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Sarasin Global Strategy and Outlook

27 March 2020

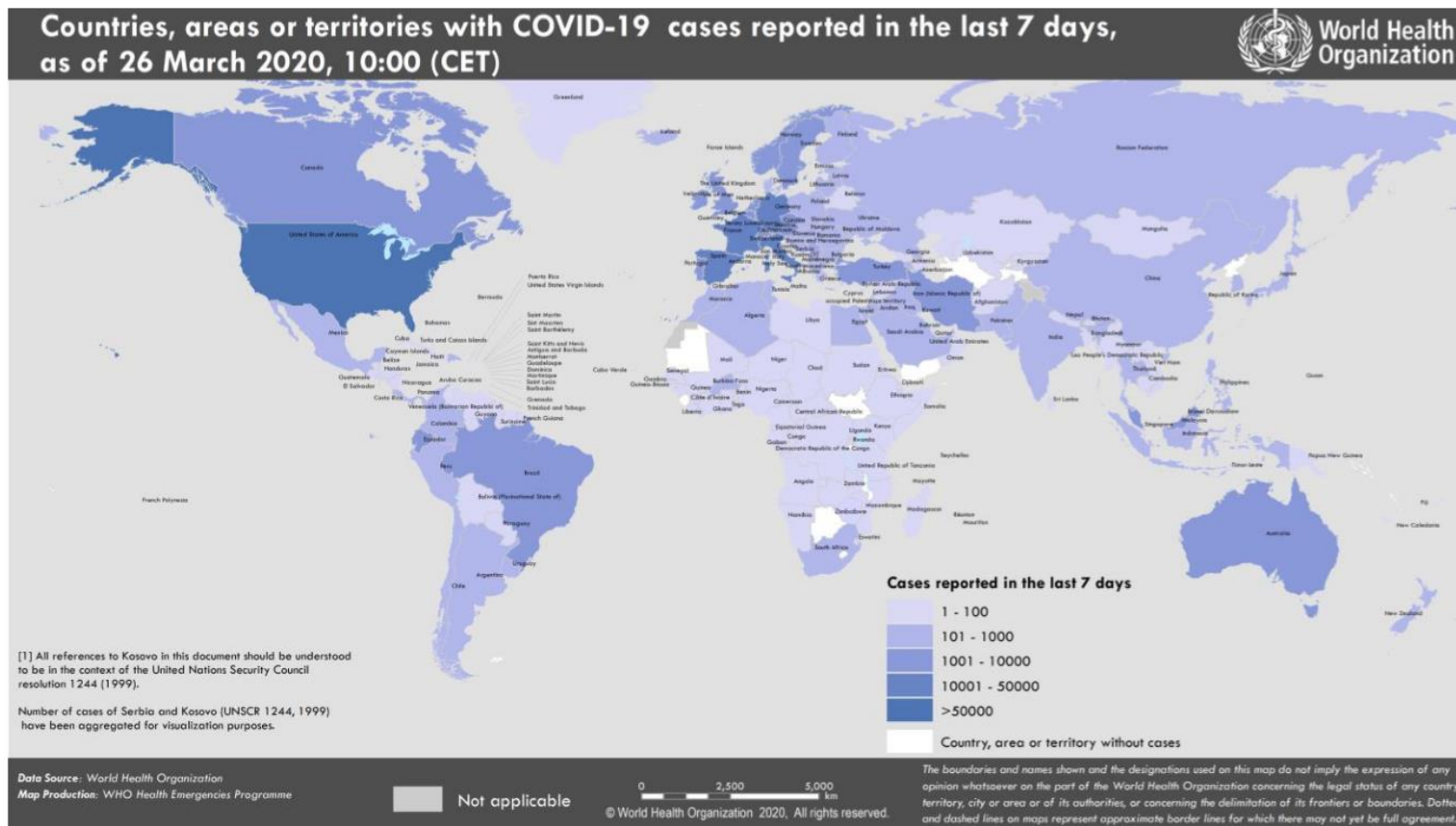


COVID-19 - A wholly global pandemic



Global map of confirmed cases

Figure 1. Countries, territories or areas with reported confirmed cases of COVID-19, 26 March 2020



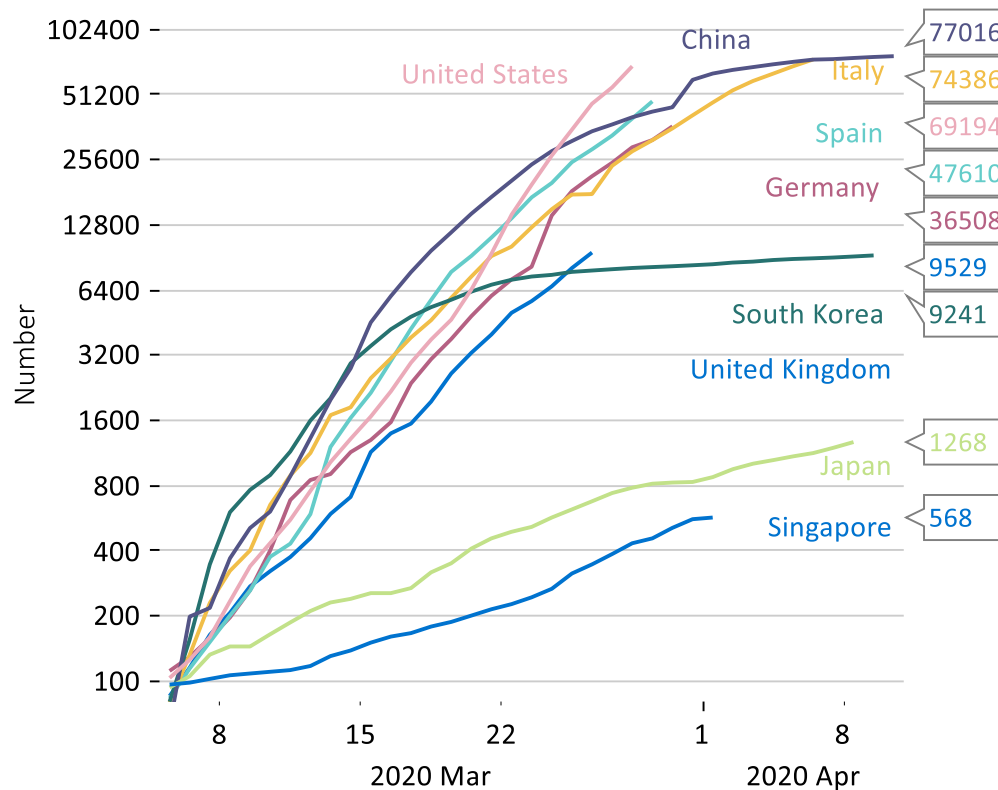
COVID-19: UK behind Europe - China, Korea, Japan 'flattening curve through effective containment – US/EM curve worrying



