

Three challenges beyond the virus

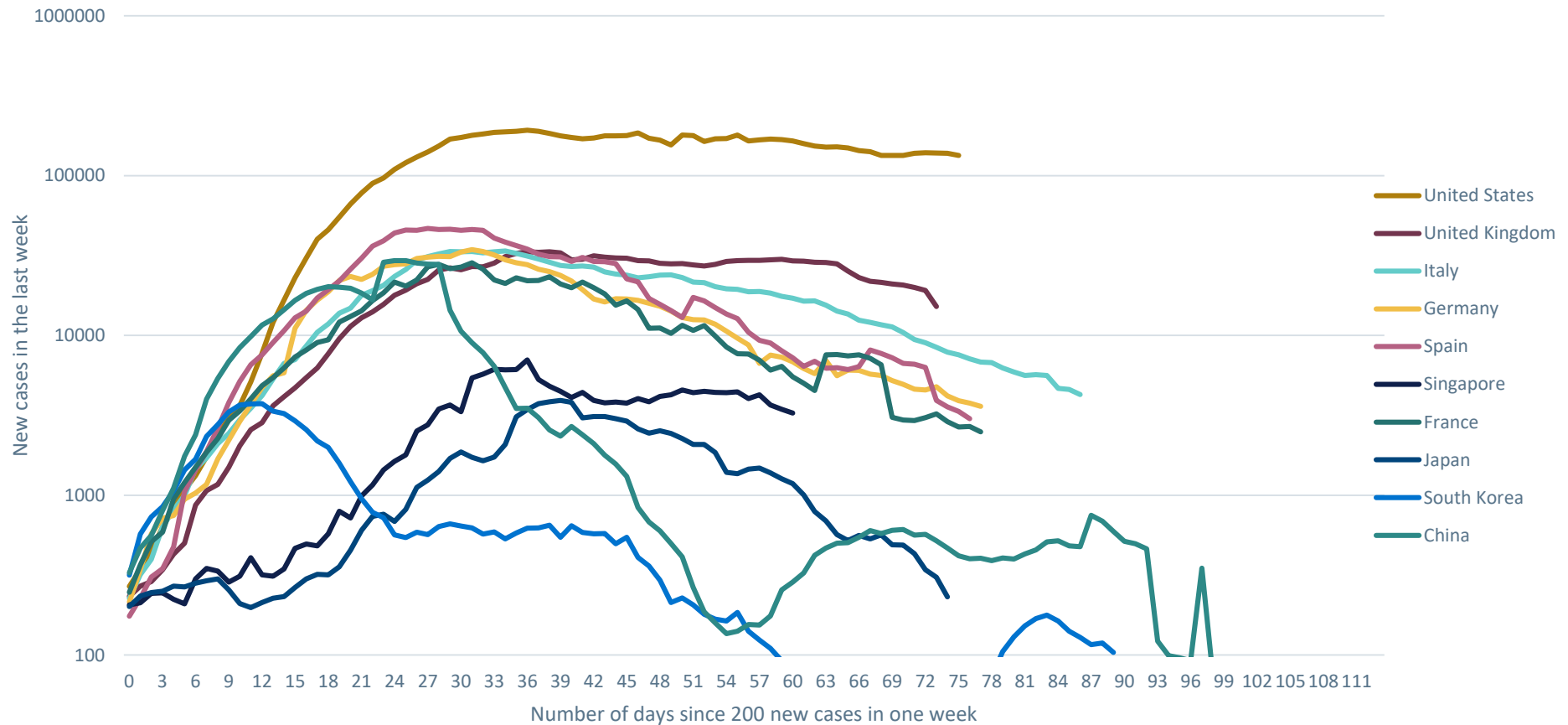
Sarasin Global Strategy and Outlook

22 May 2020



1. COVID19 - European cases materially declining...

 New cases of COVID-19 & number of days since 200 cases reported in one week

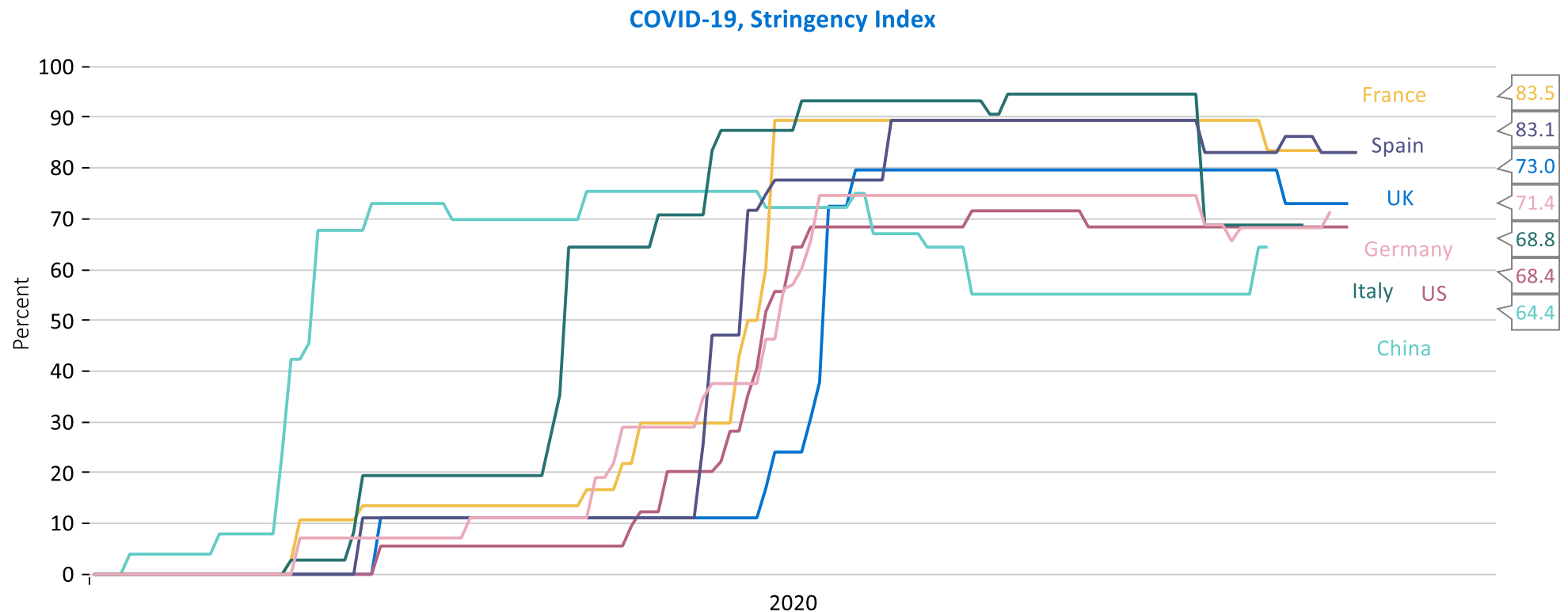


Source: Macrobond

2. Government restrictions are now easing in Europe and US - note regional tightening in China



COVID-19 Government Response Tracker



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.

3. Vaccine development continues - Astra/Oxford – \$1bn from BARDA up to 1bn doses

- **Oxford and Astra collaborating** – ChAdOx1 slightly different from Moderna
- **Astra supply agreement** – The initial agreement is \$1bn from BARDA* for 400m doses
- **Supply could start in September** – total capacity for 1bn doses “through 2020 into 2021”
- **No impact to 2020 financially** – guidance stays the same for 2020

