

Managing Through a Crisis

Featuring: **Peter Zangari**, MSCI's Head of Research and Product Development

Adam: This is MSCI Perspectives, providing you with weekly updates and our latest research and insights as investors respond to the COVID-19 pandemic. I'm your host Adam Bass and today is March 20th 2020. The word volatility doesn't begin to explain the mass of swings we've seen these last few weeks. That's why MSCI research has published a steady stream of analysis on our website and our LinkedIn page. This week, we spoke with the head of that team Peter Zangari who like so many of us is working from his home office. Peter, thank you so much for joining us. My first question is simply, as clients look to you in this time of crisis, what is MSCI research doing to help?

Peter: Thanks Adam. So in short, we're doing a lot of work and outreach to clients that is quite unique. So let me begin with a summary or an overview of MSCI research and product fulfillment. We are organized across various assets, various disciplines. We have research agendas covering about 16 (...) and multi-assets class space. Equity, equity indexes, as well as equity risk models, private assets, real estate and we're expanding our global research in private assets and ESG, sustainability. So that's an area that, you know, we're seeing not only significant growth, but increasing integration across the different research areas. We have not only breadth of coverage as I just described, the breadth across the different asset classes, but also the expertise, meaning that if you take equity, for example, we build risk models. So we have to be experts in understanding risk and being able to model that risk, or indexes, we have to be experts at creating indexes, managing those indexes on an ongoing basis, and then developing new indexes depending on really the client interest is. So again, we have to be both experts in terms of the overall coverage as well as the domain expertise in a specific research line. We are very active over the past several days more than usual in creating research content and getting them out to clients. So over the past several days, for example, we have produced research covering liquidity risk. Liquidity risk has been a significant area of focus. We know for example that there has been stress events in corporate debt. There has been shocks or I should say, you know, significant movements when it comes to US treasuries and so on. Also, equity factors, so understanding how equity factors have been performing during these periods of high volatility. Negative interest rates, there's always been discussion around negative rates over the past couple of years, but, you know, most recently over the past several days what () moves, we've seen a lot more interest in terms of understanding the effect of negative interest rates of the economy, around investments and we've done some research in that space. And then ESG, as I mentioned. So we've done a recent analysis looking at the pharmaceutical industry in India. And what we know is that India is one of the largest providers of generic drugs globally. Accounting for about 20% of global exports in terms of volume. And we looked at the impact of COVID-19 on the supply chain of the underlying ingredients to support those pharmaceuticals. We've looked at stress testing, we looked at how different stress tests play out and how those stress tests project implications on equity markets. In the fixed income space we looked at how mortgage backed securities prepayment is affected by the Fed's recut. We've looked at credit spreads. So again, our approach has been quite comprehensive because research clients that have interests that span all of the areas that I just discussed.

Adam: Any general best practices you can offer for managing through a crisis?

Peter: Sure. So the one thing, and I've been in this industry for 25 plus years and I spent a considerable amount of time on the investment management side and witnessed, experienced different types of crisis. Whether it's related to the great financial crisis around 2008, in the quantitative equity space 2007, the internet bubble and so on. In my experience, no two crisis are the same. Looking at the current situation, we know that it's the, you know, the COVID-19 virus that's the, the so called trigger in terms of how markets are reacting. And one thing, what I stress with clients is that you have to focus on what you should be doing as compared to what you could do. It's not the time to like wish you had something, or start to develop certain tools or infrastructure, because you're fighting the battle. You don't wanna spend time figuring out how do I draw now risk or understand sources of risk across a large enterprise. You wanna have that information at your fingertips. So it's important to say, what should we be focusing on, and that is something that takes discipline and you have to be very clear in terms of your goals and objectives. And when it comes to risk management, transparency is key for someone managing an enterprise or managing portfolios, they need to know their exposures. They need to know, where are they taking risk and they need access to that information in a low cost, very efficiently. Secondly, they need the infrastructure to take action. So even if you knew what you wanted to do, you need the infrastructure, the tools, the data, the reporting to take that action. So that's very important and that's something that at MSCI we focus on when we work with clients. So when they wanna take action, they can take action and take action that puts them hopefully in a better place.

Adam: The last real crisis in the market goes all the way back to 2008, 2009. Many in the industry weren't even working at that time. What's one piece of advice you would give them?

Peter: Don't panic, it's one of those items that it's easier said than done but it is critically important. Maintain balance, ask questions and focus on, you know, what one can do or what one should do to help your team manage through the situation. At times, things can look very dark and at times, you know, one legitimately will ask, like how are we gonna get out of this? How are we gonna come through this? And there's that level of experience that one has to say, "Listen, I don't know, I don't have a good view on, you know, how it's gonna end so to speak, but I can tell you that on a progressive step by step basis, you'll find out what it's gonna look like. And we're gonna get there."

Adam: One final question, going forward, what's your clients expect from MSCI research?

Peter: Sure, so what clients should expect is that we will continue to be very active in our client engagement, in our outreach, in producing content that based off of the feedback that we're receiving from clients helps them. Helps them better serve their clients. Helps them better understand what's driving the performance and their strategy. Helps them understand both the current risks and the potential emerging risks and help them get through the significant volatility that we have observed, we are observing and we should expect to observe in the foreseeable future.

Adam: That's all for this week. Thanks to Peter and to all of you for joining us. Be sure to follow us on the MSCI LinkedIn page and to bookmark www.msci.com/coronavirus for all our crisis related content. Until next week, I'm your host Adam Bass and this is MSCI Perspectives. Stay safe everyone.

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