Severe containment has been effective in flattening the curve

Coronavirus Increase in Confirmed Cases

Dates reset to when UK reached 100 cases (Log scale)



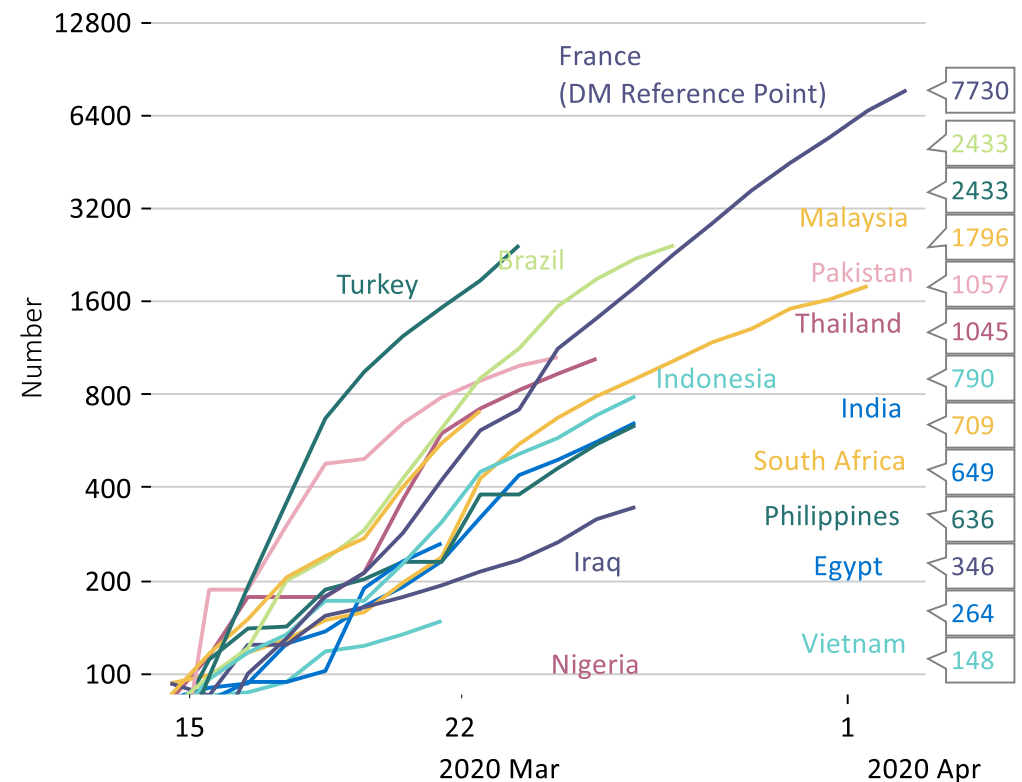
Source: Macrobond



EMs with poor healthcare will see higher mortality

Coronavirus Increase in Confirmed Cases

Dates reset to when India reached 100 cases (Log scale)



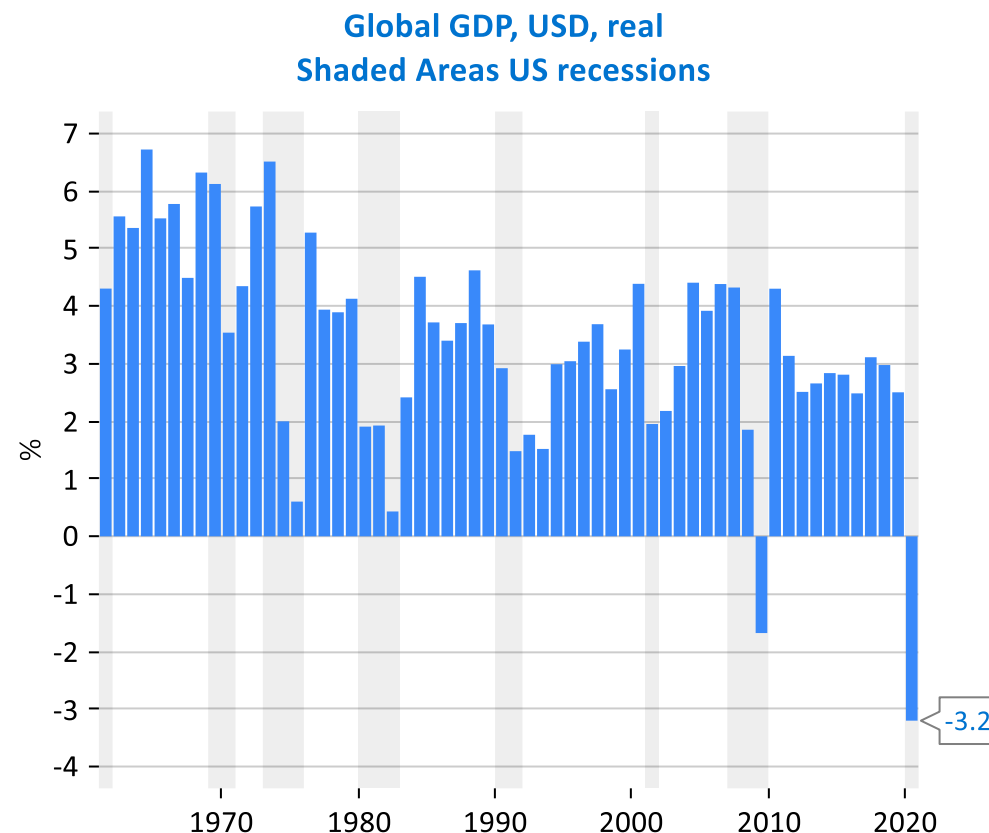
Source: Macrobond

2020 GDP growth – deep recession expected across all regions

	GDP Growth 2020E		
	Base	Bear	Bull
China	-1.8 to -4.5%	-3.1 to -5.8%	-0.6 to -3.4%
US	-3.0 to -3.3%	-4.9 to -5.3%	-0.5 to -2.2%
Eurozone and UK	-6.4 to -7.2%	-7.6 to -8.4%	-4.7 to -5.5%
Japan	-6.3 to -6.6%	-7.2 to -7.5%	-4.5 to -4.9%
ROW	-0.3 to -1.2%	-2.7 to -3.6%	-0.1 to -1.0%
World	-2.7 to -3.7%	-4.5 to -5.5%	-1.8 to -2.8%



