

Sarasin Global Strategy & Outlook

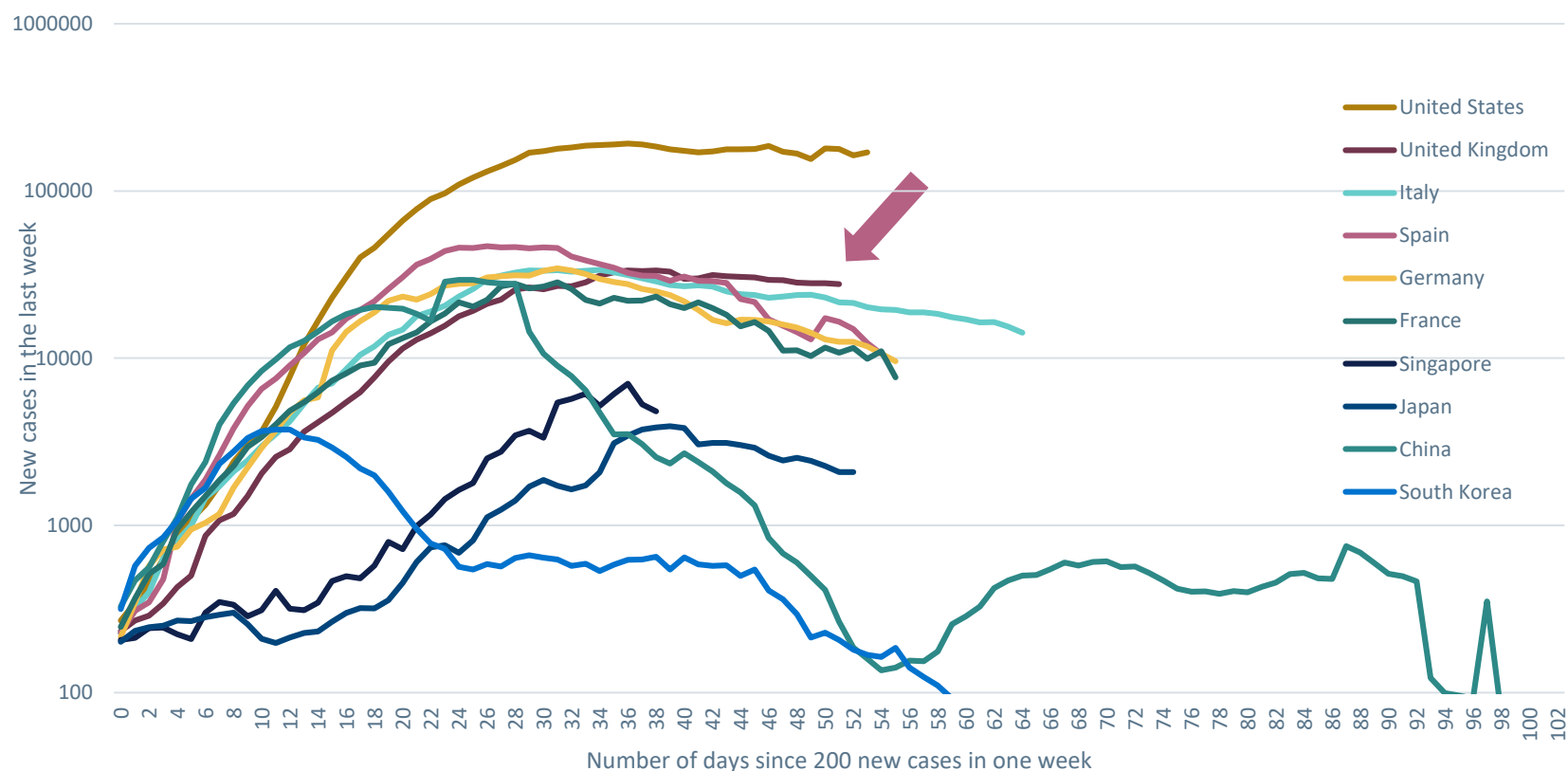
*A Deep recession is certain but the
timetable to recovery is clearer...*

May 2020



European new cases appear to be declining moving gradually to reflect Asia's – UK measure now highest in Europe