* BARDA = the US Biomedical Advanced Research and Development Authority

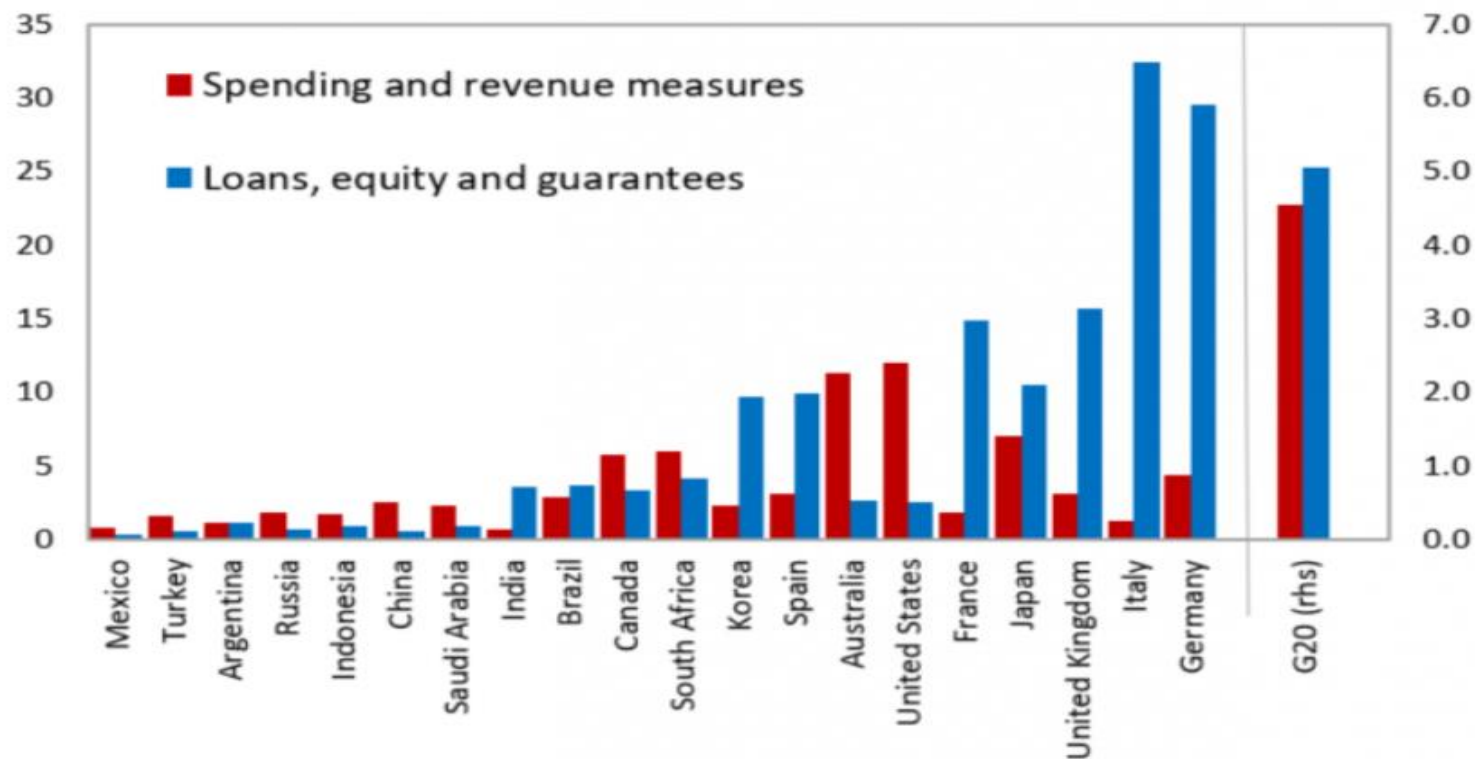
COVID-19: Vaccine technology platforms May 2020		
Molecular platform	Total number of candidates (159 from combined sources ^{[6][7]})	Number of candidates in human trials (^ in Phase II)
Non-replicating viral vector	15	2 ^
RNA-based	19	2
DNA-based	11	1
Inactivated virus	7	2
Undefined	36	4
Protein subunit	47	1
Replicating viral vector	13	0
Virus-like particle	7	0
Live attenuated virus	3	0
Replicating bacterial vector	1	0

Challenge 1: The global fiscal stimulus is ramping up but with large regional variations...



G20 fiscal measures account for 4.5 percent of GDP on average, larger than those during the global financial crisis...

