

Sarasin Global Strategy and Outlook

Is there any limit to government borrowing...?

10 July 2020

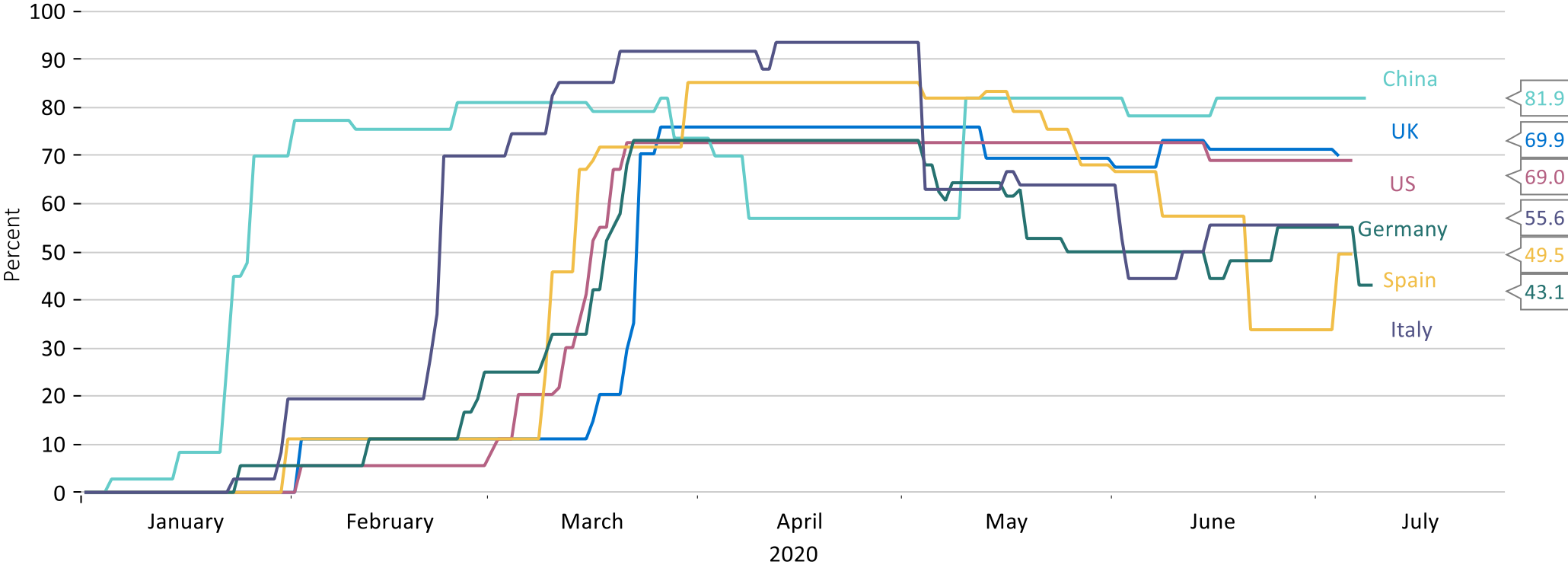


Government COVID restrictions are easing only slowly, with global infections still close to peak...



COVID-19 Government Response Tracker

COVID-19 Global Stringency Index



Source: Macrobond

The global Government Response Tracker records government responses worldwide and aggregates the scores into a common Stringency Index . Blavatnik School - University of Oxford.

Our four key indicators continue to normalise...