 European cases have started to decline – US still the centre of global pandemic (29.4.2020)



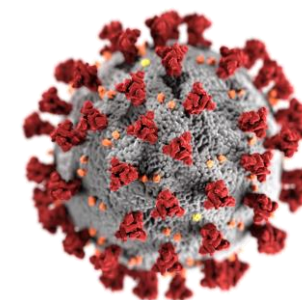
“As lockdowns in Europe ease with declining numbers of new cases, we continue to urge countries to find, isolate, test and treat all cases of COVID-19 and trace every contact, to ensure these declining trends continue”. WHO Director General 29 4 2020

Source: Sarasin/WTO

COVID – Vaccines Summary

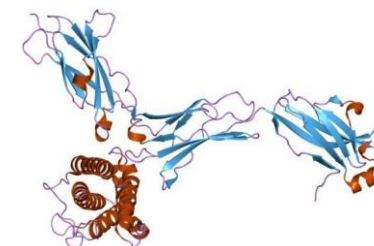
1) Traditional vaccines – “slow to develop but highly effective”

- How? Use a “defused” actual virus to train immune system
- When? Data by end 2020, end 2021?
- Who? **Shionogi GSK Merck Pfizer** (JNJ Sanofi)
- Risk? Years away, may not be possible



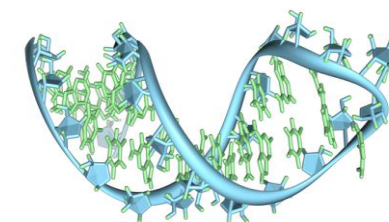
2) Adjuvants – “make vaccines stronger and work longer”

- How? Amplifies immune response and longevity of “memory” immune cells
- When? Data perhaps by Q4 2020 (already used in flu vaccines)
- Who? **GSK CSL**
- Risk? Can only augment an actual traditional COVID vaccine



3) mRNA – “new, fast to make, but untested”

- How? Genetically programs immune system to fight virus
- When? Data starts in May – possible therapy by September?
- Who? **Pfizer Amgen** (Moderna Wuxi/VIR Sanofi)
- Risk? Length of response, side effects



COVID – Therapies Summary

1) Antivirals – “plenty of current drugs, most will fail”

- How? Disrupt virus reproduction
- When? Quick – drugs already exist low success so far
- Who? **Shionogi Novartis Roche Merck** (Gilead FujiFilm Generics)
- Risk? Most, perhaps all, drugs won't help



2) Neutralising antibodies/Serum – “potentially highly effective”

- How? “smothers” the spike protein of the virus
- When? Serum already works (low volume) N. Antibodies June – Sept 2020
- Who? **CSL Astra Roche Amgen Astra** (Regeneron Takeda Grifols Biogen)
- Risk? Immunity may decline, hard to scale volume of survivor Serum



3) Anti Inflammatory – “counters the real symptomatic damage”

- How? Reduces the damaging over active immune response
- When? Quick. Mixed leaked data now. First real data from May onwards
- Who? **Roche Novartis** (Regeneron Incyte)
- Risk? Uncertain hyper immune mechanism