(Announced fiscal measures in G20 economies, % of GDP)



Source: National authorities; IMF staff estimates 13 May 2020



Challenge 2: China risk rising in the run up to the US election...



US listed China ADR's an increasing component of portfolios



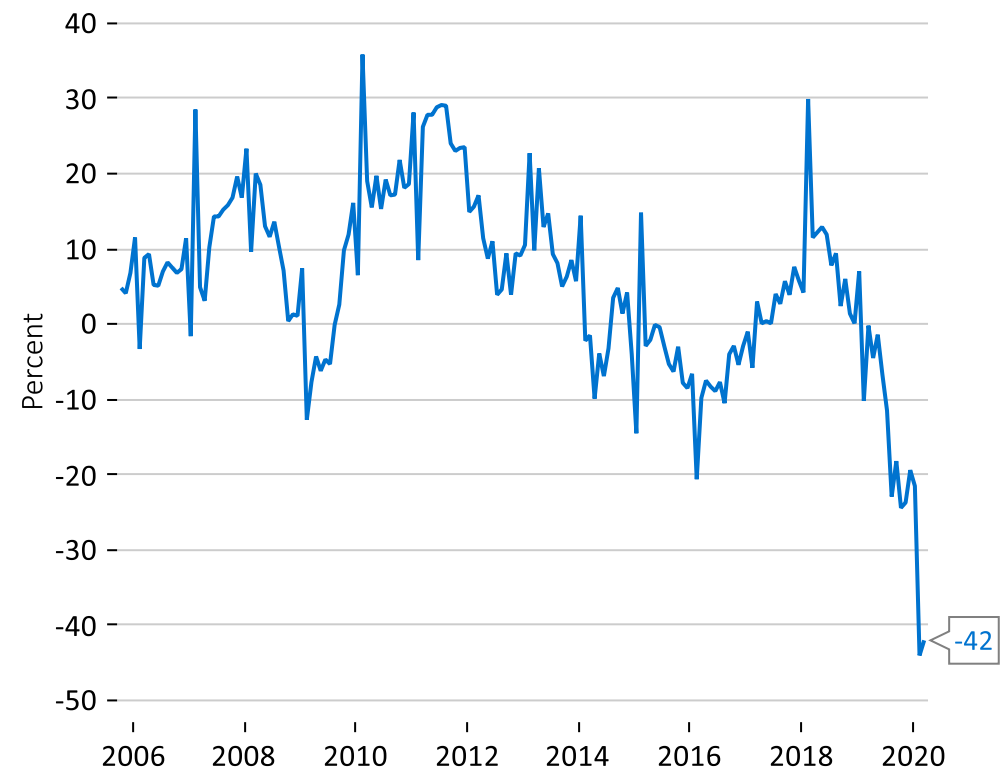
HK already in deep recession post protests & COVID-19

