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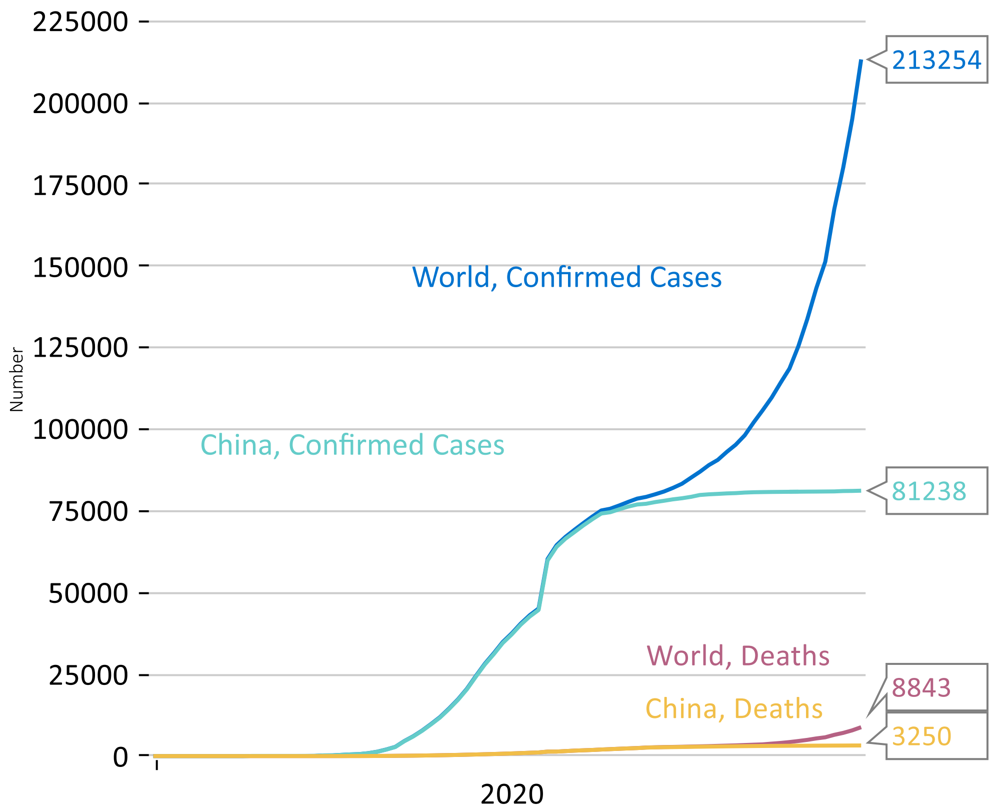
Sarasin Global Strategy and Outlook

March 2020

COVID-19 – potentially a bigger challenge to global growth than the 2008 Financial Crisis