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

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

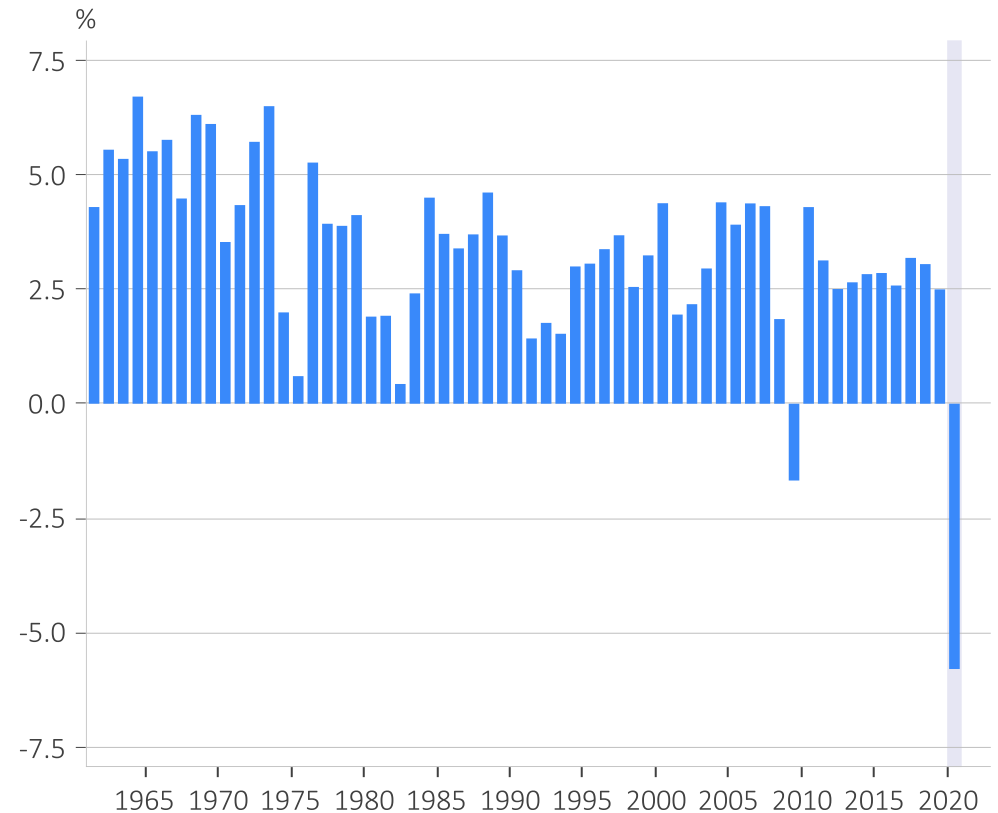
Note: Key changes from prior forecast:

1. Inclusion of manufacturing contraction
2. Longer tail of disruption



2020 Recession is likely to be worse than 2008-09

Global GDP, USD, real



Source: Macrobond and Sarasin and Partners

Economic base case

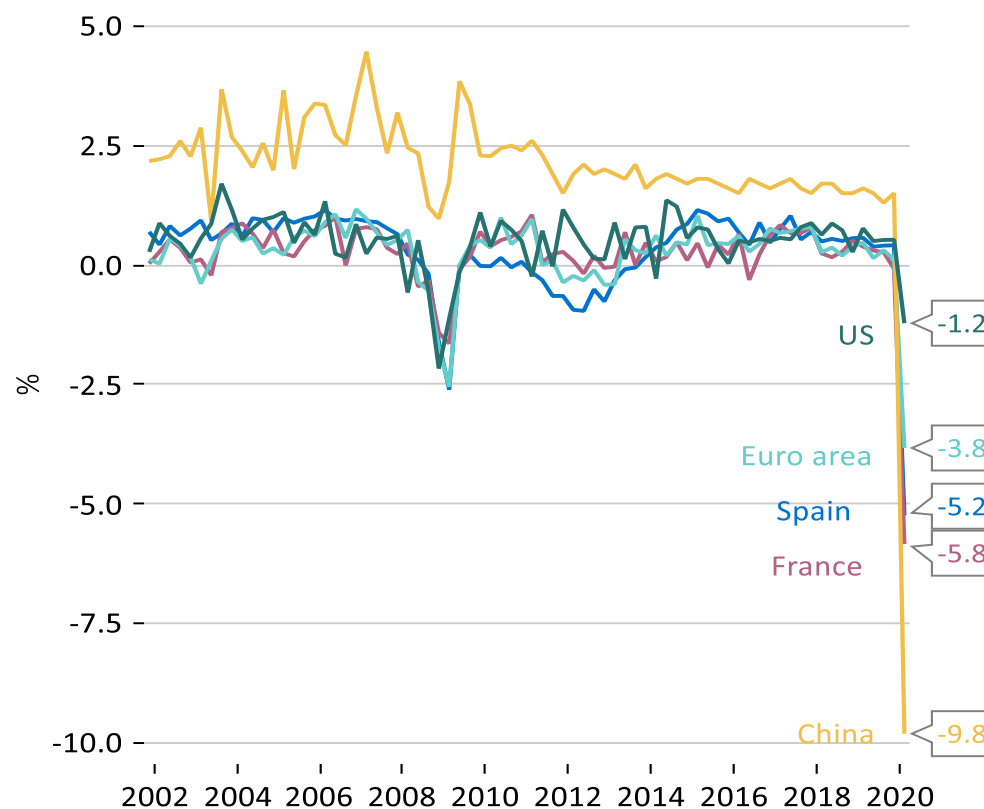
Policy Response in a '*no fault*' recession has been timely and expansive.