US listed China ADR Index and World Equities



Source: Macrobond

Hong Kong Retail Sales Change Y/Y



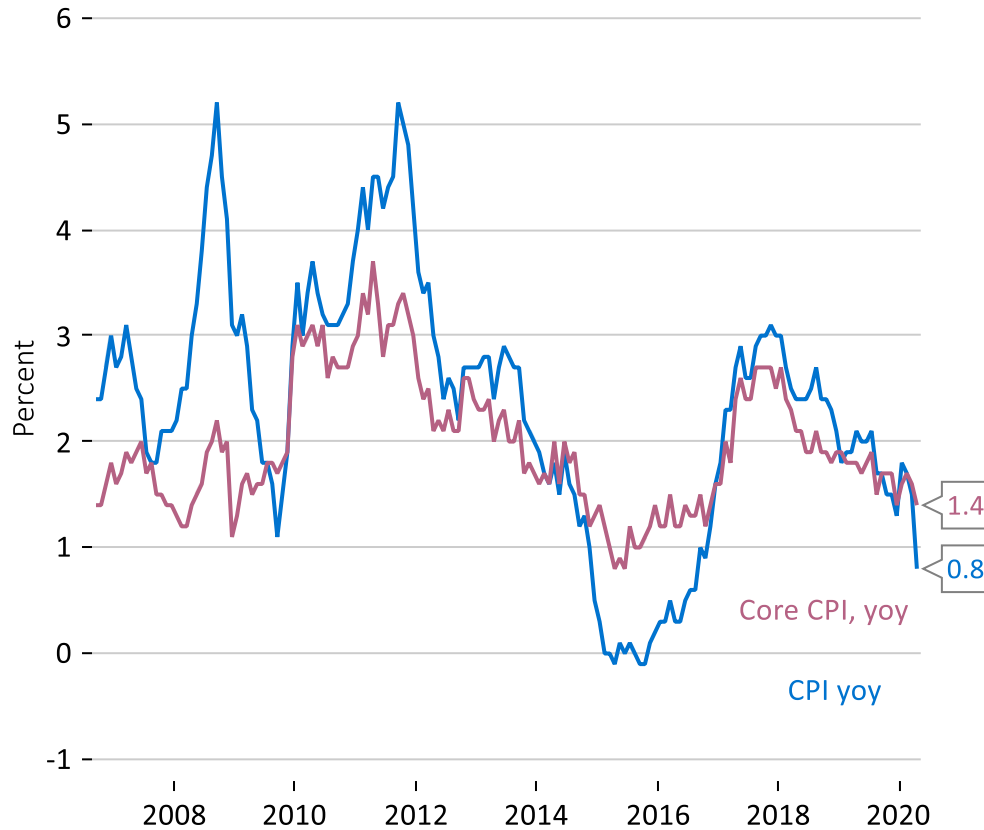
Source: Macrobond



Challenge 3: UK economic risks and the prospect of negative rates



UK Consumer prices

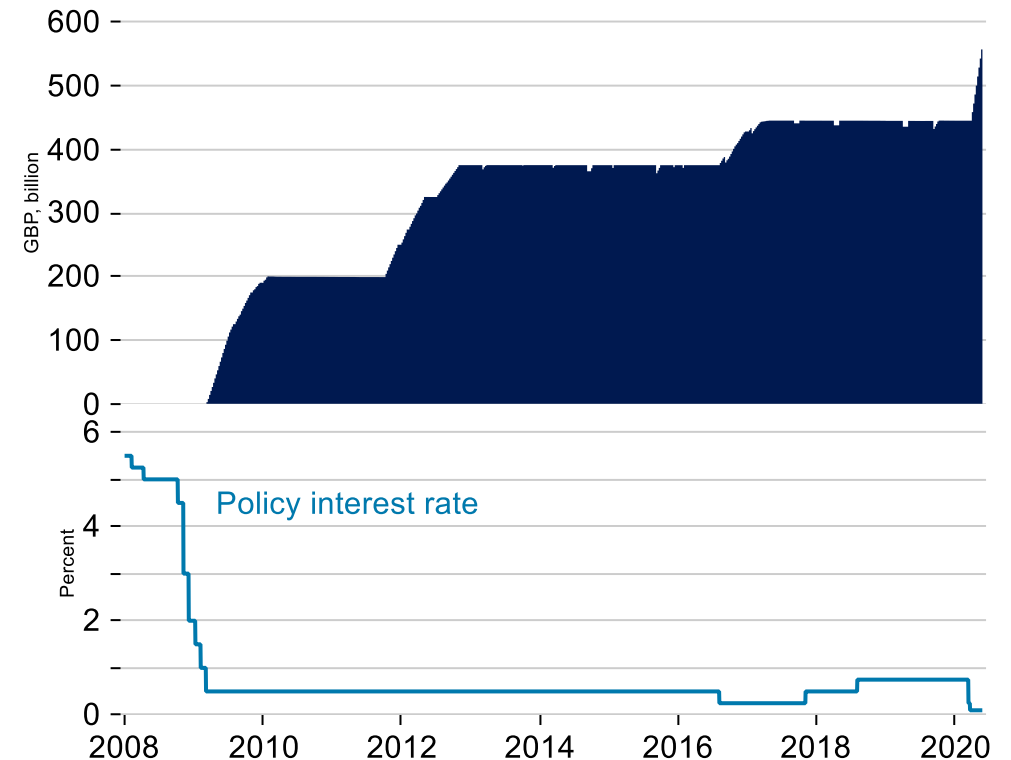


Source: Macrobond



UK Monetary policy

UK Asset purchase program



Source: Macrobond, Bank of England

UK COVID-19 & no-deal Brexit - what are the consequences of a double shock to the UK economy?