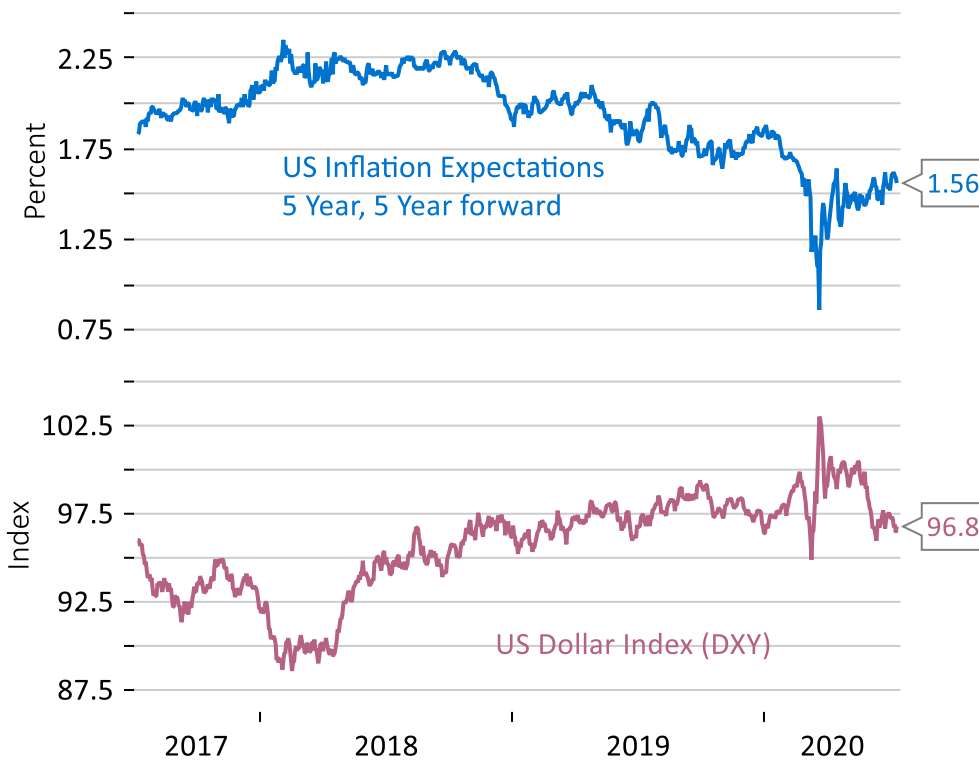


US inflation expectations recovering - Dollar trending lower



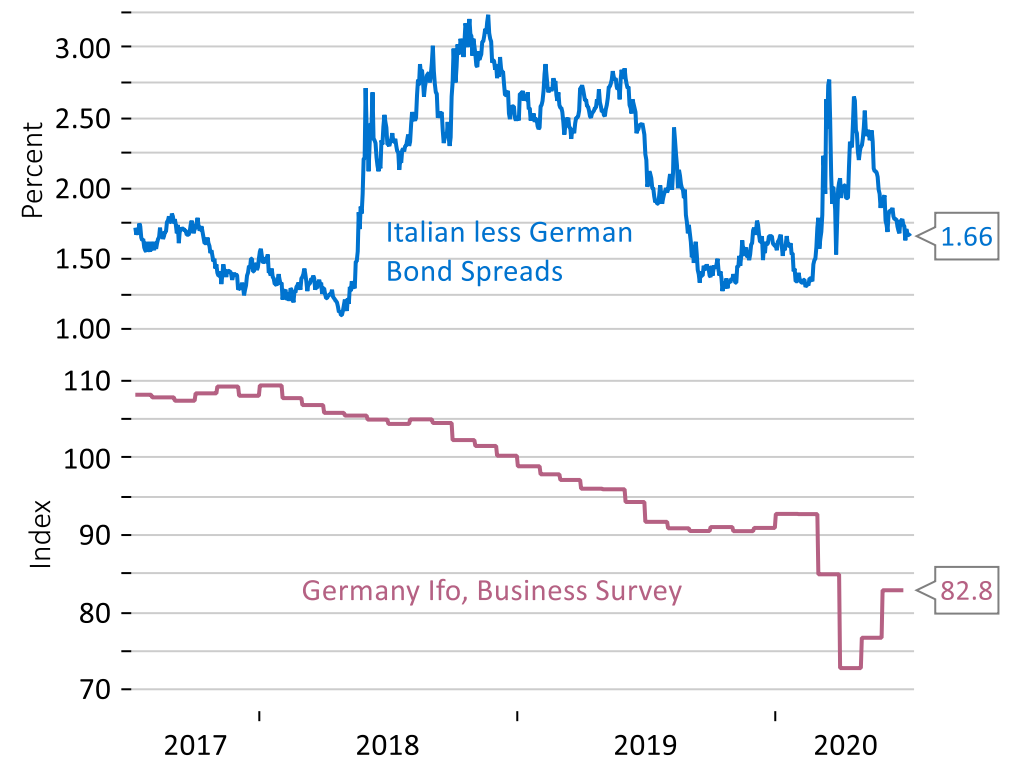
Euro break-up risk lower – German business sentiment rising

US Forward Inflation & the Dollar



Source: Macrobond

Italian Bond Spreads & the German Industrial Sentiment



Source: Macrobond



UK: Rebound in business surveys but economy remains fragile...