- Lockdown measures are being eased globally - soft open in Q2 with physical distancing guidelines in place.
- Q2 the low – by Q4 around 95% resumption, with businesses and consumers adapting behaviour.
- Global growth will fall circa 5.8% in 2020 - Pre-corona levels will not be attained till 2022.
- The Federal Reserve brought out Big Bazooka early in comparison to 2008/9.
- Fiscal policy also large in scale and scope: China, 12% in the US, 6% in the Eurozone and 4% in Japan.
- Interest rates at or around zero for 3 years: 2020, 2021 and 2022.



GDP Contraction in Q1 depends on timing of lockdown

GDP, Quarterly contraction in Q1 2020 (qoq %)



Source: Macrobond



US Economy – 2020/21 outlook



Presentation to US House Budget Committee April 24 2020

CBO's Economic Projections for 2020 and 2021

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
Real GDP (Percentage change from preceding quarter) ^a	-0.9	-11.8	5.4	2.5	n.a.	n.a.
Real GDP (Percentage change, annual rate) ^a	-3.5	-39.6	23.5	10.5	-5.6 ^b	2.8 ^b
GDP (Trillions of dollars)	21.6	19.1	20.1	20.7	20.4	21.3
Unemployment Rate (Percent)	3.8	14.0	16.0	11.7	11.4	10.1
Interest Rate on Three-Month Treasury Bills (Percent)	1.1	0.1	0.1	0.1	0.4	0.1
Interest Rate on Ten-Year Treasury Notes (Percent)	1.4	0.6	0.7	0.7	0.8	0.7

- **The US Federal budget deficit** is projected to be \$3.7 trillion.
- **The Federal debt** is projected to be 101 percent of GDP by the end of the fiscal year

CBO April 24 2020

Source: Congressional Budget Office - Since 1975 the CBO has produced independent analyses of budgetary and economic issues to support the Congressional budget process.