OBR Updated UK Economic Forecasts



Brexit Negotiations

<i>Updated 14 May</i>	Q2 2020	Q3 2020	2020	2020- 21
Real GDP (percentage change on previous period)	-35	27	-12.8	
Unemployment rate (per cent)	10	8.5	7.3	
PSNB (£ billion)				298.4
PSND (Per cent of GDP)				95.8

On Friday, the EU's chief negotiator, Michel Barnier, indicated for the first time the two sides may fail to reach an agreement, saying he wasn't optimistic a deal will be reached. His British counterpart, David Frost, warned the two sides had made "very little progress" toward a deal after a third round of talks this week.

Bloomberg 15.5.2020



Source: OBR May 2020



It would be 'foolish' to rule out negative interest rates – Andrew Bailey BOE...

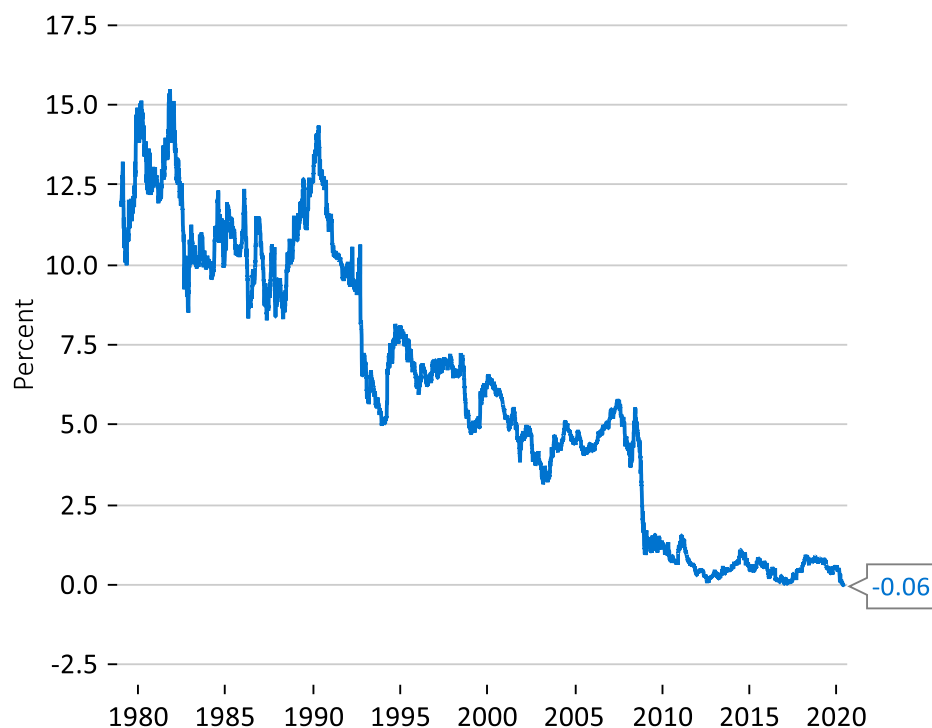


Negative bond yields become a reality in the UK



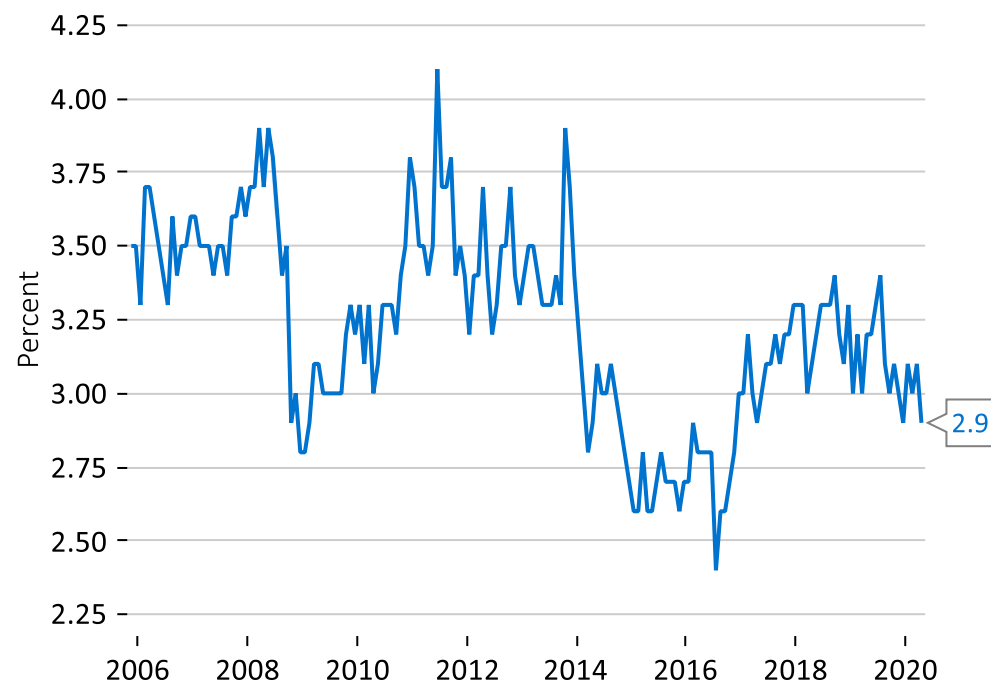
Long-term inflation expectations falling

UK 2 year Gilt yield



Source: Macrobond

YouGov/Citi, UK Inflation expectation over the Longer Term - 5 to 10 Years



Source: Macrobond

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

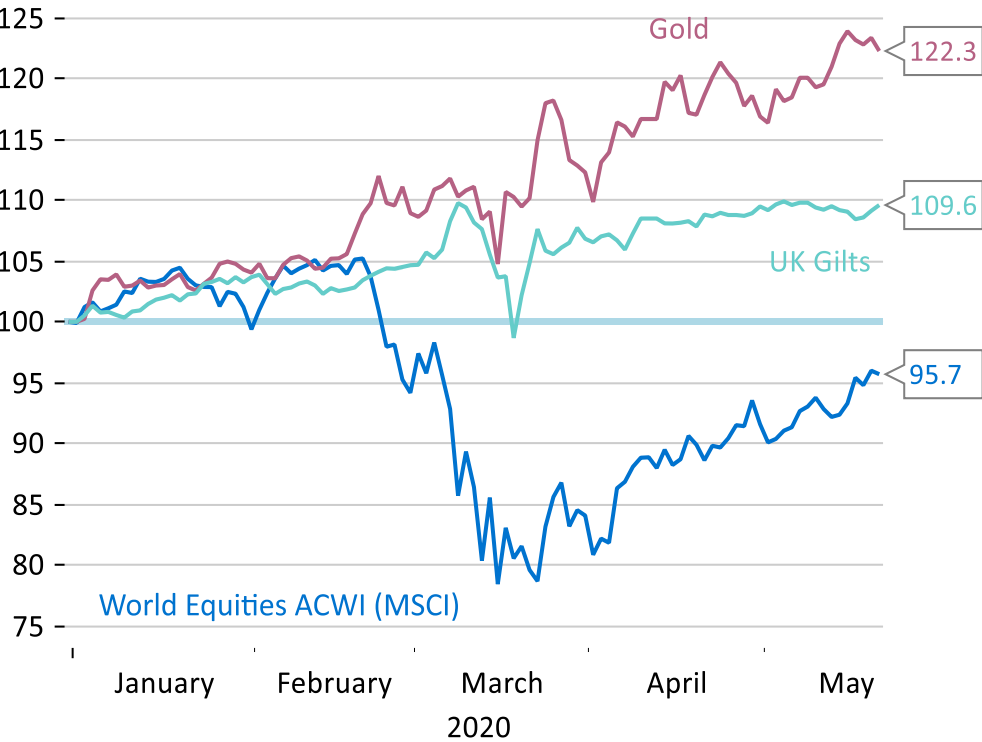


Global equities rally from March lows...



