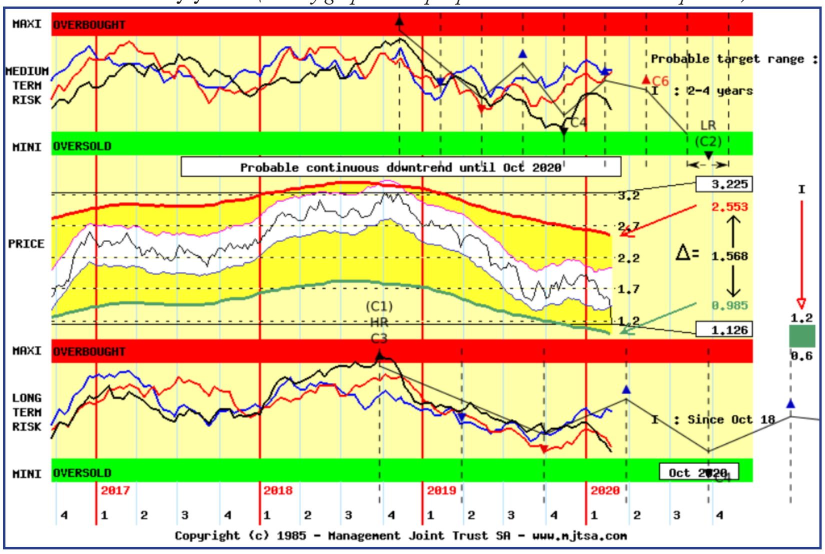
US 10Y Treasury yield *(Weekly graph or the perspective over the next 2 to 4 quarters)*



US Treasuries seem to remain the safe haven asset for now. Since late December, US Treasury yields have sold off aggressively and both our oscillator series (lower and upper rectangles) would suggest that this strong downtrend probably continues until late Summer/early Fall. For now, we expect little in terms of bounces over the next couple of months, hence the rather long term Weekly graph we present here. ***On the price target front, the US10Y yield has already reached the upper end of our I Impulsive targets to the downside around 1.2% (right-hand scale), yet, it could still drop towards 0.6% over the next couple of quarters.*** *The initial shock seems to be deflationary as economic activity should come to a halt as the coronavirus continues to spread and financial markets pressure Central Banks by discounting further easing.*

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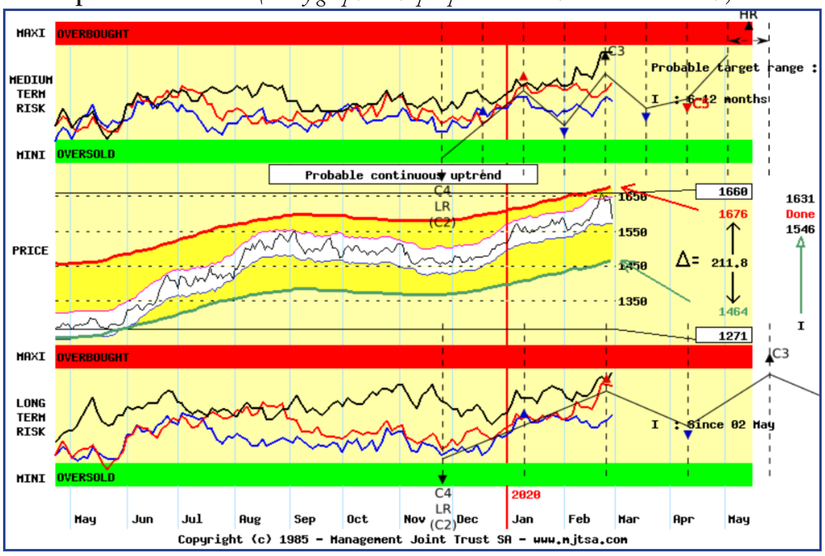
Gold spot — USD/oz *(Daily graph or the perspective over the next 2 to 3 months)*



Gold sold off with risk assets last week. Although the downside move has been quite strong, it pales in comparison to the sell-off on equities and other risk assets. In the past, Gold has indeed often suffered in the initial stages of deleveraging sprees. The July to October 2008 sell-off (a 30% drop) is the most significant example. Yet, once Central Banks start responding to the crisis (e.g. the introduction of the October 2008 TARP program), Gold then usually reverses up and rallies significantly as loose monetary policy then lifts the long term prospects for inflation. The current situation may be quite similar and would explain last week's sell-off in Gold. Our Daily graph suggests that we just made an intermediate top on both our oscillator series (lower and upper rectangles) and that ***the current correction may continue for another 2-3 weeks at least, perhaps even into April. The C Corrective potential we can calculate during this period is towards mid/low 1'500s USD/oz*** *(0.5 to 0.8 times our historical volatility measure "Delta", here at 211.8 – middle rectangle, right hand side – subtracted from the recent top around 1'660).* ***Following that, Gold should rise consequently for the rest of the year*** *(according to our weekly and bi-monthly graphs – not shown here).*

Concluding Remarks: Both US Treasuries and Gold should rise significantly this year. In the initial stages of the sell-off Treasuries should continue to outperform any other asset class on a relative basis as strong deflationary pressures are rapidly being discounted. Yet, once Central Banks start intervening, which they will certainly do, at some point, Gold will reach a new reversal point to the upside. We expect this to happen towards mid/late March, perhaps in April. This "Buy the Dips" opportunity should be followed by a significant rise into the Summer, probably towards its 2012 highs.