

# Sarasin Global Strategy & Outlook

*Everyone opening up?*

*The consequences for financial  
markets*

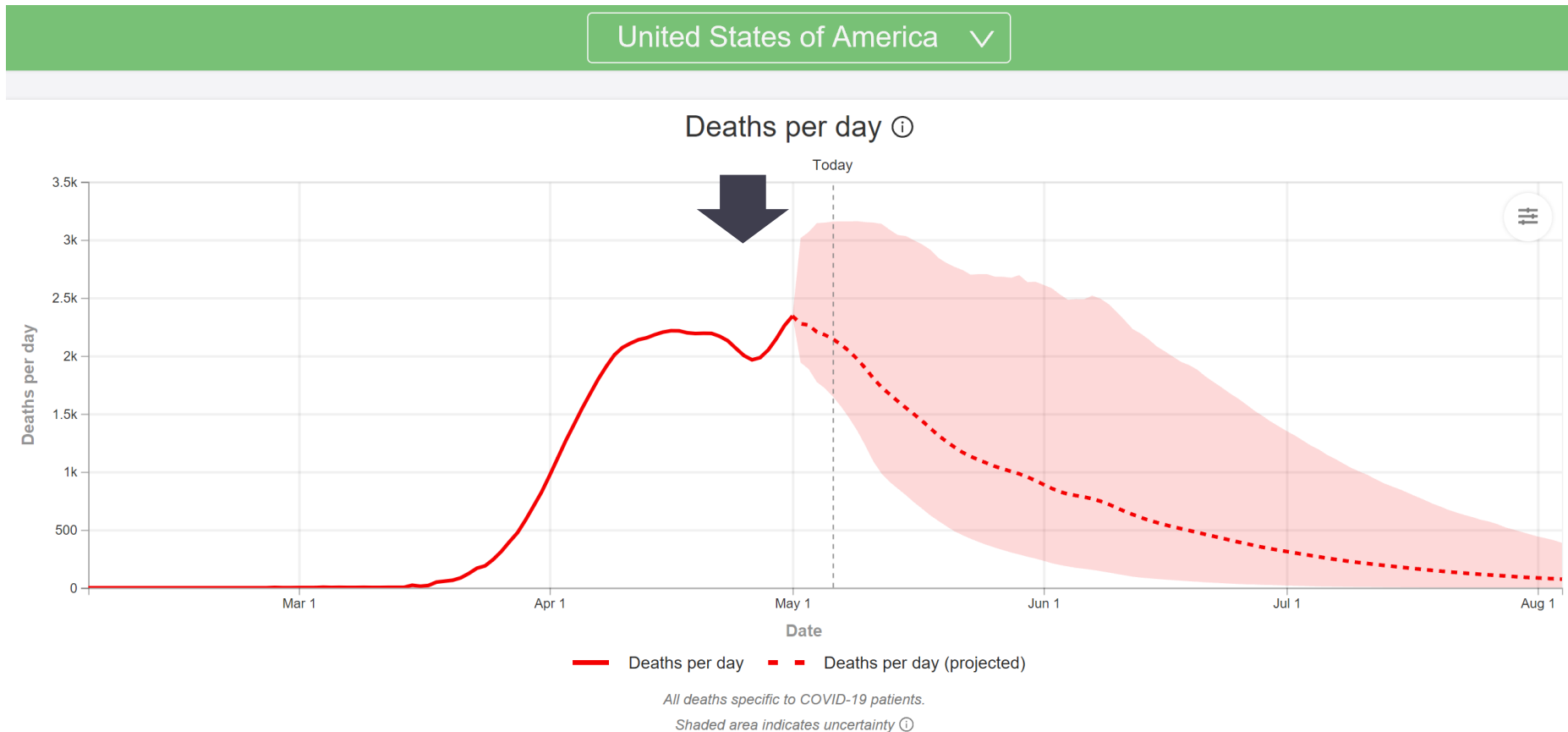
7 May 2020



# There are risks to everyone opening up...

“We have to get our country open, and we have to get it open soon” President Trump 05.05.20