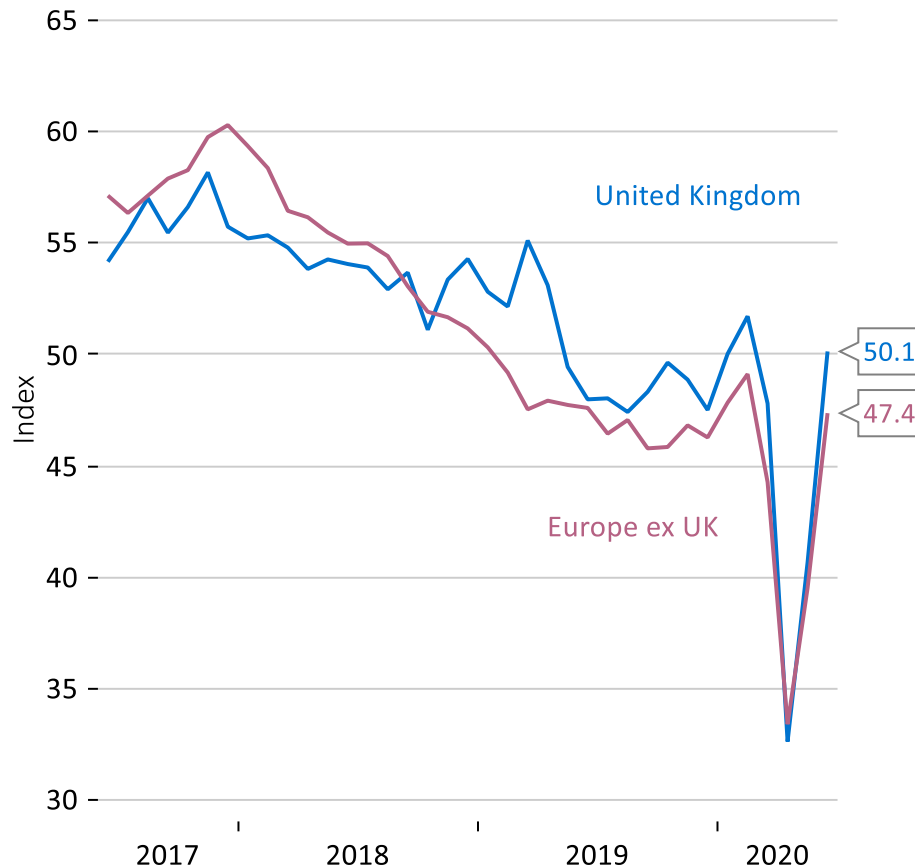


UK manufacturing survey moves back above 50



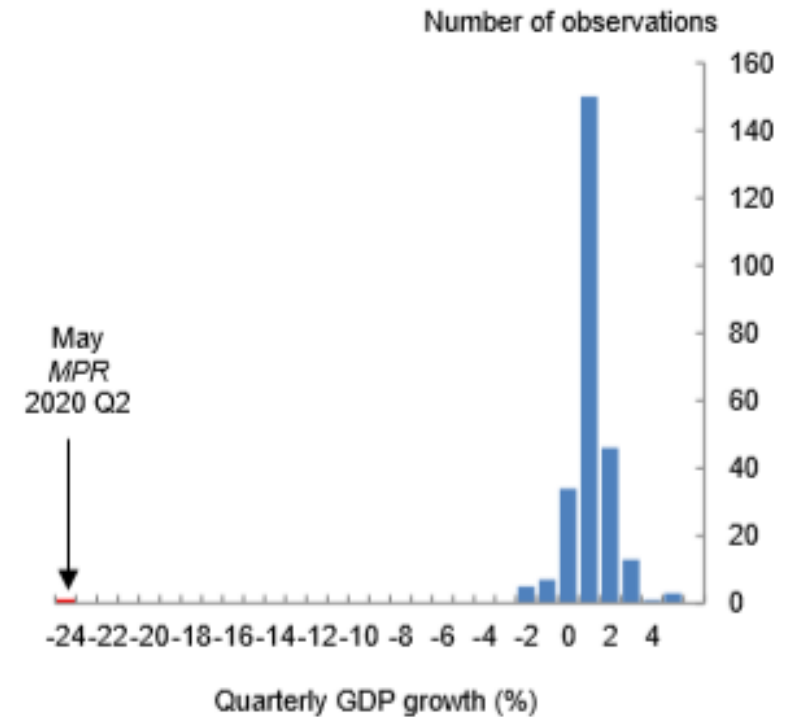
UK Economic shock still traumatic

Manufacturing Surveys PMI, Markit



Source: Macrobond

Chart 3: Distribution of quarterly GDP growth since 1955



