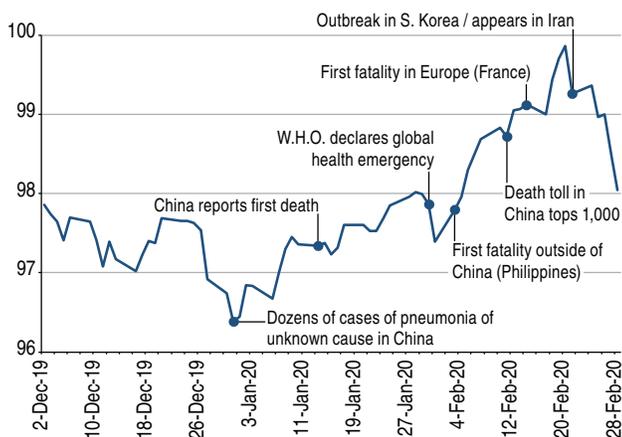


Coronavirus – FX Perspective

For investors with international investments, the uncertain path of the evolution of the coronavirus (COVID-19) outbreak directly affects the currency risk embedded in their portfolios. The recent market reaction has been swift and substantial, as both the S&P 500 and MSCI World equity indices have fallen over 10% in a matter of days. For currencies with safe-haven characteristics such as US dollar, Swiss franc, and Japanese yen, FX is a reflection of risk-sentiment – demand increases with uncertainty as risk taken off the table is reallocated into more secure investments such as safe-haven currencies.

For investors based in safe-haven countries, the appreciation of their base currencies corresponds to the rise in global uncertainty. As seen in Figure 1, US investors have seen their home currency experience a gradual increase in value as more coronavirus-related stories have dominated the news cycle. The US Dollar Spot Index has appreciated as much as 3.6% since the start of the year, corresponding with the spread of the coronavirus.

FIGURE 1 | Dollar Spot Index - Coronavirus Timeline



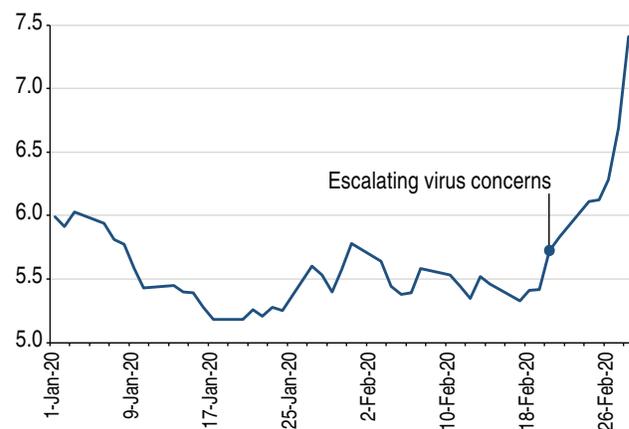
Source: Bloomberg, NY Times (<https://www.nytimes.com/2020/02/13/world/coronavirus-timeline.html>). Past results are not necessarily indicative of future results. Actual results may materially differ from those shown above. Please refer to the disclaimer page for important additional information.

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As currency exchange rates express the relative value of one currency against another, a rising US dollar necessarily leads to falling foreign currencies. For US investors with international investments, the FX component of their international portfolio return falls in value as foreign currencies depreciate. When equity markets decline, as they have recently, the fall in value can be exacerbated as both the equity and currency components of their portfolio weaken in unison.

FX volatility has surged with growing recession fears due to the coronavirus outbreak, fueled by large swings in currency. As seen in Figure 2, the J.P. Morgan Global FX Volatility index has experienced a sharp increase recently, up as much as 29% from the lows experienced earlier in the year. International portfolio risk profiles are highly influenced by the FX volatility present in the market. When FX volatility is high, international portfolio risk can be dominated by currency risk as the FX component becomes the main driver of portfolio returns.

FIGURE 2 | JPM Global FX Volatility Index



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.

Common comparisons can be made between the current coronavirus (COVID-19) outbreak and other variants of coronavirus, most notably SARS and MERS. As news and awareness spread in the early days of each health crisis, similar reactions could be felt in the Dollar Spot Index and JPM Global FX Volatility Index. Figure 3 and 4 display the behavior of both indices respectively over a month's time, early in each of the virus outbreaks. The summary table that follows lists trough-to-peak return for both indices across each virus during the month period.

Across the three strains of coronavirus, an average trough-to-peak appreciation of 3.4% and 21.6% was realized for the Dollar Spot Index and the JPM Global FX Volatility Index, respectively, as the safe-haven characteristics of US dollar were reflected through falling foreign currencies and increased volatility.

As events such as these are unpredictable in nature, Mesirow Financial Currency Management recommends having a currency risk management policy in effect at all times, strategically designed to mitigate currency risk and to control for downside protection in falling currency markets. A strategic hedging policy safe-guards against adverse currency movements without the need to market-time, tailored to client-specific risk profiles through a broad spectrum of currency risk management strategies.

TABLE 1 | Trough-to-Peak Returns

	Month	Dollar Spot Index	JPM Global FX Volatility Index
SARS	Mar 2003	4.24%	6.12%
MERS	May 2013	3.52%	19.41%
COVID-19	Feb 2020	2.54%	39.21%
	AVERAGE	3.43%	21.58%

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.

FIGURE 3 | Dollar Spot Index - Virus Comparison

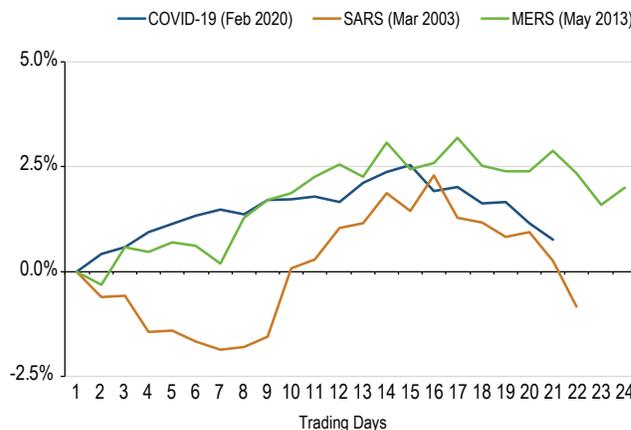
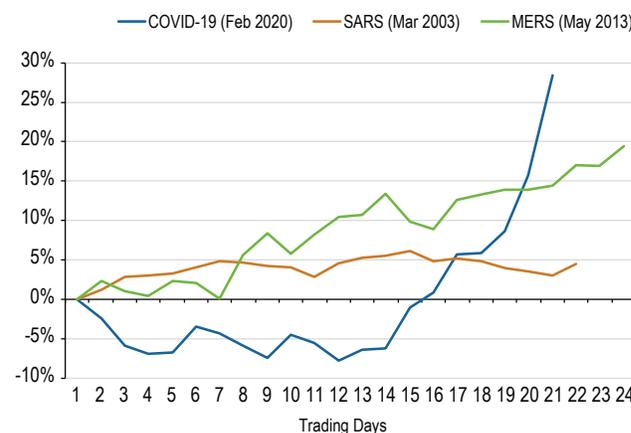


FIGURE 4 | JPM Global FX Volatility Index - Virus Comparison



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


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