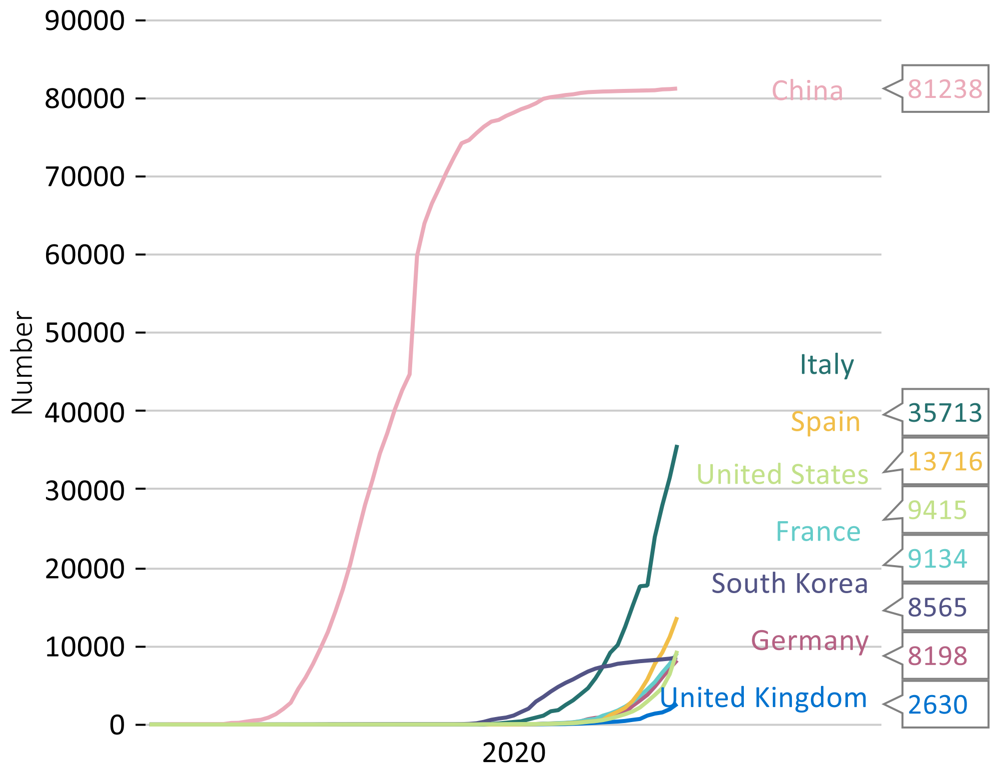
Global cases and fatalities

Novel Coronavirus (COVID-19)



Gradual spread - UK is two weeks behind Italy

Novel Coronavirus (COVID-19), Confirmed Cases



Source: Macrobond

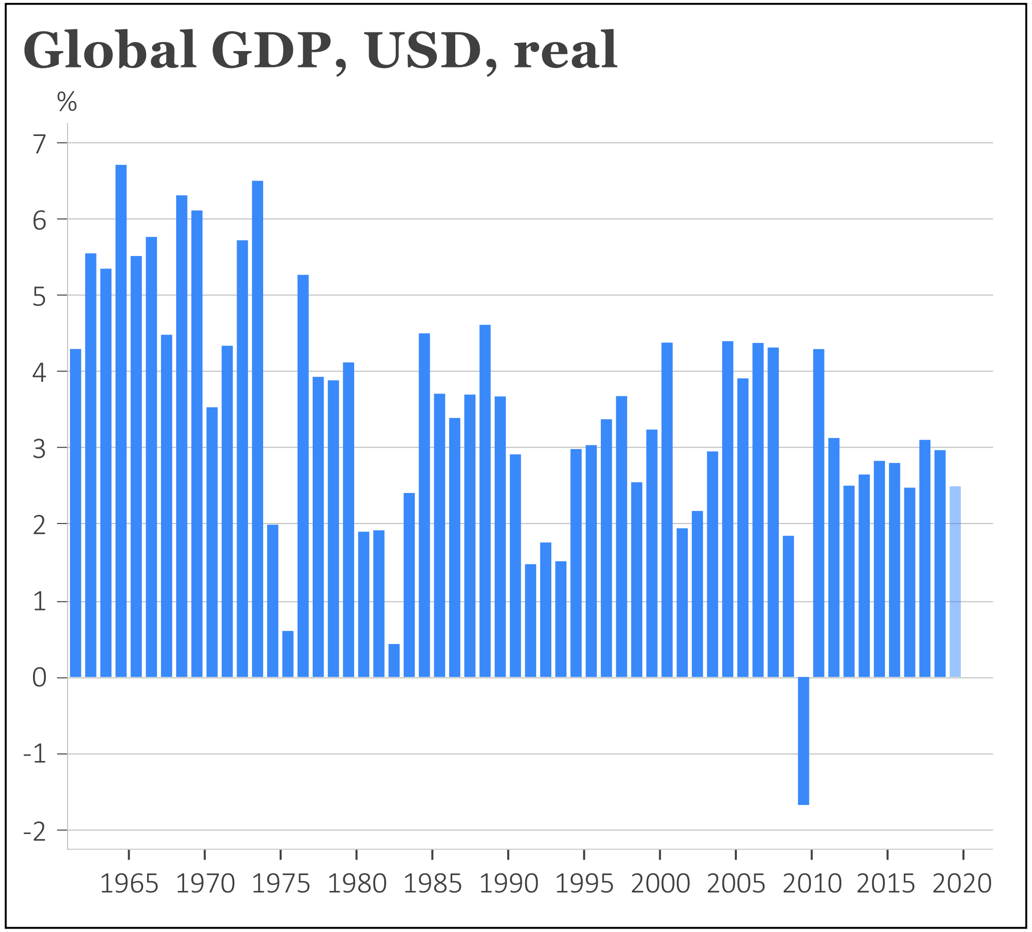
Total economic loss ranges from -3% to 5.5%

Global Economic Impact 2020

		Net loss		
	Stimulus % GDP	Base	Bear	Bull
China	2	-4.5	-5.8	-3.9
US	5	-3.3	-5.3	-2.4
Eurozone and UK	2	-7.2	-8.4	-5.7
Japan	2	-6.6	-7.5	-4.9
ROW	2	-1.2	-3.6	-1.2
World		**-3.7**	**-5.5**	**-3.0**