 COVID-19 Projections - Institute for Health Metrics and Evaluation Washington



“We, collectively, are now entering a new phase of the COVID-19 pandemic. More locations are easing previously implemented social distancing policies, and human mobility patterns are trending upward – even in places where distancing measures remain in place. Testing has scaled up in many parts of the world, but such progress has been uneven and is not keeping pace with the growing demand for lifting business and gathering restrictions.”

Source: Institute for Health Metrics and Evaluation  
Sarasin Global Strategy May 2020

# 2020 GDP Growth – Larger recession (-5.8%) expected across regions

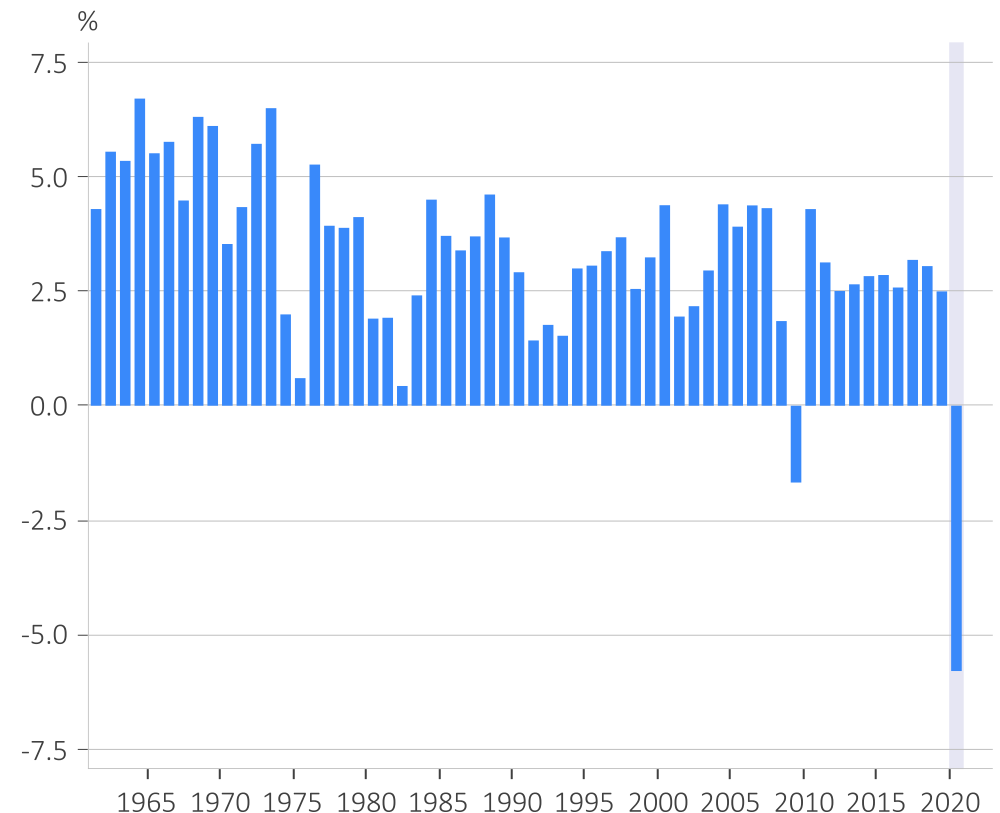
	2020 Growth Guide	
	New forecast	Base (previously)
China	<b>-2.2%</b>	-1.8 to -4.5%
US	<b>-5.0%</b>	-3.0 to -3.3%
Eurozone and UK	<b>-9.0%</b>	-6.4 to -7.2%
Japan	<b>-8.5%</b>	-6.3 to -6.6%
ROW	<b>-5.7%</b>	-0.3 to -1.2%
<b>World</b>	<b>-5.8%</b>	-2.7 to -3.7%

UK: Note the risk of -14% drop in UK & 0.6% CPI in BOE May 2020 'illustrative scenario' in the May 2020 MPC report.