2020 Recession is likely to be worse than 2008-09



Source: Macrobond and Sarasin and Partners

Fiscal responses impressive and fast...

g.	Fiscal easing	Central bank policy Liquidity	Closures
US	\$2 trn, 10% GDP <ul style="list-style-type: none"> \$377bn Loans/Grants \$500bn National Industries/Fed \$250bn Personal Payments \$150bn States \$340bn Health/Transport/Educ 	150bp cut, unlimited QE (from \$700bn), USD swap lines with 5 countries,	Retail closures 17 th March until end March, travel bans Stay home orders in California, New York, Massachusetts, Wisconsin
Italy	€25bn, 1.4% GDP	ECB, €750bn bond	4 week lockdown
France	€45bn, 1.9% GDP	ECB, €750bn bond	15 day lockdown from 17 March
Germany	€156bn supplementary budget (4.6% GDP)	ECB, €750bn	Restaurants closed, mass gatherings banned
Spain	€18bn, 1.4% GDP	ECB, €750bn bond	Lockdown
UK	£78bn, 3-4% GDP	65bp rate cut to 0.15% QE increased by £200bn to £645 Term Funding Scheme, and Countercyclical capital buffer cut	Lockdown from 24 March for 3 weeks Schools from 23 March

Magnitude of economic shock exceeds the aftermath of the Financial Crisis

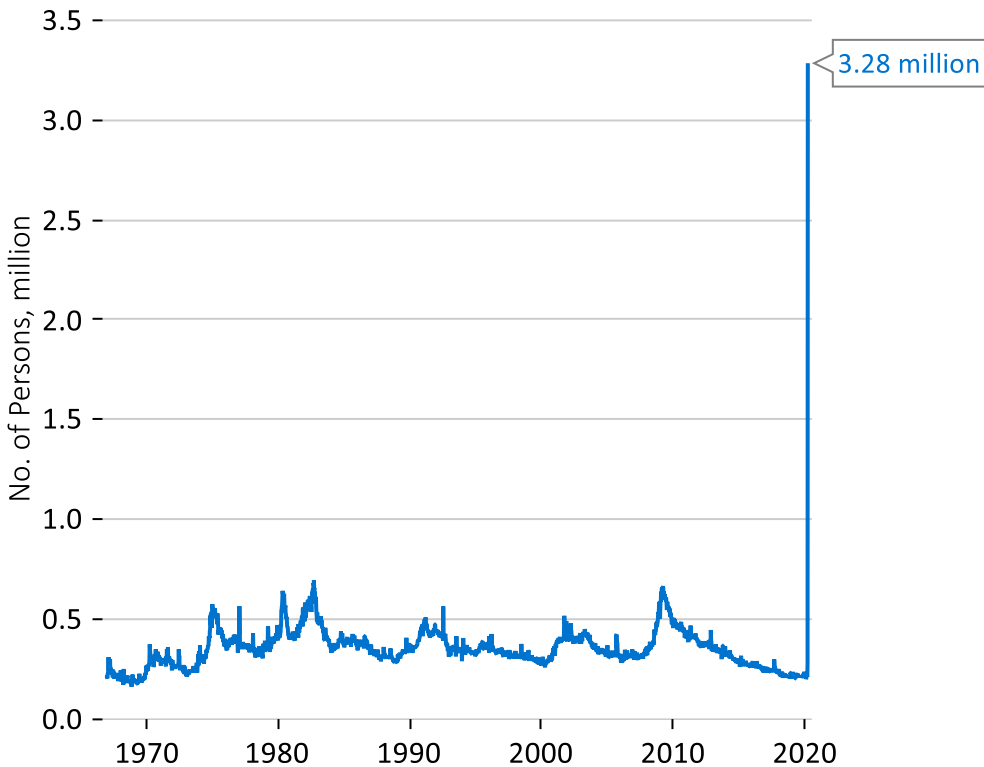


Record filings for US unemployment insurance



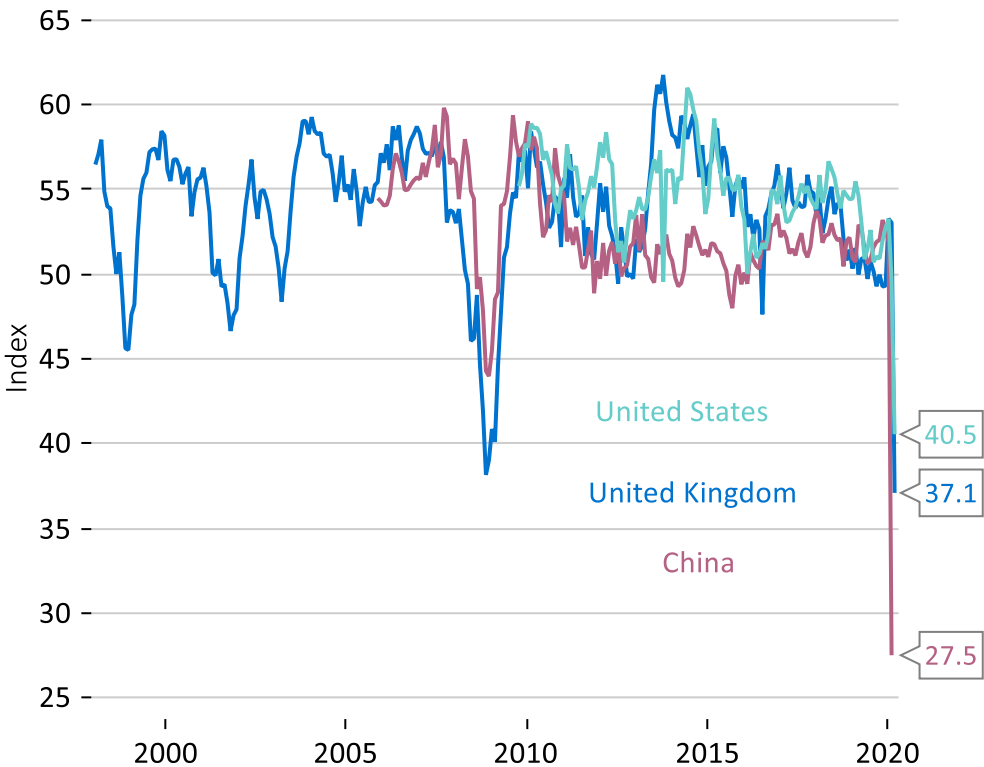
Simultaneous shock to manufacturing & services