Source: ONS and Bank calculations

From speech given by Andrew G Haldane Chief Economist Bank of England 30.6.2020



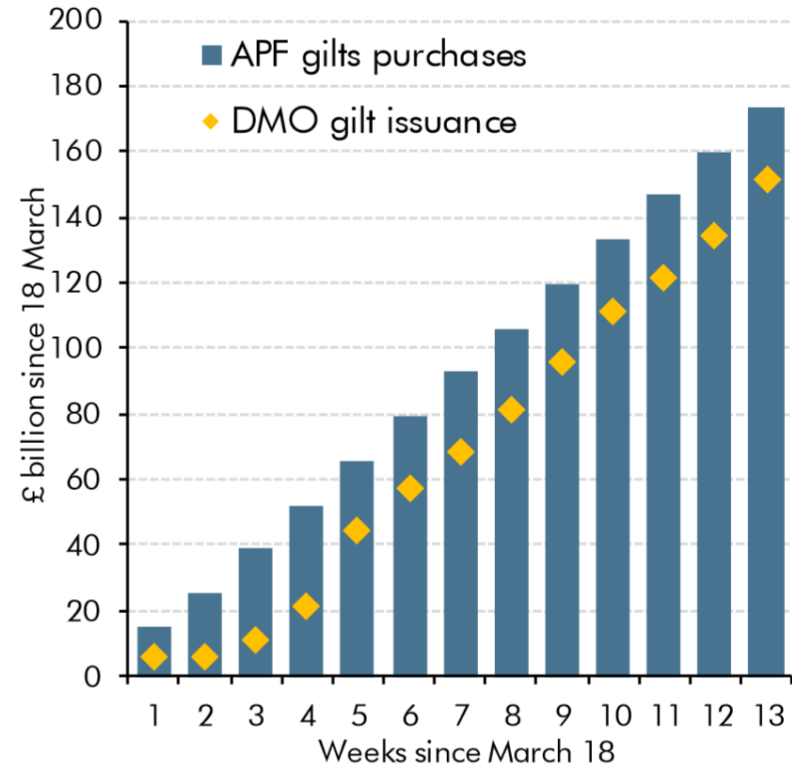
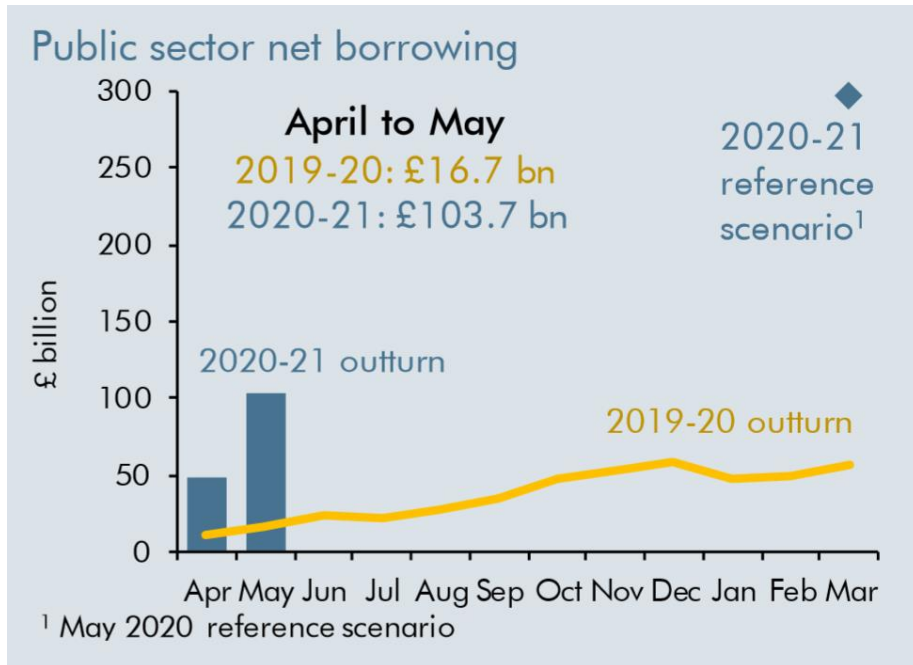
UK Debt levels explode...funded by the Bank of England