2020 Recession is likely to be worse than 2008-09

## Global GDP, USD, real



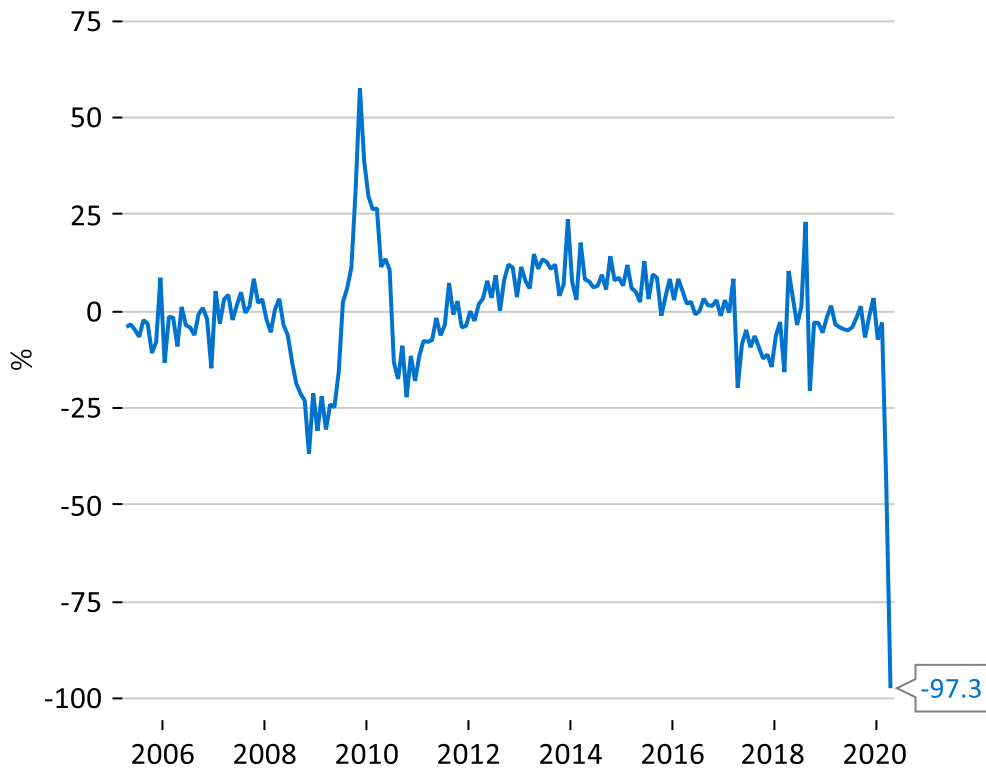
Source: Macrobond and Sarasin and Partners

# Economic lock down has forced 80% of UK businesses to consider accessing government support schemes...

 Only 4,321 cars sold in the UK in April – lowest since 1946

 Take-up of UK Government support schemes

Annual rate of change of UK new vehicle sales & registrations



Source: Macrobond

Table 2: Government schemes of interest to businesses, overall UK, 23 March to 5 April 2020

Sample	Coronavirus Job Retention Scheme	Business rates holiday	Deferring VAT payments	The HMRC Time To Pay scheme	Small business grant or loan schemes
Continuing to trade	75.9%	34.2%	64.7%	32.2%	11.2%
Has temporarily closed or paused trading	95.5%	67.9%	79.4%	53.7%	26.3%
All Business	80.7%	42.4%	68.3%	37.4%	14.9%