US Initial Jobless Claims



Source: Macrobond

Markit, Composite PMI Output Index, SA



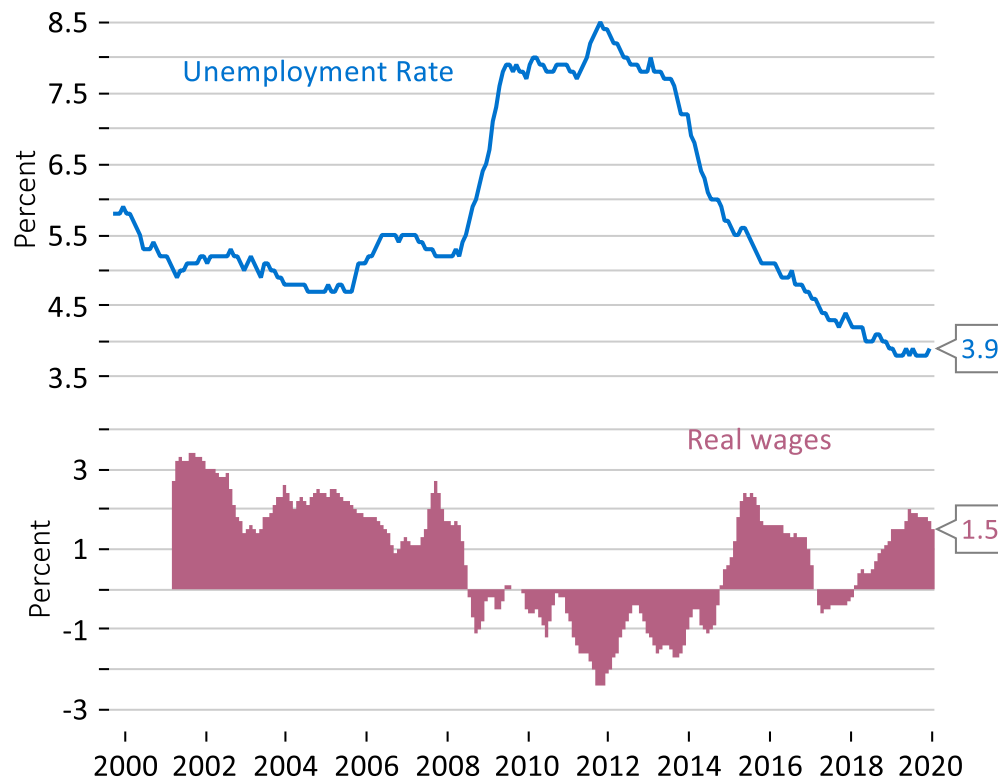
Source: Macrobond

UK economy faces huge challenges but labour market damage will be helped by the government's job retention schemes...