Budget deficit tops £100bn in just two months



Gilt Issuance & QE Purchases



Source: BoE, DMO

- HMRC Tax receipts fell 43% in May 2020
- Net debt now 100.9% of GDP (+20.5% ytd)
- 2020 Full year deficit Est. £361.5bn (FT)

To date the UK Treasury has not made use of the 'Ways & Means Facility' OBR June 2020

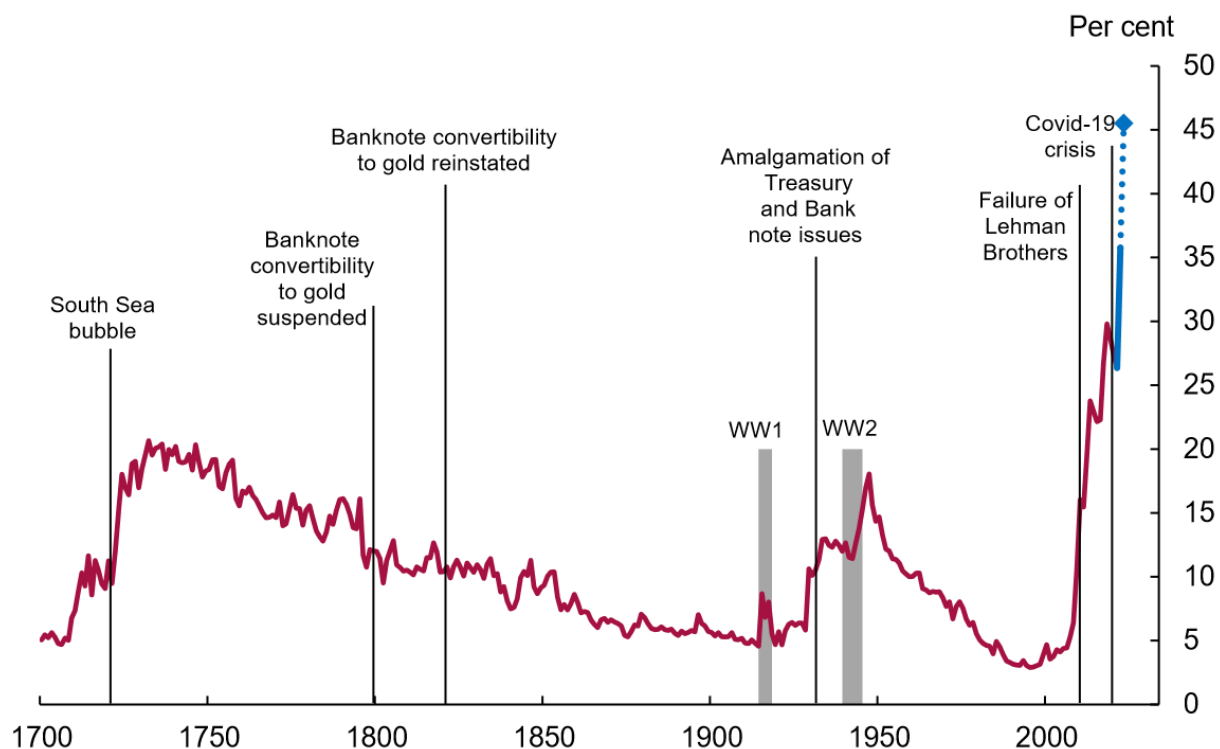
Source: UK OBR June 2020

Unprecedented action by central banks poses long term questions about fiscal sustainability & currency credibility...