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

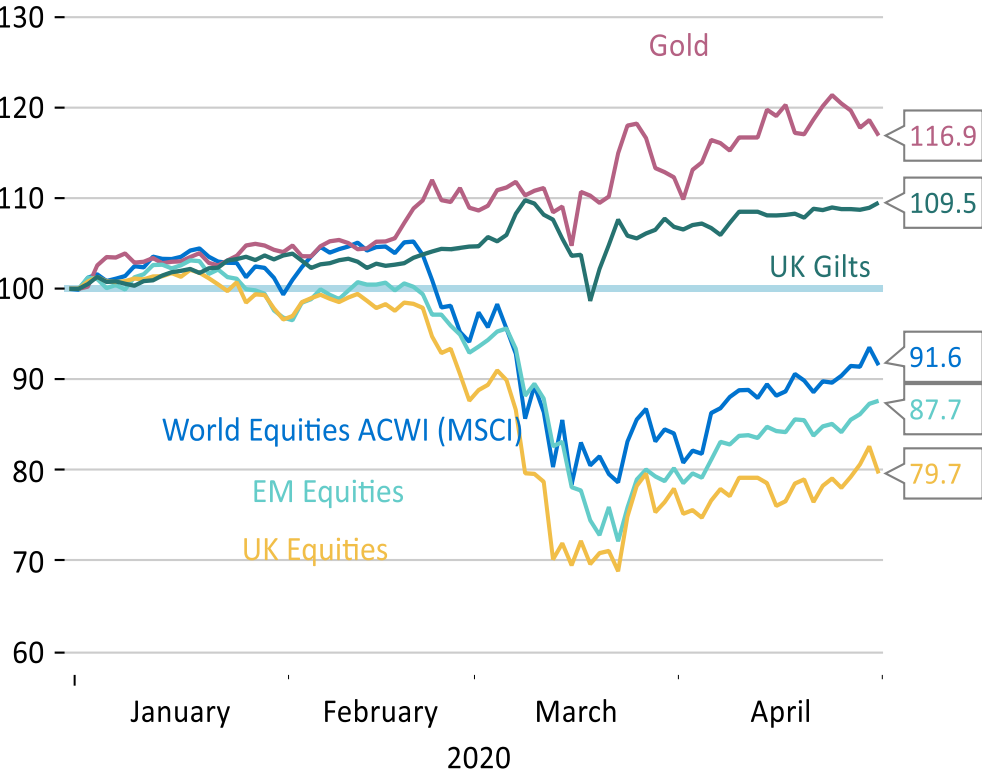


Global equities rally from March lows...



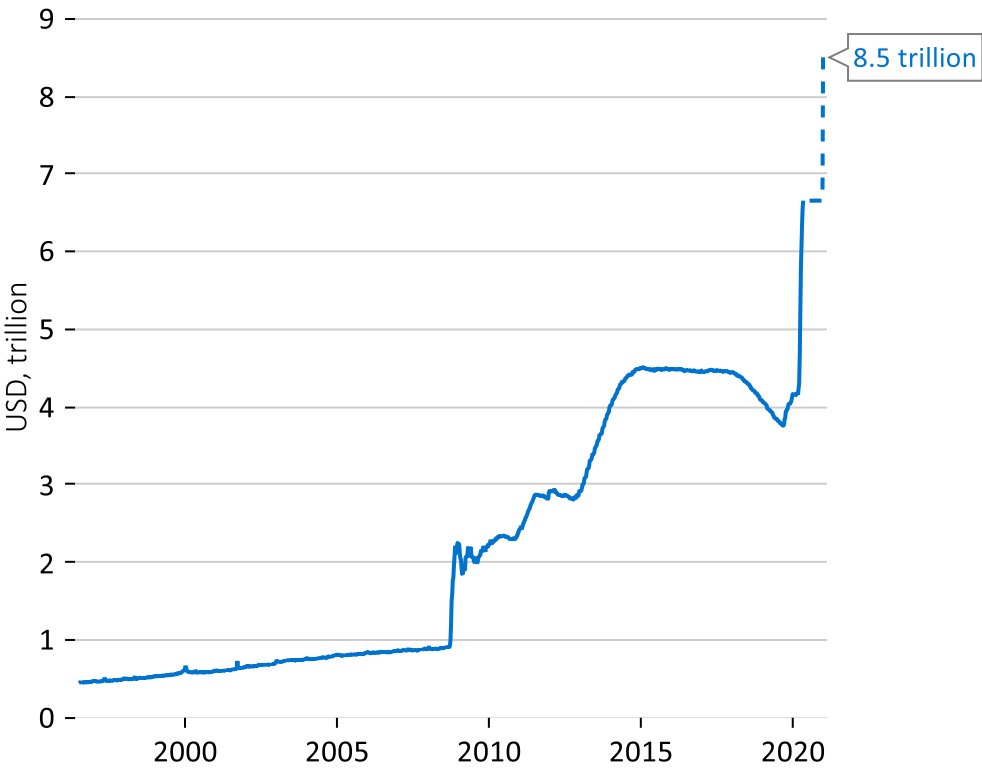
Federal Reserve balance sheet will likely peak at \$8-9 trillion