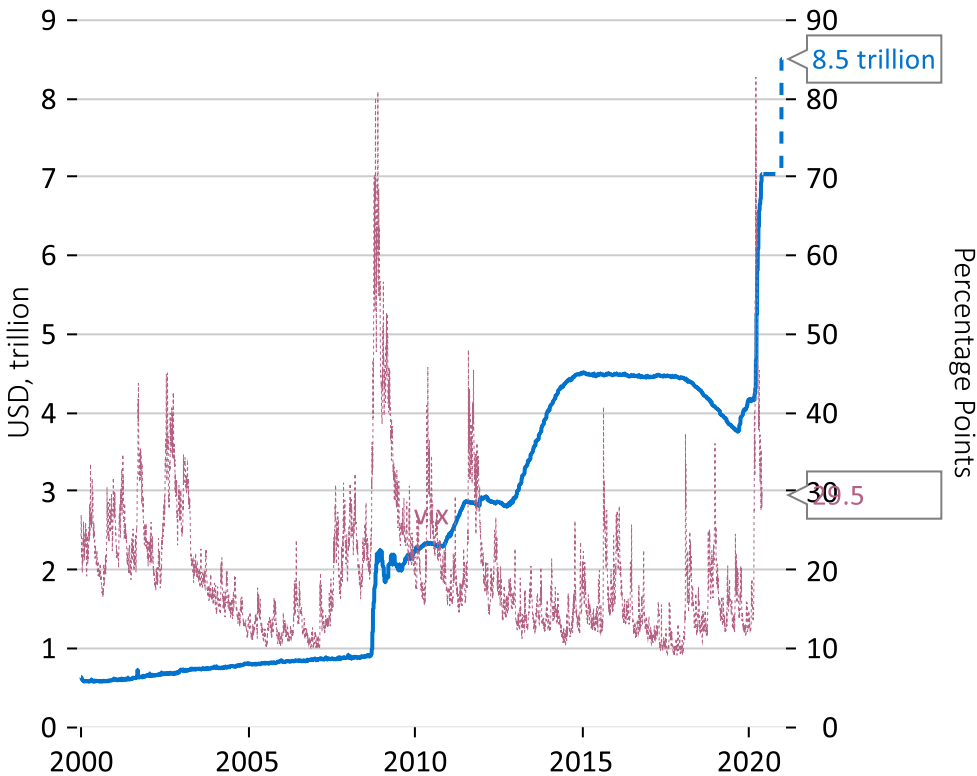
Action by central banks has dampened volatility

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



Source: Macrobond

US Federal Reserve balance sheet



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

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 rise in sovereign yieldsNeutral corporates: Central Banks backstop investment grade bonds - solvency and liquidity risk diminishedHigh Yield and EM debt: Extreme caution to reflect default risks and depth of EM recession
Equities	Neutral/Underweight – Deep global recession suggests material earnings risk but improving visibility on exit <ul style="list-style-type: none">Central Bank response timely and unprecedented in scale – other assets unattractiveEarnings outlook opaque but shock is ultimately temporaryLast year of Presidential cycleRetain Underweight to Emerging world equities ex China
Alternatives	Overweight – high risks in leveraged assets but infrastructure & renewables attractive <ul style="list-style-type: none">Clear preference for liquid uncorrelated assetsGold a hedge against unprecedented policy stimulus
Cash	Neutral <ul style="list-style-type: none">Source of funds
Risks	Current: Resurgence in virus in H2 2020, China-US tension, emerging world financial crisis, no-deal Brexit Longer-term: Damage to global trade linkages, balance sheet impairment for corporates and households, valuations stretched

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