Source: Sarasin and Partners March 2020

World GDP growth (USD)



Source: Macrobond

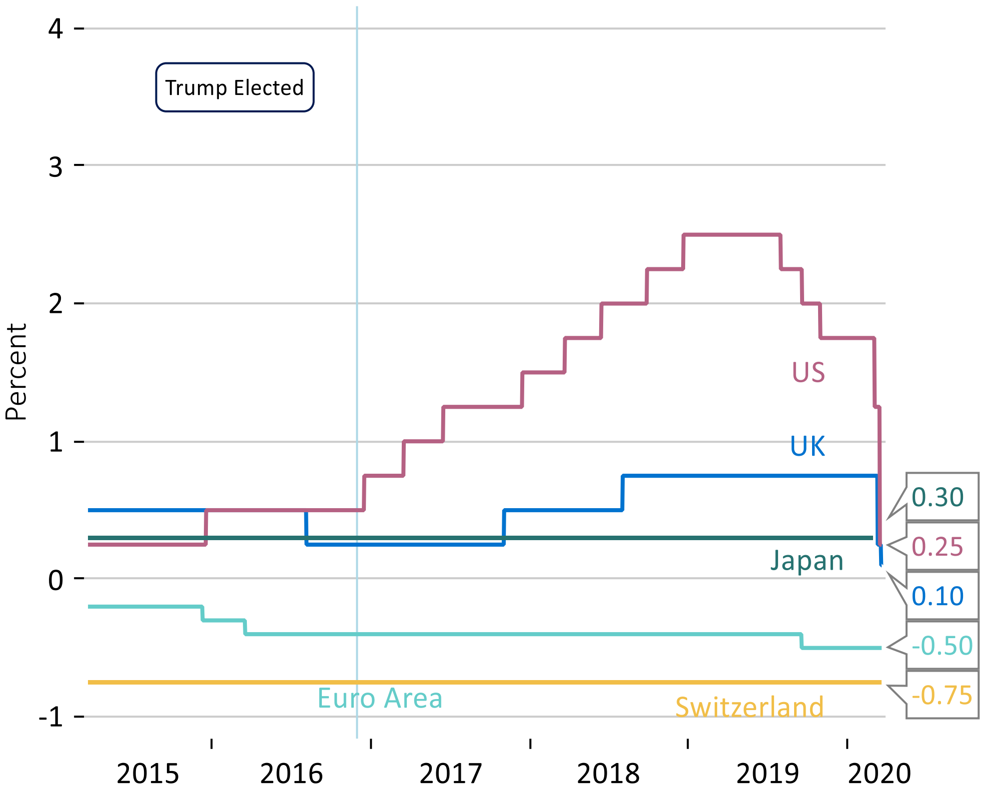
Economic policy moving into gear – Fiscal offsets and central bank support

	Fiscal easing	Central bank policy Liquidity	Closures
US	$1 trn, 5% GDP	150bp cut, 700bn QE, USD swap lines with 5 countries,	Retail closures 17th March until end March, travel bans,
Italy	€25bn, 1.4% GDP	ECB, 750bn bond	4 week lockdown
France	€45bn, 1.9% GDP	ECB, 750bn bond	15 day lockdown
Germany	Suspend debt brake?	ECB, 750bn	Restaurants closed, mass gatherings banned
Spain	€18bn, 1.4% GDP	ECB, 750bn bond	Lockdown
UK	£32bn, 1.3% GDP	£645bn bond 50 + 15bp rate cut to 0.1% Term Funding Scheme Countercyclical capital buffer cut	Advice to avoid restaurants, and mass gatherings, schools from 23 March

There is little scope to cut interest rates - Public borrowing will need to rise sharply