Source: ONS April 2020



# The German constitutional court (GCC) decision is a new source of uncertainty for the periphery...

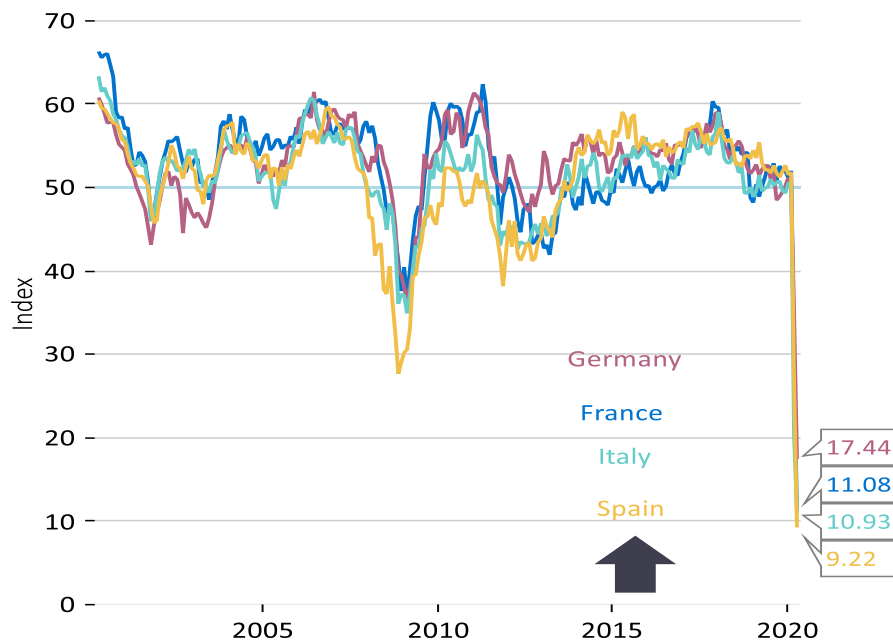


## Purchasing managers Index



## Italian-German Bond Spread

European Purchasing Managers Indices  
(Markit, Composite)



Source: Macrobond

Italy less Germany 10 Year Govt Bond Yield



Source: Macrobond

After 3 months “the *Bundesbank* may thus no longer participate in the implementation and execution of the ECB decisions at issue, unless the ECB Governing Council adopts a new decision that demonstrates...that the monetary policy objectives pursued by the PSPP are not disproportionate. “ Judgment of 05 May 2020 – German Constitutional Court