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



Source: Macrobond

US Federal Reserve balance sheet



Source: Macrobond

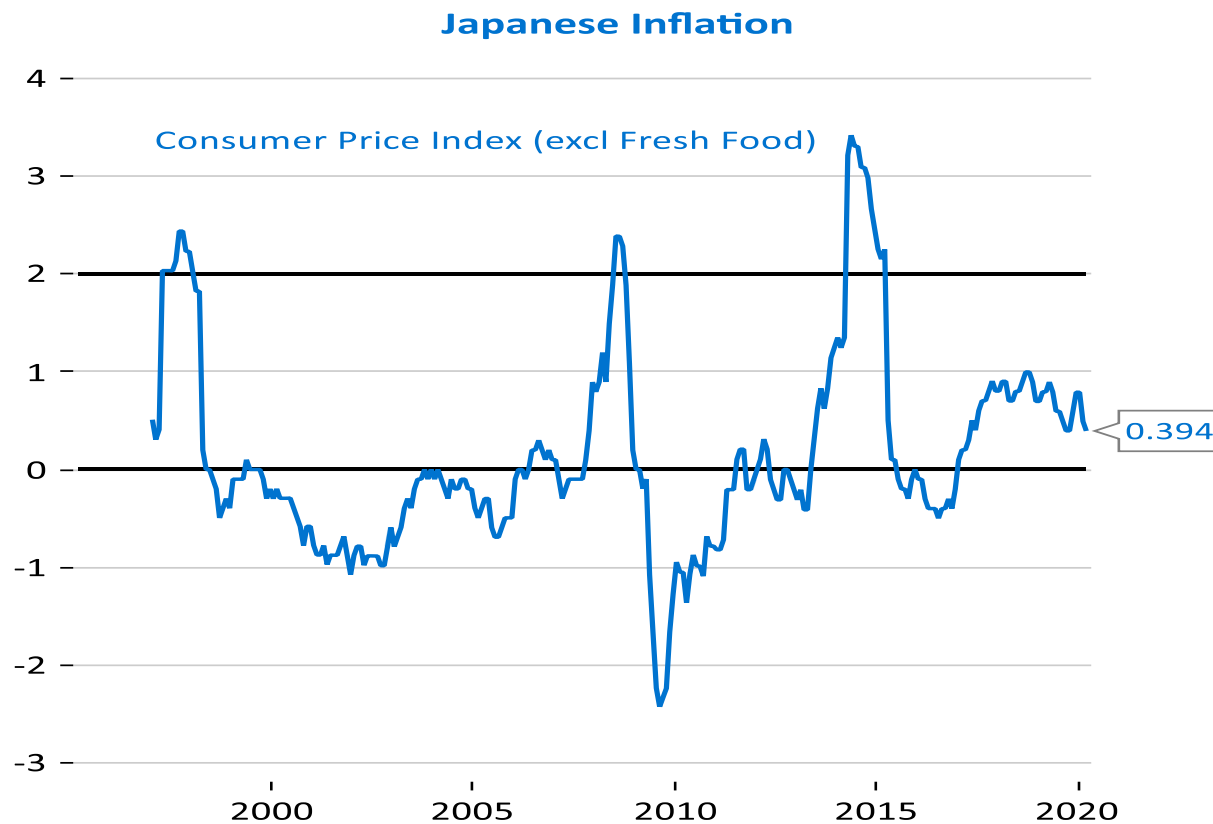


The Bank of Japan goes all in - purchasing JGB's without limit...

BOJ – Haruhiko Kuroda



Japanese inflation at target only three times in 25 years



Kuroda on inflation
“We need to pay closer attention to the possibility that momentum towards achieving our price target will be lost”

The BOJ will now:

- Purchase JGBs *without setting an upper limit...*
- Fund bank loans to SME's at minus 0.1%