All central banks now have interest rates at zero or below

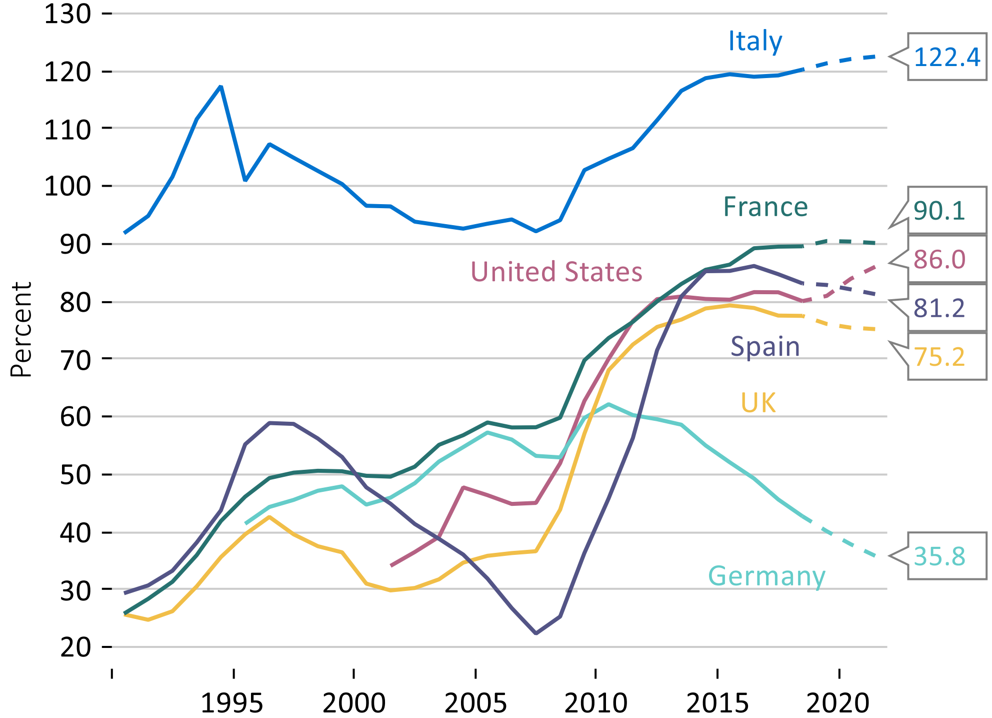
Global Interest Rates



Source: Macrobond

Fiscal policy will be expanded to provide stimulus

General Government Net Debt, IMF WEO, Estimate, Percent of GDP

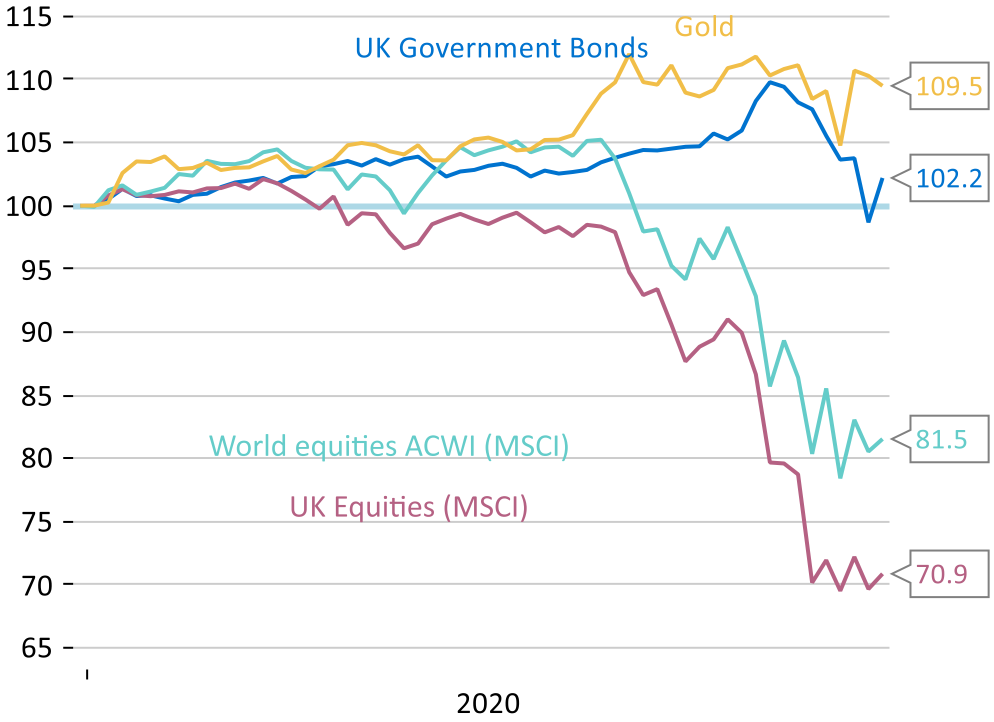


Source: Macrobond

Equity declines in 2020 among the fastest in recent history – volatility close to euro crisis levels…