# Equities saw the fastest fall into bear market in history but now have recovered more than half their declines...

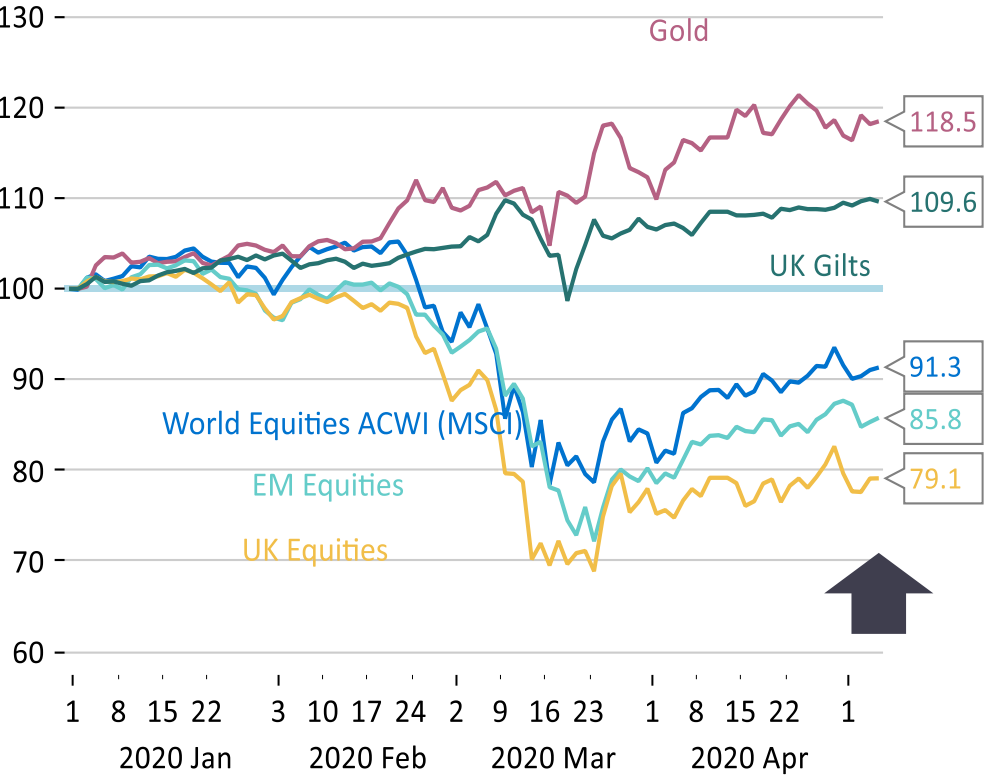


Global equities rally from March lows...



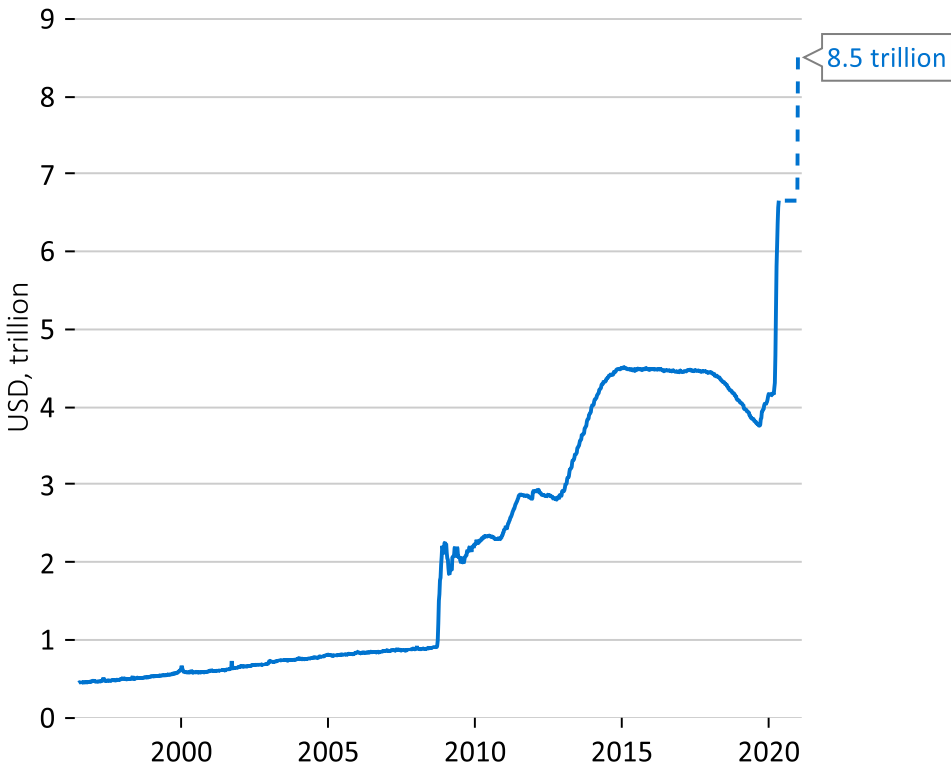
Federal Reserve balance sheet will likely peak at \$8-9 trillion