Kuroda/BOJ 26.4.2020

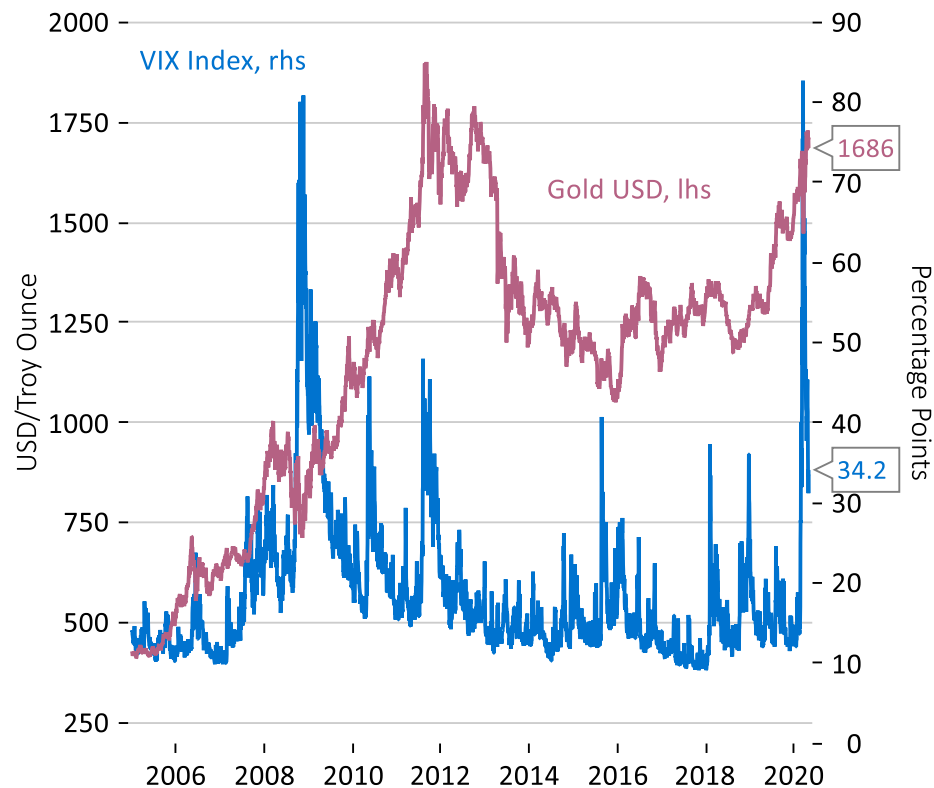
Japan CPI projected to fall by minus 0.3 to 0.7% in 2020 - BOJ

Source: Macrobond

Gold: Volatility & flows



Gold – an effective hedge against equity volatility

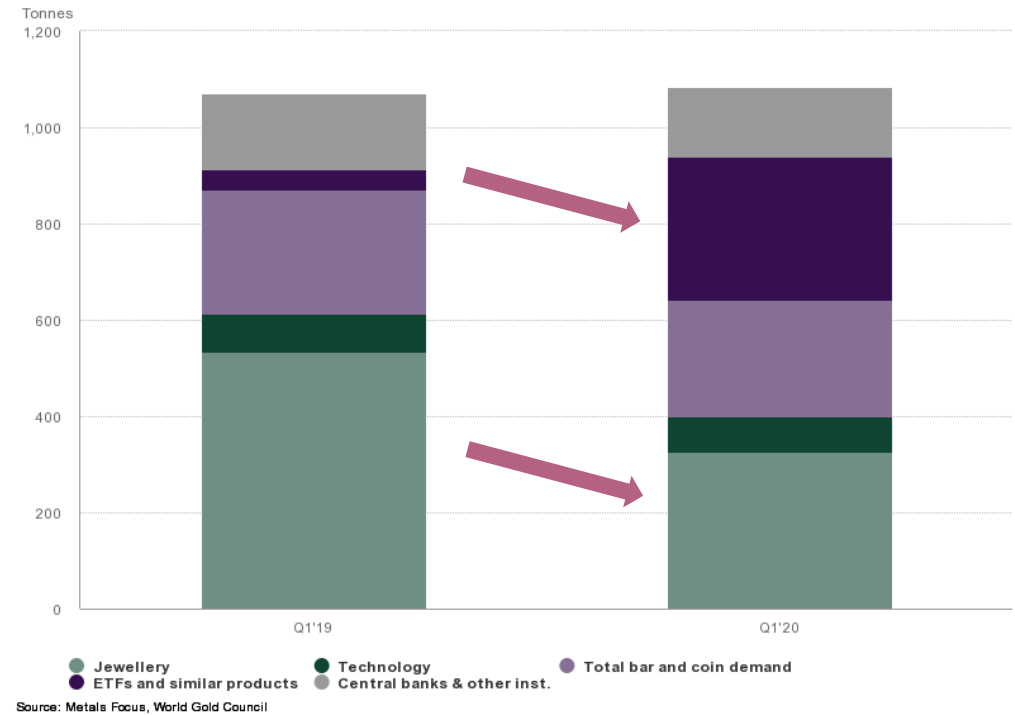


Source: Macrobond



Demand – ETF inflows compensate for jewellery falls

Coronavirus ignited safe-haven ETF inflows, undermined consumer demand



Source: World Gold Council

Economic risks severe but policy response significant

Deep recession argues for equity caution – credit opportunities emerging



Global strategy April 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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