Global asset markets correct at unprecedented rates

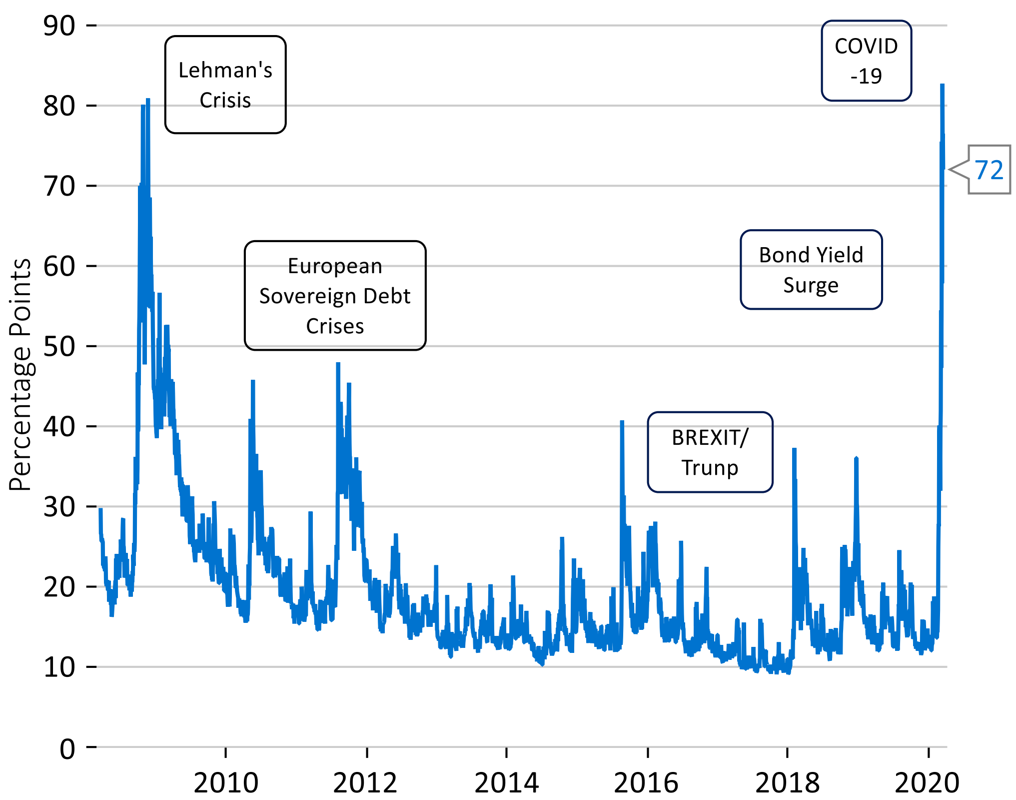
Global Asset Returns
GBP (1/1/2020 = 100)



Source: Macrobond

Equity volatility still close to all time lows in 2019

US Equity Volatility (VIX)



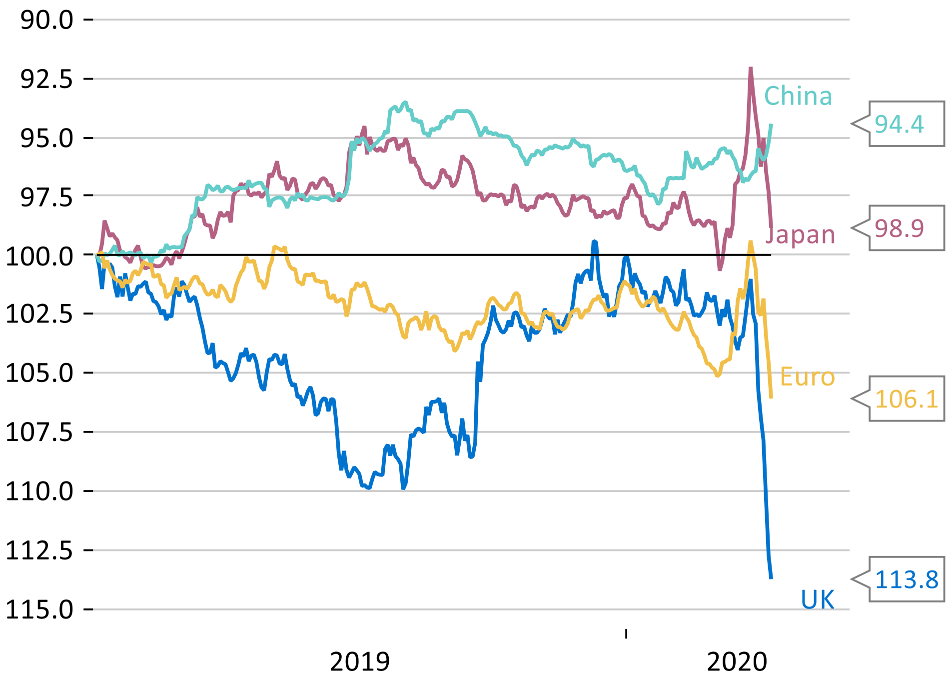
Source: Macrobond

Remarkable stability among major currencies while Sterling corporate spreads are not close to 2008/9

