

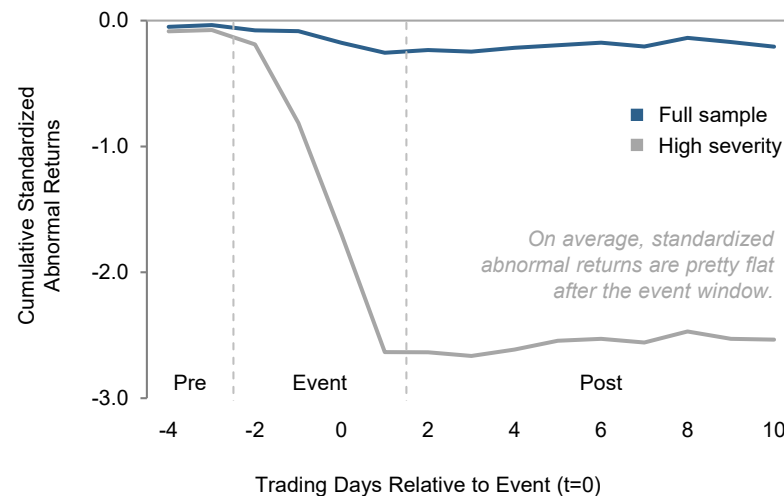
Quick Take: Coronavirus – what can investors learn from past shocks?

March 2020

How to respond to coronavirus headlines?

- A major challenge facing investors in responding to coronavirus news flow is a lack of systematic research to guide decision making after surprise geopolitical events, such as epidemics.
- Do markets generally underreact, suggesting that investors should quickly exit exposed positions? Or does panic tend to cause overreaction, suggesting that investors should double down?
- **A unique study: the market's reaction to shocks**
 - To provide systematic perspective on circumstances where discussion has generally been driven by anecdote, Acadian conducted a novel study regarding how the market has reacted to a broad sample of geopolitical shocks.
 - We found no evidence that diversified investors should reduce or liquidate their position in a market following a shock, absent an informed view on the specific circumstances. (See charts at right.)
 - The results suggest that for a diversified investor without an informational edge regarding a particular situation, the best course of action is to stay the course.
 - Please find the original research, [Geopolitical Shocks: What to Expect from the Unexpected](#), on Acadian's website.

Returns from a case study of selected geopolitical events (1926-2015)



Local market returns (in USD) starting four trading days prior to an event. Standardized abnormal returns are daily returns less the market's prior 120-day average return and divided by its prior 120-day volatility. High-severity events are defined as having cumulative losses during the event window (t-2 through t+1) in the worst 30% of the sample. Sample of events is generated using an Acadian proprietary method based on a broad sample of unscheduled geopolitical shocks referenced in on-line geopolitical histories and blogs in more than 70 countries from 1919-2015. Please see "Geopolitical Shocks: What to Expect from the Unexpected," Acadian, July 2017 or contact us for further details.

Source: Acadian Asset Management LLC. For illustrative purposes only. Returns are of the major local exchanges where each event occurred. Analysis does not reflect actual trading and does not include transaction costs and other market frictions. Past results are not indicative of future performance. Every investment program has an opportunity for loss as well as profits.



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