Tight labour market supports real wages

UK Unemployment & Real Wages

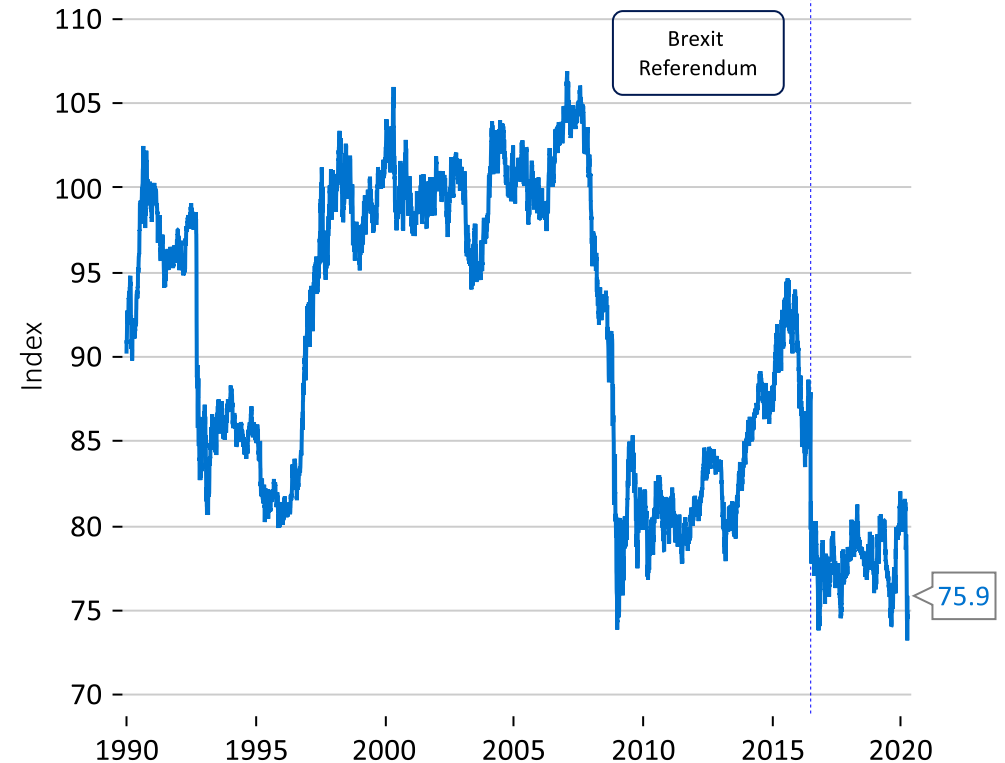


Source: Macrobond



Gradual Sterling rebound

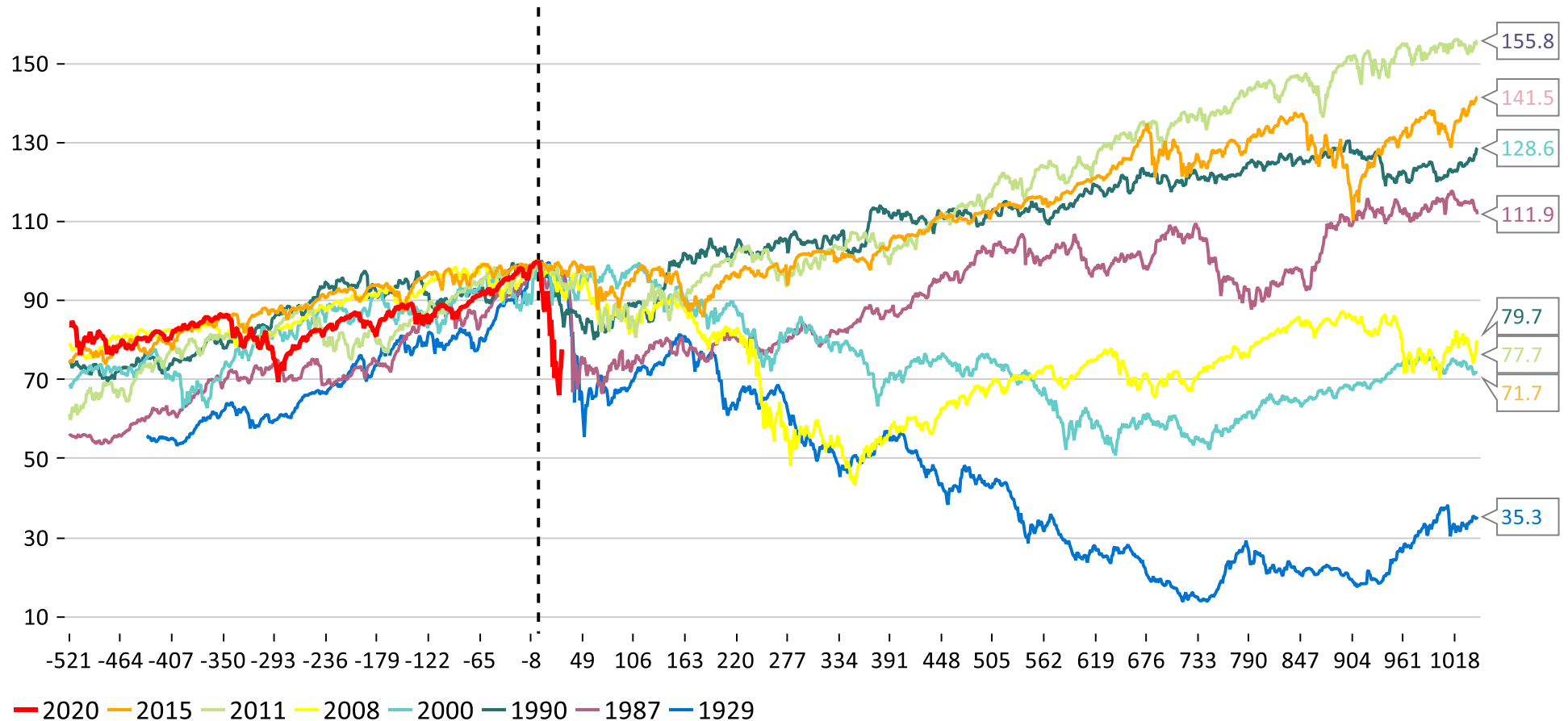
UK Effective Exchange Rate Index (BOE)



Source: Macrobond

S&P 500 corrections from peak – 2020 the fastest decline on record

Stock Market Pre-Correction high at T=0 (Indexed to 100)



Source: Macrobond

Negative investor sentiment was close to extremes this week...