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



Source: Macrobond

US Federal Reserve balance sheet



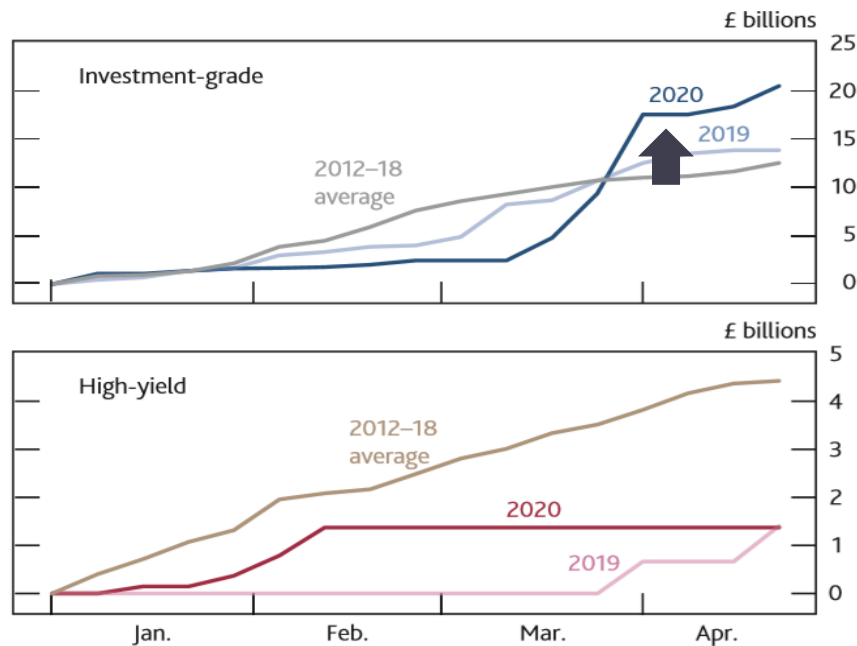
Source: Macrobond

# After shocks receding: Bank of England's support for the bond markets successful...



## UK Investment Grade new issuance surged last month

**Chart 2.18** Corporate capital market issuance halted during March before investment-grade issuance surged  
Cumulative bond issuance by UK corporates<sup>(a)</sup>



Sources: Refinitiv — Deals Business Intelligence and Bank calculations.

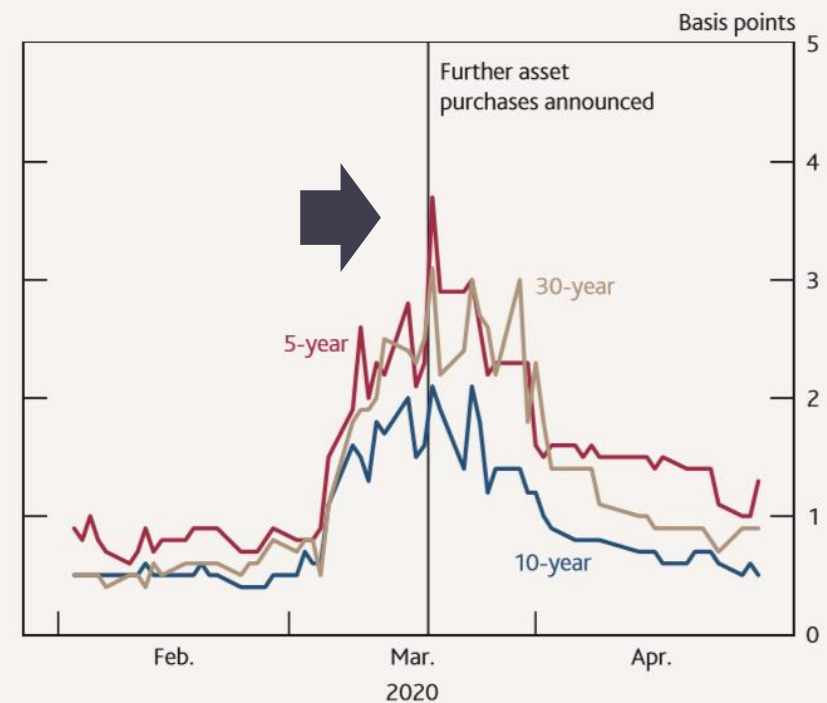
(a) Euro, sterling and US dollar issuance.