BOE Balance Sheet likely to reach 45% of GDP by end 2020 – more than double any historic high

Chart 16: Bank of England balance sheet relative to GDP



Sources: Bank of England (available [here](#)), ONS and Bank calculations.

Notes: Chart from Hauser (2020) but updated to reflect most recent MPC announcement of further asset purchases and TFSME. GDP over 2020 held fixed at end-2019 level to prevent fall in output leading to denominator effect. Dotted line extends series to mid-2020, assuming completion of current asset purchase programme and further TFSME drawings.

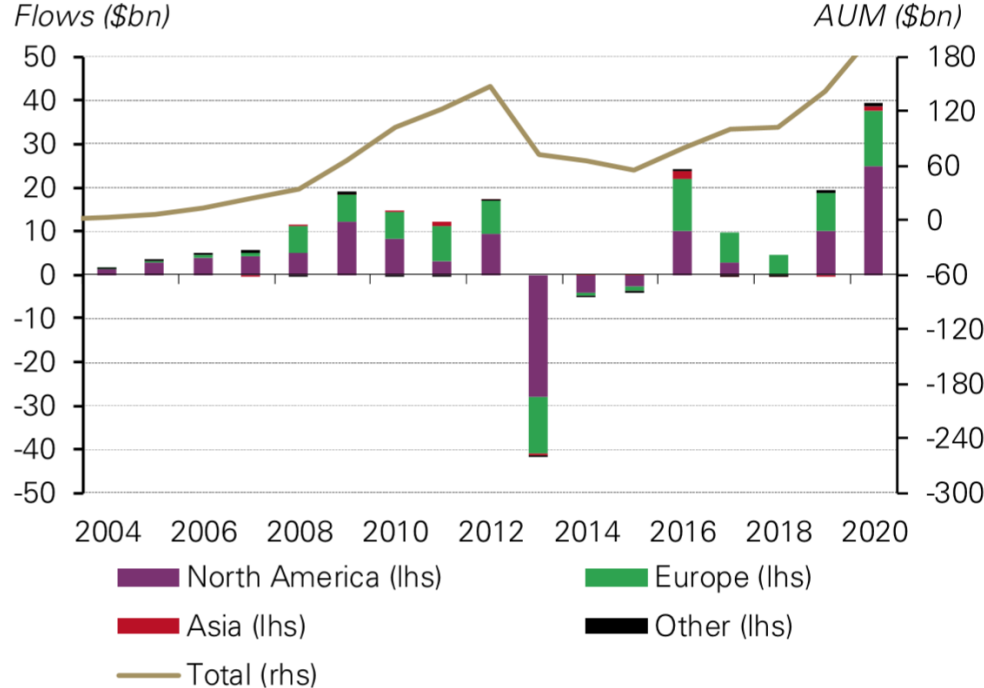
Source: Bank of England/Andy Haldane Speech June 2020

Gold: Record flows into Gold ETFs in H1 2020

H1 inflows > record yearly purchases by central banks (2018)

