In the Q&A below, George Maris, Co-Head of Equities – Americas, offers perspective on the market's historic moves over the past month and how he is navigating the volatility in the Janus Henderson International Alpha Equity strategy and Global Alpha Equity strategy (which includes the Overseas and Global Select products, respectively).

Equity markets globally are experiencing historic volatility in response to the COVID-19 pandemic. Why are markets reacting the way they are?

George Maris: Markets are dealing with an unprecedented pandemic that is threatening and upending lives. An additional difficulty is experts are struggling to quantify just how long the disease – which has spread rapidly, causes real harm and has no current available treatment – will last. So far, the only solution for COVID-19 is social distancing, which carries significant economic consequences and makes a global recession a near certainty.

The uncertainty and potential severity of COVID-19's impact on the economy has led to extreme market moves, exacerbated by the prevalence of algorithmic trading and leverage. With algorithmic trading, systematic strategies automatically sell (or buy) positions based on factors such as momentum, market liquidity and volatility, and often use leverage to enhance returns. By some estimates, these structures make up roughly 60% of all trading and can turn a normal market downdraft into something more severe. Heightened leverage-based trading often results in drastic market moves as forced selling must occur as risk triggers are hit and exposures are cut irrespective of price.

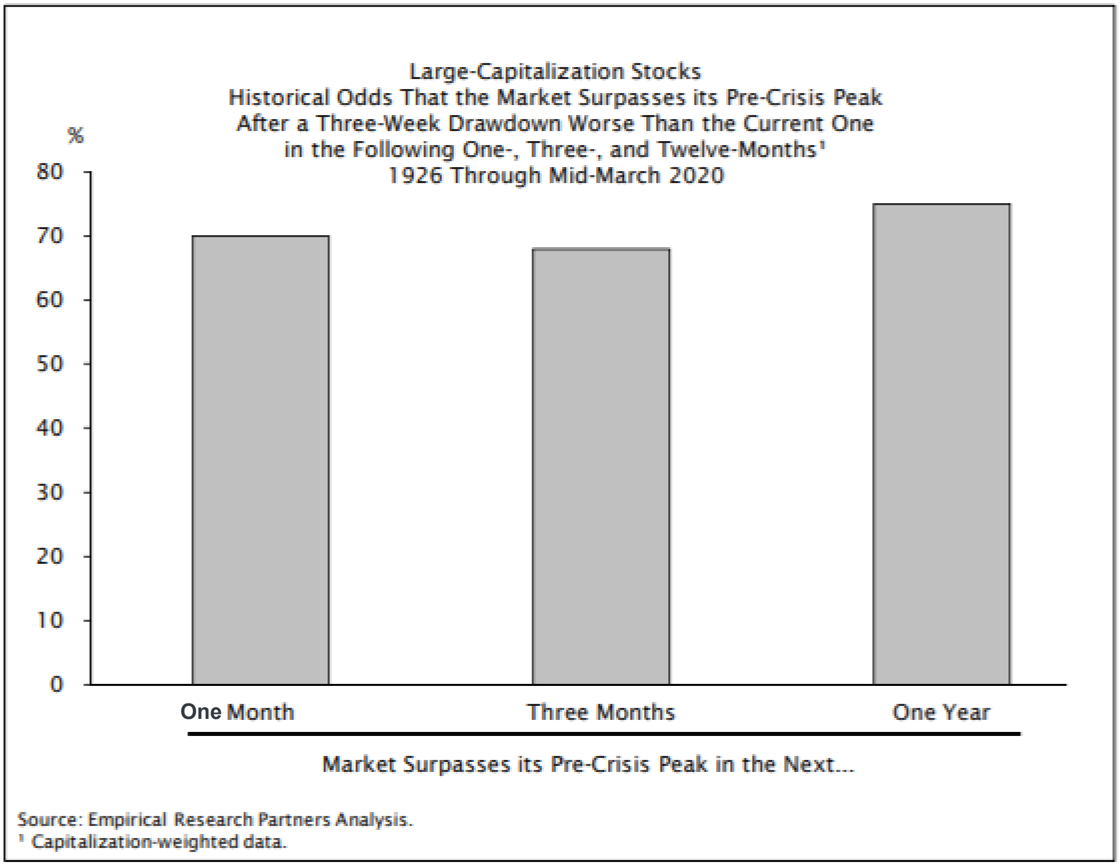
In addition, Saudi Arabia and Russia recently entered into an oil price war, flooding the market with crude at a time when demand is cratering, causing a significant decline in oil prices. Inexpensive oil benefits many consumers and industries for which crude is a key input, but it has detrimental effects on the energy complex and those supplying it credit.

In short, this is a period of unprecedented uncertainty. There is little visibility on the longevity of the pandemic and little visibility on the economic cost of the disease. And we have an oil price war and market structures that are straining liquidity. It's a lot for markets to digest.

How and when will this volatility come to an end?

Maris: It does not appear anyone can predict the trajectory of the COVID-19 outbreak with reasonable accuracy, so making forecasts about economic growth or market performance is difficult. What we do know is, historically, markets generally recover from these types of shocks and the rebound often happens quickly. According to data from Empirical Research Partners, from 1926 through mid-March 2020, the probability of large-cap stocks returning to their pre-crisis peak one month after a severe three-week drawdown is roughly 70%. Twelve months after the drawdown, the odds approach 75%. While we cannot say if we are at or near a market bottom, selling now could mean missing out on a potential and significant recovery.

Further, while market sentiment is exhibiting distress, policy makers around the globe are responding with playbooks developed during the Global Financial Crisis (GFC). In my view, no single policy response ended the GFC. Rather, what won the day was the continued will to attack the crisis, as demonstrated by the continuous actions of central banks, regulators and other leaders who introduced one policy after another until the financial system finally stabilized. These institutions are building on lessons learned during the GFC: For example, in mid-March the Federal Reserve announced it would launch a new lending facility to backstop money market funds to help ensure short-term liquidity and limit the risk of breaking the buck, which had disastrous consequences during the GFC.



Note: Data as of 3/11/20.

What are you doing in the International Alpha Equity strategy and Global Alpha Equity strategy (including Overseas and Global Select products, respectively) to navigate this period of extreme market uncertainty and volatility?

Maris: Right now, this is a fear-driven market. This week, the CBOE Volatility Index (VIX) hit an all-time intraday record, surpassing highs set during the GFC. When markets panic, fundamentals do not matter, as forced selling causes quality companies with solid balance sheets to sell off.

Even so, we are sticking with our fundamental bottom-up approach. We believe that once the uncertainty causing the emotional reaction subsides, qualities such as free cash flow, debt ratios, competitive advantages and strength of brand will continue to make a material difference to the performance of stocks. As long-term investors, we are ever mindful of market events, but we are also maintaining an objective view so that when the crisis does pass (and we strongly expect it will), we are well positioned for a recovery of stock fundamentals.

As such, we are rigorously testing our earnings models and deploying capital toward companies we think possess the balance sheet strength to sustain themselves through what could be a protracted economic downturn. We are also identifying opportunities where our analysis suggests the risk/reward ratio points to considerable value given a company's balance sheet, competitive advantages and other fundamentals. The COVID-19 pandemic is a horrible event with significant human consequences, and we are aware that these types of market washouts can persist. But we also know a great beachfront property tends to come back into demand once the storm passes. That's how we're thinking about the world.

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