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ARE FAMILY BUSINESSES AND INVESTORS IMMUNE TO THE CORONAVIRUS?

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Investment fund managers are appealing for calm among investors as the coronavirus pandemic spreads, anticipating a six-month market disruption but divided on if there will emerge a "new normal".

Amundi Asset Management said the impact of the COVID-19 outbreak should prove "short-lived" to the first half of the year with the mobilisation of fiscal tools, leaving the medium-term potential growth of economies intact.

Pascal Blanque, group chief investment officer, and Vincent Mortier, deputy group chief investment officer, said once the epidemic stabilised, economies will rebound and catch up some of the lost ground. The supply shock would disappear and "pent-up demand" would materialise, except in some sectors where losses in activity were not recoverable, such as tourism and air transport.

"At the moment, the 'fear factor' is at full play because the whole population understands that the situation is likely to worsen further in the coming weeks," Blanque and Mortier said.

"That being said, despite the panic that has gripped markets, we believe that investors should remain calm as much as possible."

Asked if multigenerational family businesses, with their patient capital, can 'ride out the storm' given their historic adaptability, Omar Kodmani (pictured right), investment director at Ruffer LLP, said in principle, a very long-term investment horizon would suggest this was a reasonable strategy.

"However, the drawdowns in equity markets along the way can be devastating to capital and being allocated to a manager that is preoccupied with the downside can help navigate the rollercoaster ride of public markets and provide a stable source of capital for other investments," Kodmani said.

"In other words, time horizon is helpful—but what you are invested in matters even more. Consistent with Ruffer's capital preservation objective, our portfolios are broadly flat in 2020 so far while equity markets have entered bear market territory."

Professor Pele Clamour (pictured below), of HEC Paris, pointed to three cases of multigenerational family businesses which survived and even prospered during times of turmoil.

"The Wendels built their fortune on steel and survived despite several crises and wars," he said.

"In finance, the longevity of the Rothschilds is also emblematic. We can also cite the Wallenbergs in Sweden. These families share a capacity for resilience and adaptation that have enabled them to get through these periods of crisis."

Kodmani at Ruffer said while it was impossible to generalise about the risk of a contemporary family business going bust, "we are in a new environment now and contingency plans are required. Major shocks can change behaviour permanently—we cannot assume a return to the status quo ante."

A new-normal for families and investors post-coronavirus was also suggested by Clamour but there were more immediate concerns. Asked if families should change their acquisition, investment, marketing, growth or recruitment strategies, he said the initial outbreaks first led to the implementation of a survival plan and the anticipation of scenarios for the future. The question of investments or acquisitions was currently secondary.

"The banking system must be put at the service of the SME," Clamour said.

"They will be in difficulty because they do not have sufficient cash to pass the storm. Central Banks and governments are the key drivers to lead this process."

Amundi expected a “significant rebound” in GDP growth in the second half of 2020, if there was coo-ordination of fiscal monetary support.

“Currently markets expect a longer time to recover, but no global recession,” Blanque and Mortier at Amundi said.

“We think that the worst could be contained to H1 as we already see some signs of recovery in China.”

Clamour said COVID-19 was a powerful reminder that a risk which threatens a family business can also crash the value of more liquid assets, just when they were likely to be needed most.

“The current turmoil in global markets should serve as a wakeup call to family office investment portfolios that they should have allocations to strategies that can hold up or make money in periods of stress,” he said.

“Bolts really can come from the blue.

“Like any other business, families are seeing capacity disruptions in their supply chains as a result of coronavirus-related transportation restrictions. Today, we see how supply chains have been globalised, how much we are dependent on a certain number of export and import. We live a health shock, which can become a geopolitical shock and will destabilize our economic system.”

Italy has become the epicentre for the coronavirus. The worst-hit country after China has reported nearly 25,000 cases and more than 1,800 have lost their lives.

Alfredo De Massis (pictured right), Professor of Entrepreneurship and Family Business, Director of the Centre for Family Business Management, Free University of Bolzano and Lancaster University Management School, said Italian ultra-high net worth (UHNW) family business had always prioritised the saving of human lives over their economic interests.

“Health comes before profits; this reflects the strong family-centered, non-economic goals that characterise the way Italian families do business, and distinguishes the behaviour of many family businesses as compared to their nonfamily counterparts,” De Massis said.

“So Italian UHNW family businesses are now taking strict measures to protect their people, allowing smart working or even closing some businesses when needed, showing a very socially responsible behaviour. This is also consistent with the typical propensity of Italian UHNW family businesses to build superior, long-term relationships with their employees. We will think about economic issues at a later stage, now we need to save as many lives as possible.”

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James Beech is the multimedia Editor of *CampdenFB,* with 21 years of international experience in daily newspapers, B2B and consumer magazines, online, social media, photographic and video journalism, in addition to editorial management, marketing, public relations and client relations, in the United Kingdom, Australia and New Zealand. He graduated from Bournemouth University in 1999.

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