Currency stability - Sterling excepted

Currencies per US Dollar

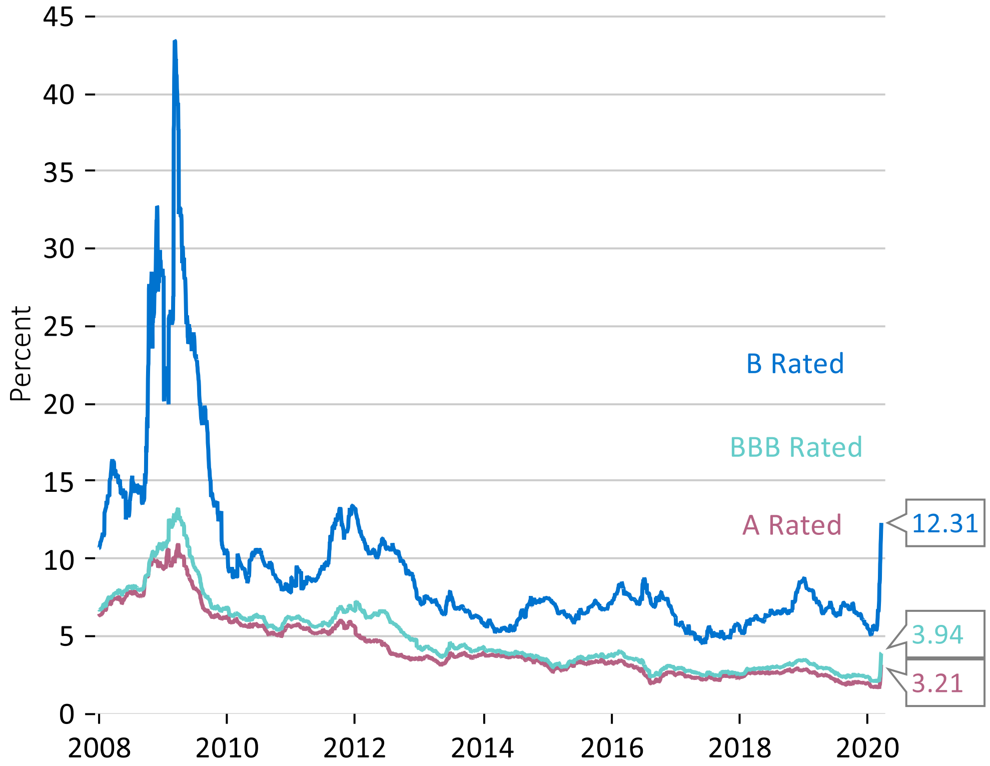
Last 12 Months (Rebased)



Source: Macrobond

Sterling Corporate yields contained

Sterling Corporate Fixed Income Yields



Source: Macrobond

Neutralising the risk budget

Risks to the downside increasing, and Global Q1 GDP growth likely negative

Global strategy update

Bonds	Modest underweight – Gilts at neutral and corporates at underweight • Neutral gilts: US and UK Central banks to cut interest rates towards zero to offset recession risk and falling inflation. • Underweight Corporates: spreads likely to widen on account of falling growth and oil prices • High Yield: Extreme caution to reflect liquidity and default risks
Equities	Neutral – Global growth baseline has shifted materially lower – earnings risks rising materially • Central bankers remain dovish and US presidential cycle supportive • Global dividend strategies attractive *where supported by sustainable thematic trends* • Portfolio protection strategies attractive if volatility ebbs
Alternatives	Neutral – but note liquidity/rate risks in leveraged/opaque assets • Clear preference for liquid uncorrelated assets and gold
Cash	Modest overweight • To reflect heightened uncertainty and volatility
Risks	Current: Virus impact increases risk of global recession, excessive corporate leverage, UK/EU 2020 trade negotiations, oil collapse threatens high yield credit Longer-term: China’s growth experiences long-term damage from virus, global trade linkages under estimated, central bank toolkit largely exhausted

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20.03.20

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