Source: BOE Monetary Policy Report May 2020



## Gilt market liquidity restored...

**Chart B** Measures of liquidity in the gilt market had deteriorated before asset purchases were announced  
Bid-offer spreads on UK gilts at selected maturities

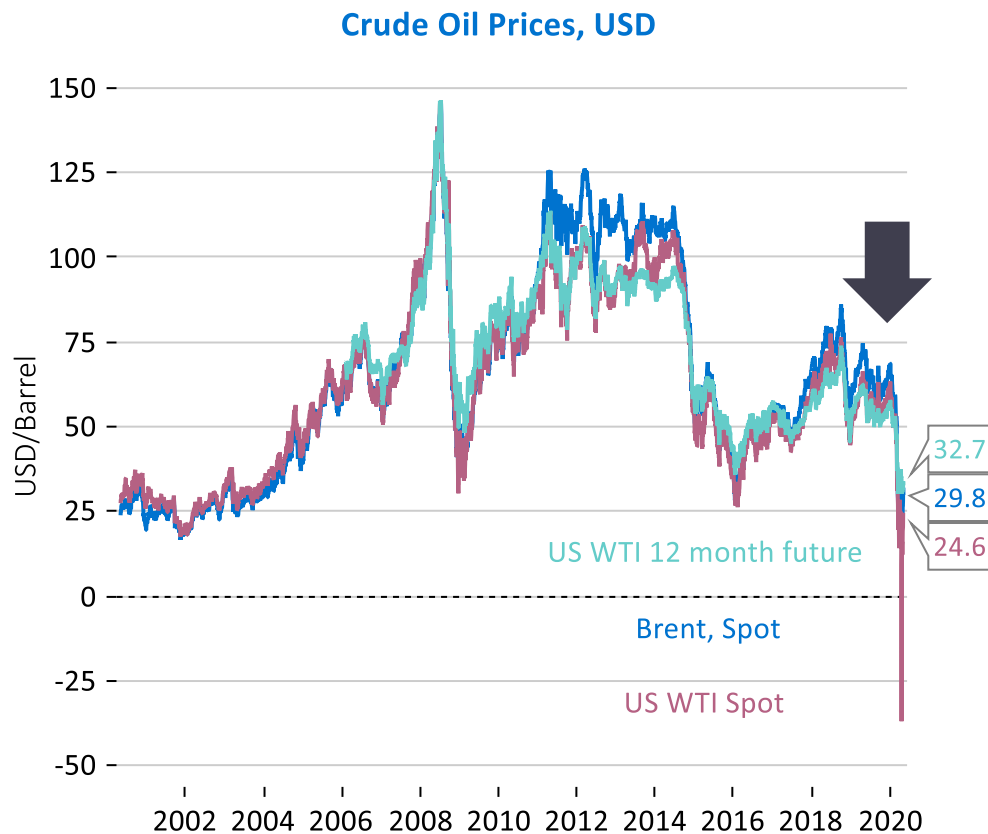


Sources: Eikon from Refinitiv and Bank calculations

# After shocks receding : Oil prices stabilising despite massive oversupply...



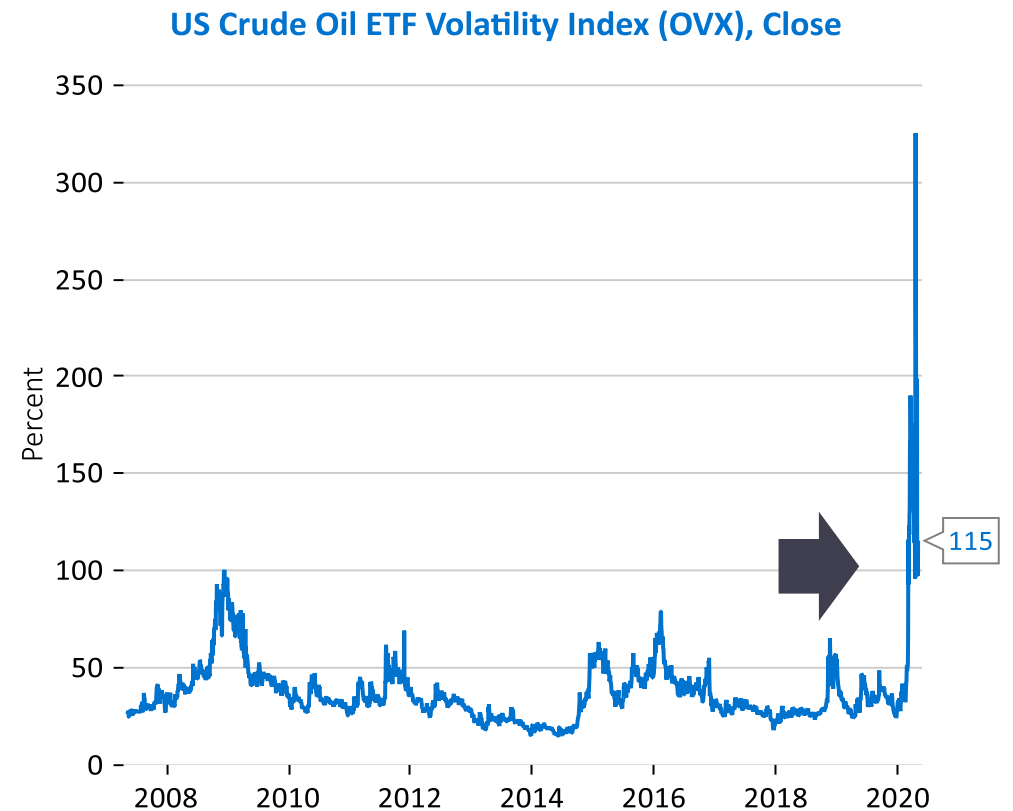
## Negative spot price for WTI



Source: Macrobond



## Unprecedented oil price volatility



Source: Macrobond

# Economic risks severe but policy response extraordinary

A deep recession is certain but the timetable to recovery is clearer



## Global strategy update May 2020

<b>Bonds</b>	<b>Neutral</b> – Central bank support argues for lifting high quality corporate bond exposure <ul style="list-style-type: none"><li>Neutral gilts: Massive expansion of QE programs will cap rise in sovereign yields</li><li>Neutral corporates: Central Banks backstop investment grade bonds - solvency and liquidity risk diminished</li><li>High Yield and EM debt: Extreme caution to reflect default risks and depth of EM recession</li></ul>
<b>Equities</b>	<b>Neutral/Underweight</b> – Deep global recession suggests material earnings risk but improving visibility on exit <ul style="list-style-type: none"><li>Central Bank response timely and unprecedented in scale – other assets unattractive</li><li>Earnings outlook opaque but shock is ultimately temporary</li><li>Last year of Presidential cycle</li><li>Retain Underweight to Emerging world equities ex China</li></ul>
<b>Alternatives</b>	<b>Overweight</b> – high risks in leveraged assets but infrastructure & renewables attractive <ul style="list-style-type: none"><li>Clear preference for liquid uncorrelated assets.</li><li>Gold a hedge against unprecedented policy stimulus.</li></ul>
<b>Cash</b>	<b>Neutral</b> <ul style="list-style-type: none"><li>Source of funds</li></ul>
<b>Risks</b>	<b>Current:</b> Resurgence in virus in H2 2020, emerging world economic crisis, no-deal Brexit <b>Longer-term:</b> Damage to global trade linkages, balance sheet impairment for corporates and households, valuations stretched

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07.05.20

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