The journey to zero rates lifts gold price

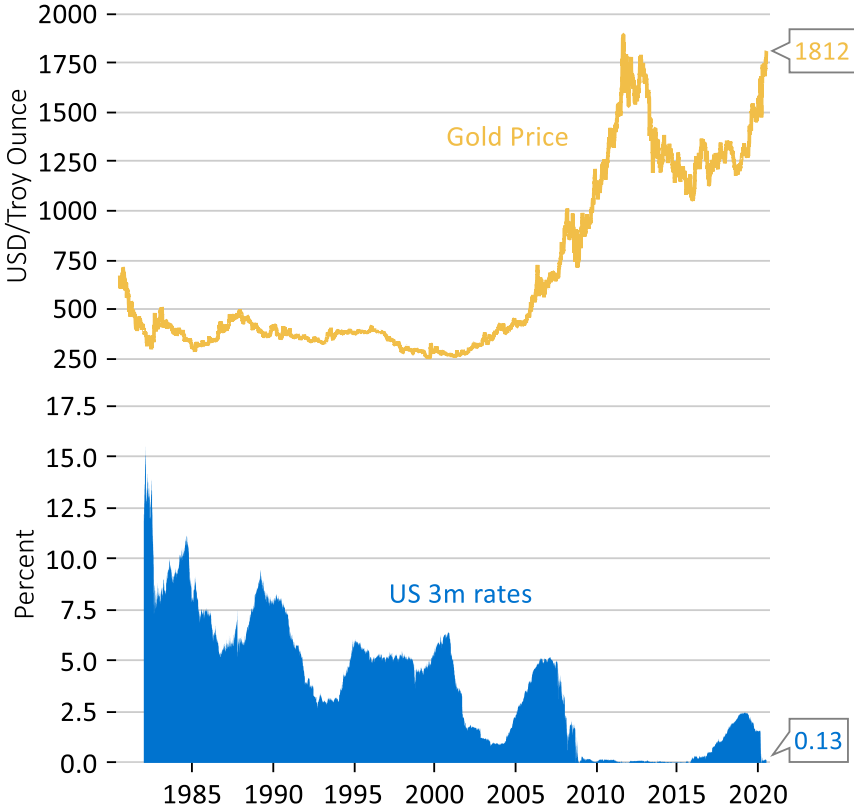
Chart 4: Gold-backed ETFs flows by year*



*As of 30/06/2020

Source: Bloomberg, World Gold Council

Gold price and US 3 month rates



Source: Macrobond

Global asset class returns year to date & since market low...