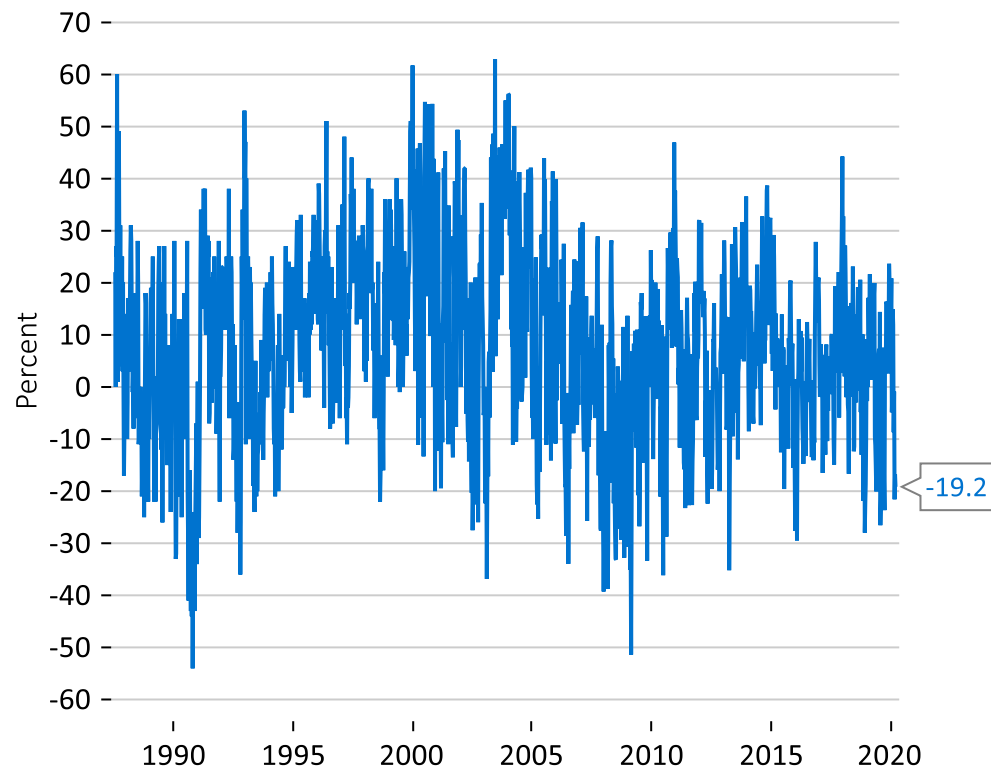


Bearish sentiment close 2008/9 lows



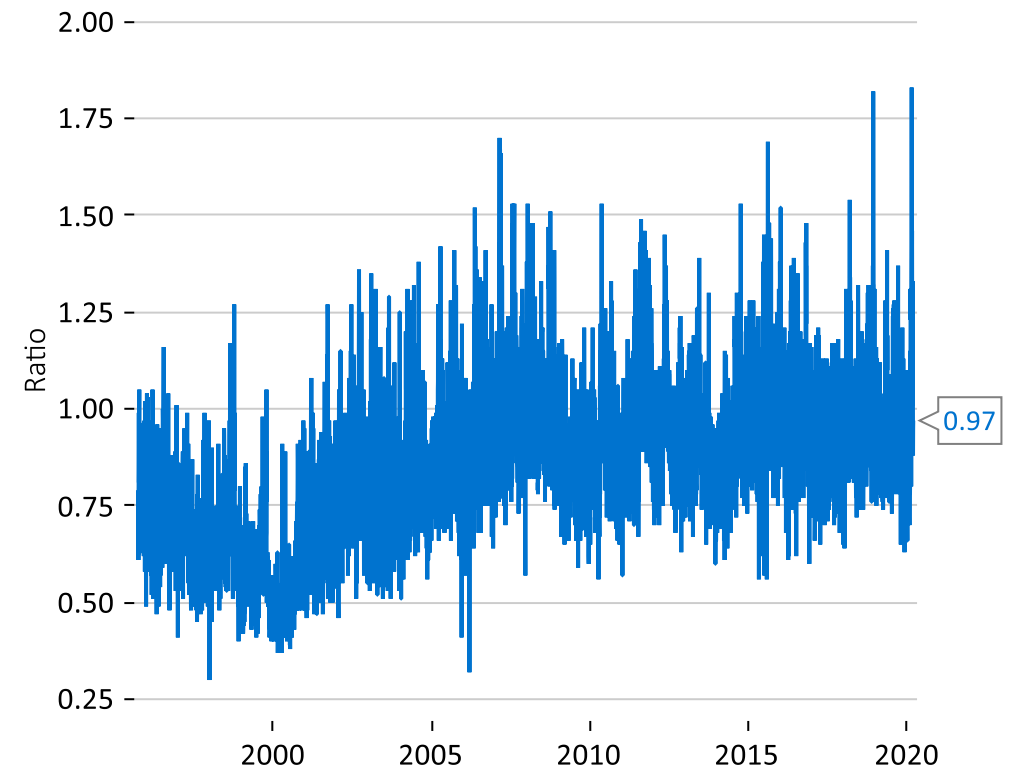
Defensive positioning close to all time highs

US Bull-Bear Spread - AAI Sentiment Survey



Source: Macrobond

US Total Put/Call Ratio

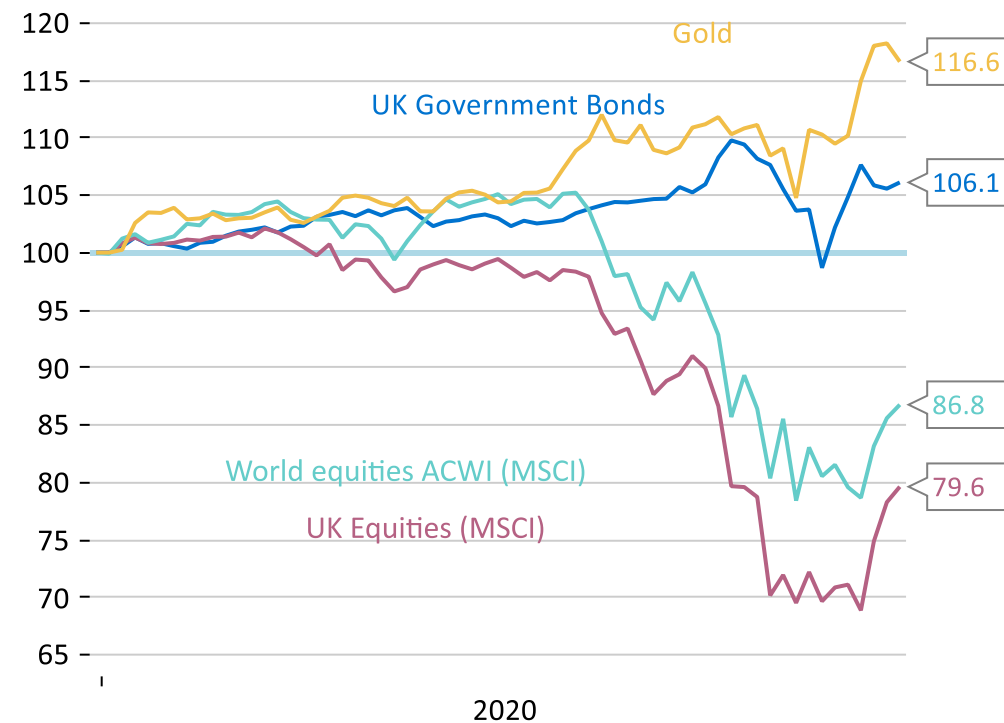


Source: Macrobond

Equity declines steady as volatility measures start to stabilise

 Global asset markets correct at unprecedented rates

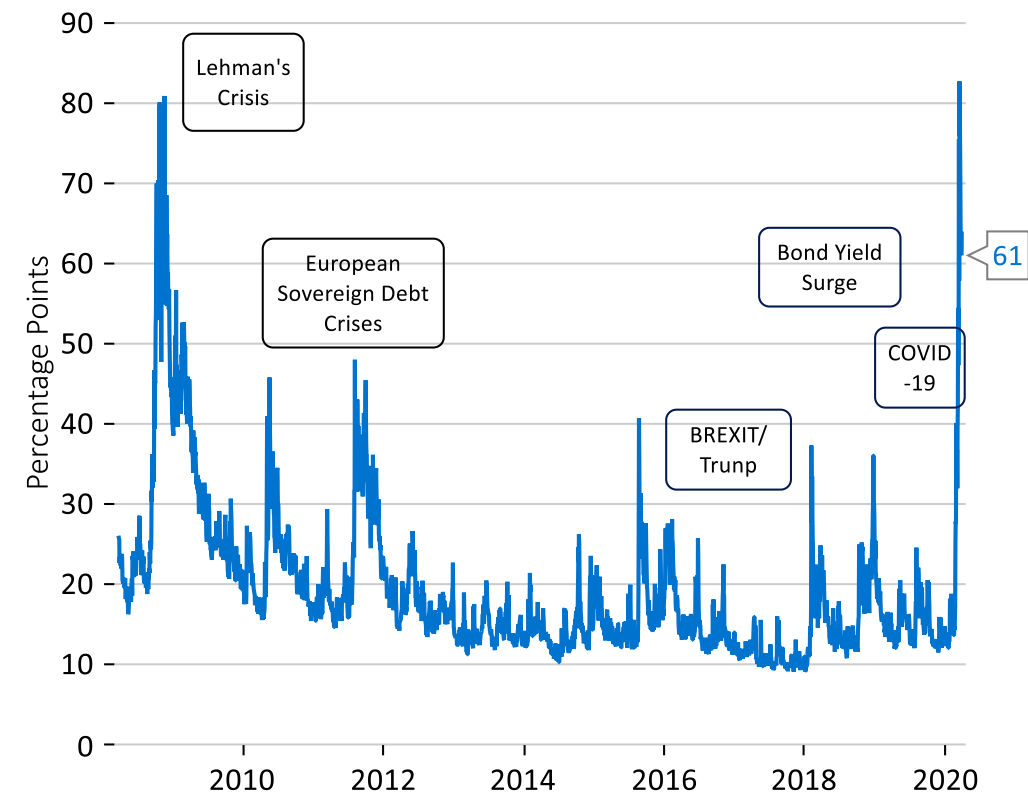
Global Asset Returns
GBP (1/1/2020 = 100)



Source: Macrobond

 Equity volatility still close to all time lows in 2019

US Equity Volatility (VIX)