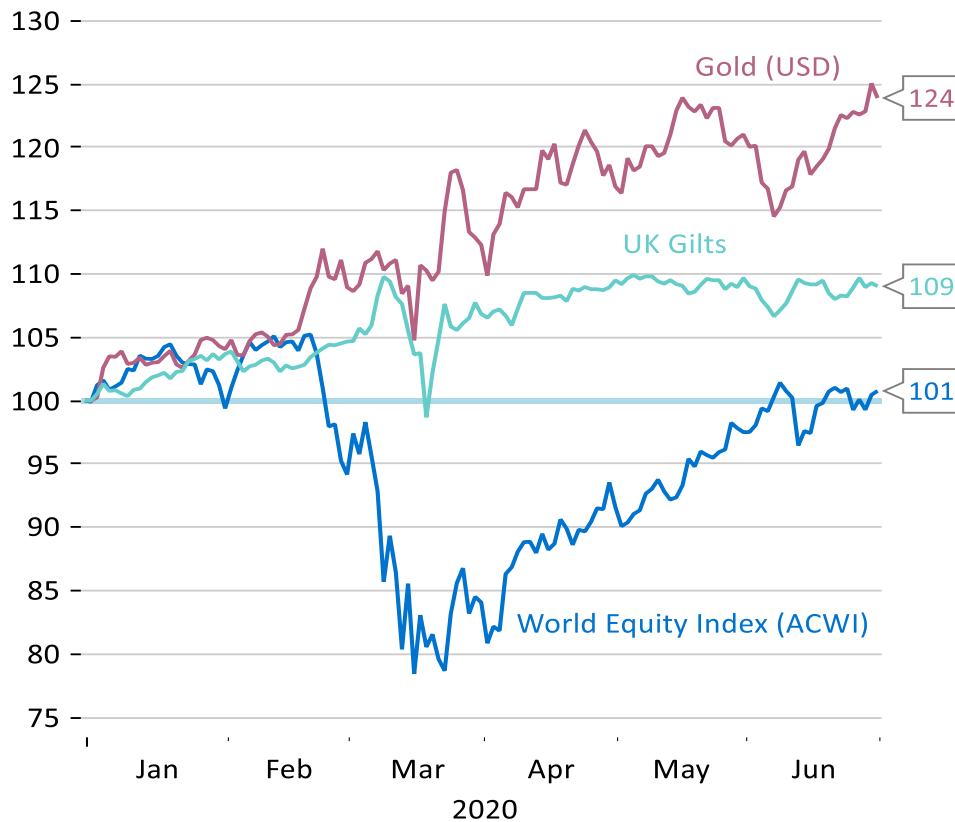


Equities rally reverses much of Q1 losses – Gold leads



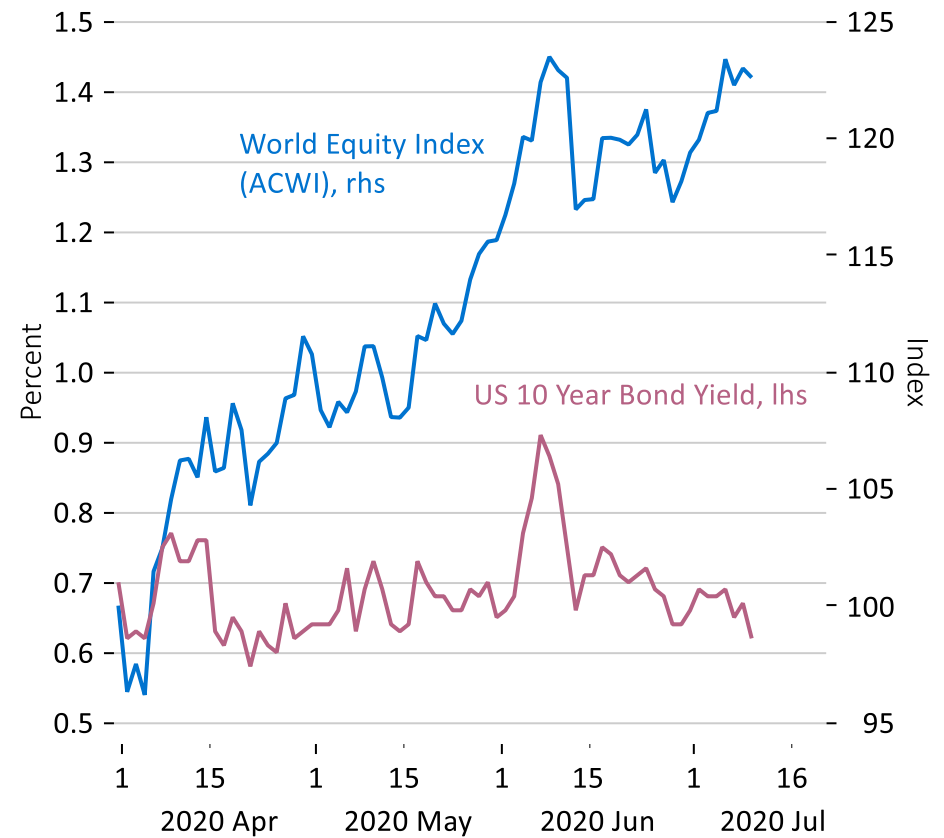
An extraordinary equity rally while bond yields fall(!)

Global Asset Class Returns 2020 (GBP)



Source: Macrobond

Global Equities & US 10 Year yield
Q2 2020 to date



Source: Macrobond

Economic damage severe but a global recovery has begun

Fiscal and monetary policy the most expansionary in post-war history



Global strategy update July 2020

Bonds	Neutral – Corporate yields attractive with central bank support <ul style="list-style-type: none">• UW Gilts – interest rates suppressed, yield curve management likely• OW investment grade credit – attractive yield premium plus central bank support• Caution High Yield and EM debt
Equities	Neutral – Earnings yield attractive, gradual improvement in earnings & dividend visibility <ul style="list-style-type: none">• OW Global equities – thematic earnings still robust• Neutral UK equities – valuations attractive, discount still likely on UK assets• UW EM equities. Extent of economic and social damage from COVID-19 under estimated
Alternatives	Overweight – Long-term inflation plus returns attractive <ul style="list-style-type: none">• Neutral Other Alternatives– infrastructure and renewables• OW Uncorrelated Alternatives - Gold to hedge against unprecedented policy stimulus & debt
Cash	Underweight – zero or negative yield in all markets <ul style="list-style-type: none">• No currency preference
Risks	Current: Resurgence in virus in H2 2020, emerging world economic crisis, no-deal Brexit Longer-term: Damage to global trade linkages, balance sheet impairment for corporates and households, long-term rise in government debt, COVID19 damage to most vulnerable in society

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