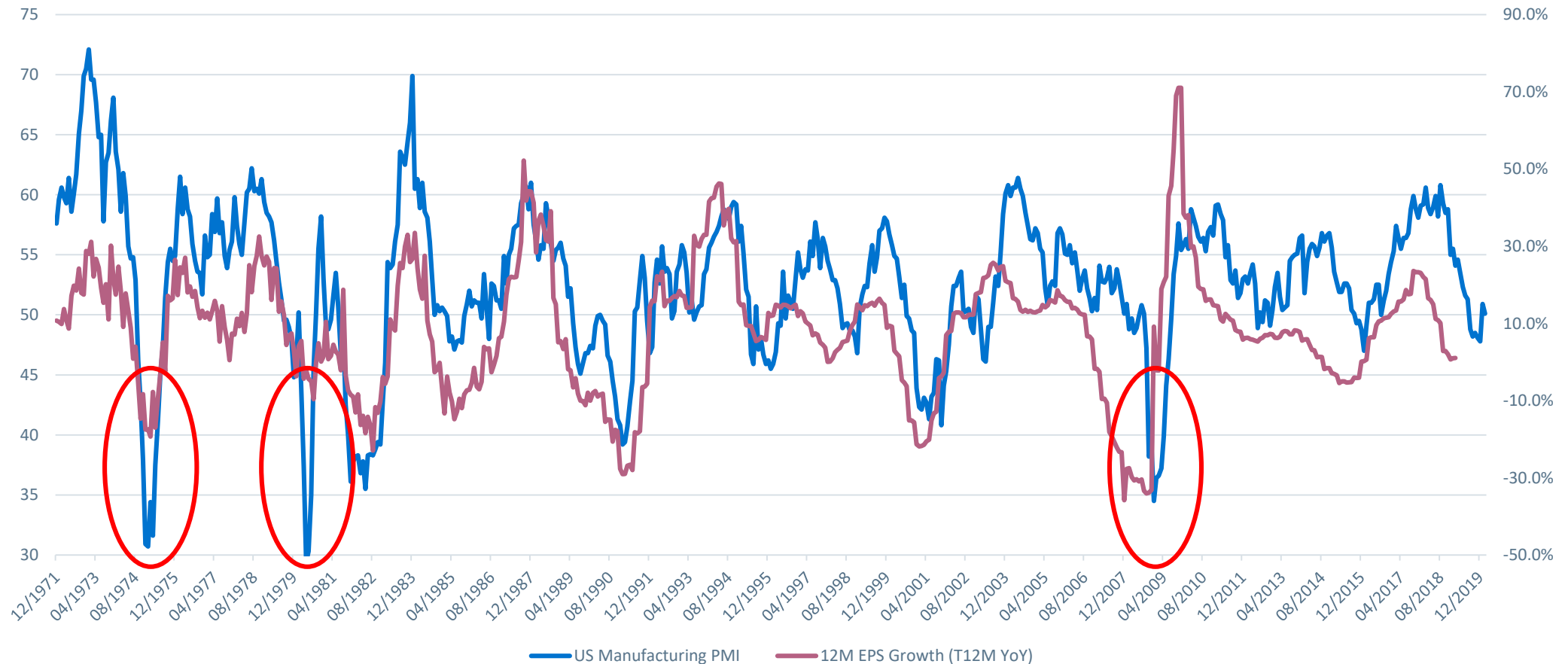
Source: Macrobond

Manufacturing PMI versus earnings

Double digit EPS declines are becoming increasingly likely



US Manufacturing PMI and EPS



Source: Bloomberg, Data as at 13.03.2020

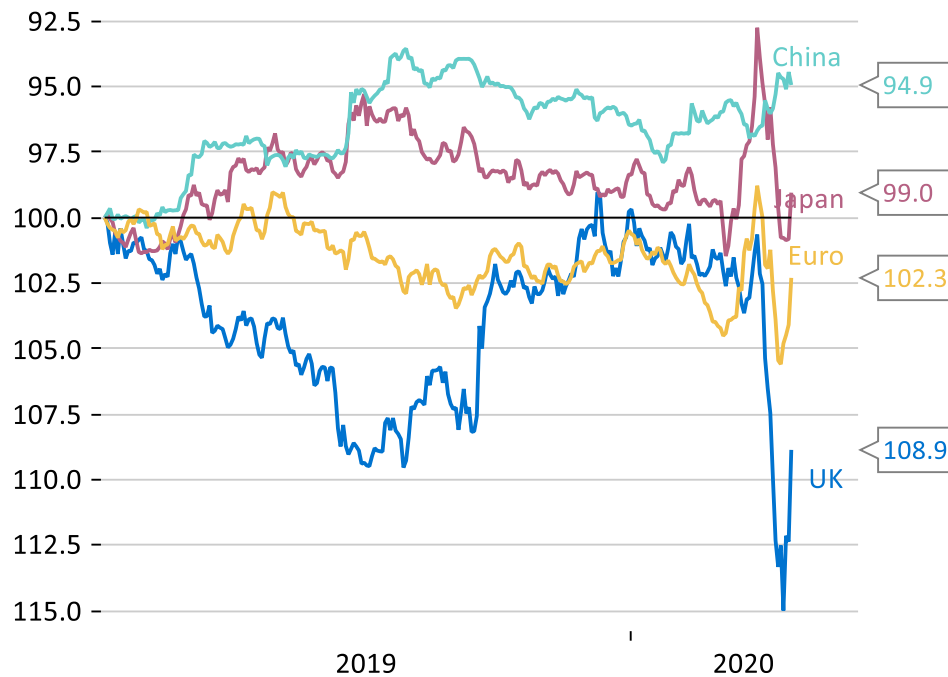
Welcome currency stability after dollar swap lines established while IG bonds spreads stable after 'Fed' backstop..



Currency stability - Sterling excepted

Currencies per US Dollar

Last 12 Months (Rebased)

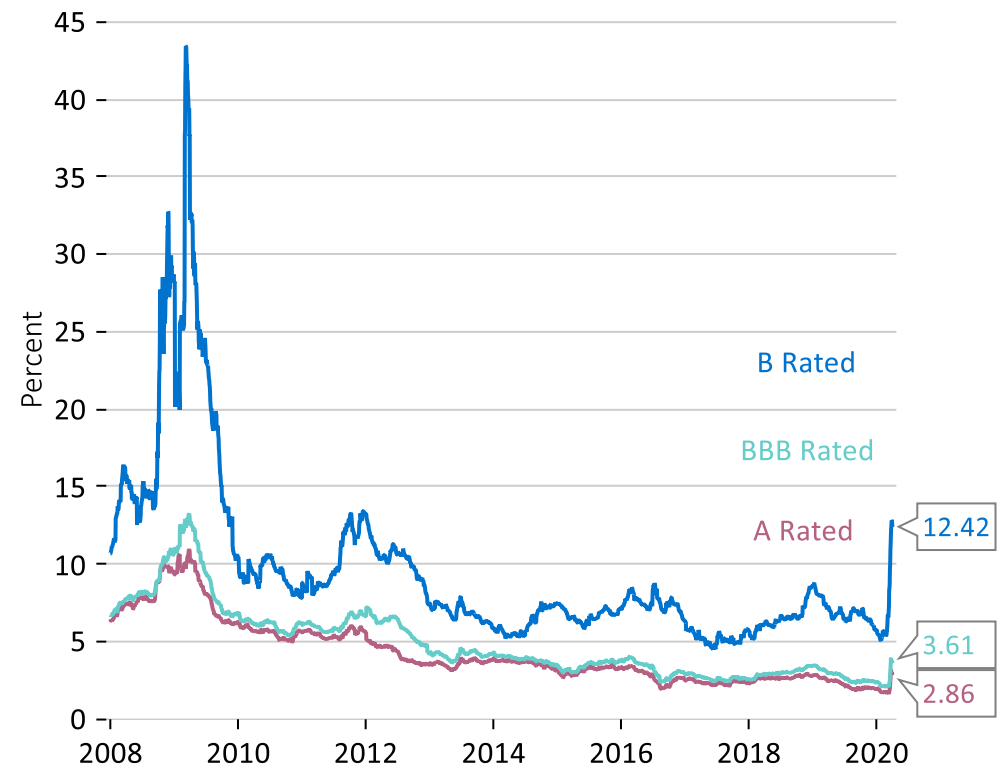


Source: Macrobond



Sterling Corporate yields contained

Sterling Corporate Fixed Income Yields



Source: Macrobond

Economic risks severe but policy response significant

Deep recession argues for equity caution – credit opportunities emerging



Global strategy update March 2020

Bonds	Neutral – Central bank support argues for lifting high quality corporate bond exposure <ul style="list-style-type: none">• Neutral gilts: Massive expansion of QE programs will cap any rise in sovereign yields• Neutral corporates: Unprecedented Federal Reserve backstop investment grade bonds - solvency and liquidity risk diminished after Central Bank backstop• High Yield and EM debt: Extreme caution to reflect default risks and depth of EM recession
Equities	Underweight – Synchronised global recession suggests material earnings risks – no clear exit from shutdown <ul style="list-style-type: none">• Valuations are supportive but second-round effects of crisis very difficult to predict• Earnings outlook opaque with little ability to model future economic recovery• Emerging world ex-China profits extremely vulnerable with high corporate and SME leverage
Alternatives	Overweight – high risks in leveraged/opaque assets <ul style="list-style-type: none">• Clear preference for liquid uncorrelated assets. Gold a hedge against unprecedented policy stimulus.
Cash	Overweight <ul style="list-style-type: none">• To reflect extreme near term economic uncertainty but also mid-term opportunities
Risks	Current: Depth of virus induced recession unprecedented, excessive corporate/private equity leverage, UK/EU 2020 trade negotiations, oil price collapse threatens high yield credit and vulnerable sovereigns Longer-term: China's growth experiences long-term damage from virus, global trade linkages under estimated, central bank toolkit largely exhausted, G7 government debt/GDP levels likely to exceed 100%

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