

Sarasin Global Strategy and Outlook

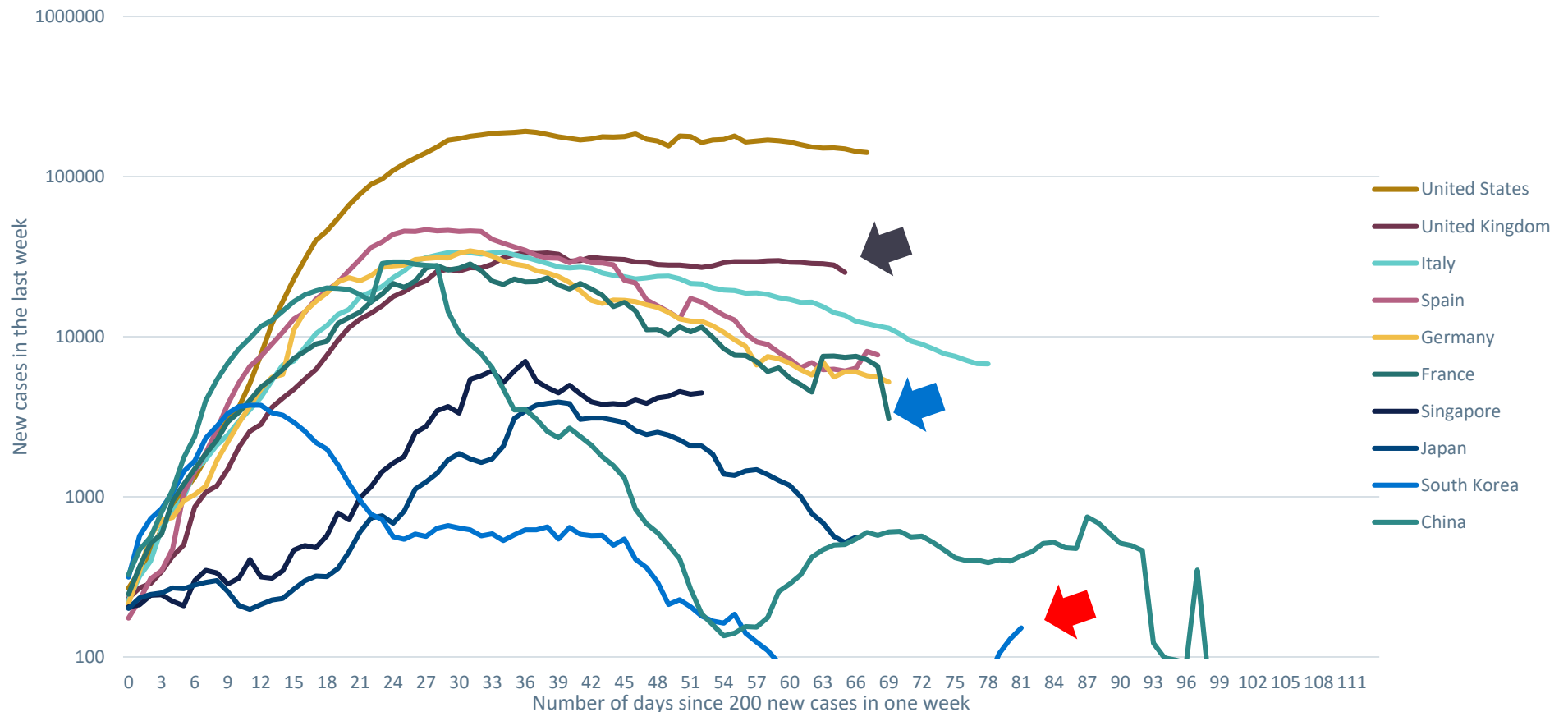
Opening up but counting the cost

15 May 2020



European new cases declining, moving gradually to reflect Asia's – UK measure is still highest in Europe

 European cases no declining faster decline – US still the centre of global pandemic



“The pandemic, which is disproportionately hurting low-skilled, low-wage jobs, while leaving higher-skilled jobs less affected – will further widen income inequality within and between countries”

UN May 13 2020

Source: Sarasin/WTO

Emerging from the lockdown in Asia and Europe

Europe appears to be reopening earlier in the epidemic cycle than Asia with less testing capacity



Status of reopening measures – is Europe moving early?

The great unlocking?

On reopening, Asia leads, and Europe follows, with strategies differing across countries.



	School		Retail		Industry	Services			Events, Large Gathering	Travel (International)	Contact Tracing*	Social Distancing/Masks	Targeted Isolation	Testing Expansion
	Primary	Higher	Small	Large		Small	Large	Cafes						
Austria	Yellow	Yellow	Green	Yellow	Yellow	Green	Red	Red	Red	Red	✓	✓		✓
Czech Republic	Red	Yellow	Green	Green	Yellow	Yellow	Red	Yellow	Red	Yellow	✓	✓		
Denmark	Green	Red	Green	Green	Yellow	Green	Red	Red	Red	Red	✓	✓		✓
France	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Red	Red		✓	✓	✓
Germany	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Red	Red	✓	✓	✓	✓
Italy	Red	Red	Yellow	Red	Green	Red	Red	Red	Red	Red	✓	✓		
Norway	Green	Yellow	Green	Green	Green	Green	Green	Yellow	Red	Red	✓	✓	✓	
Poland	Red	Red	Green	Green	Green	Yellow	Yellow	Red	Red	Red		✓		
Spain	Red	Red	Yellow	Red	Yellow	Yellow	Red	Yellow	Red	Red		✓		✓
Sweden	Green	Red	Green	Green	Green	Green	Green	Green	Red	Yellow		✓	✓	✓
China	Yellow	Yellow	Green	Green	Green	Green	Green	Green	Yellow	Red	✓	✓	✓	✓
New Zealand	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Red	✓	✓	✓	✓
South Korea	Red	Red	Green	Green	Green	Green	Green	Green	Red	Green	✓	✓	✓	✓

Note: Estimated status of opening as of May 12 (except for New Zealand whose status is as of May 14), based on announcements by authorities. Cafes refers to dine-in restaurants and cafes. Travel (international) refers to non-essential international travel. *At this stage, contact tracing apps in Europe are mainly on a voluntary basis with decentralized data-protection/sharing approach.

Scale of Opening: green = open with restrictions/guidelines, yellow = partially open, red = closed.

Source: IMF May 2020



Jerome Powell's assessment of the long term costs of COVID-19 is realistic...

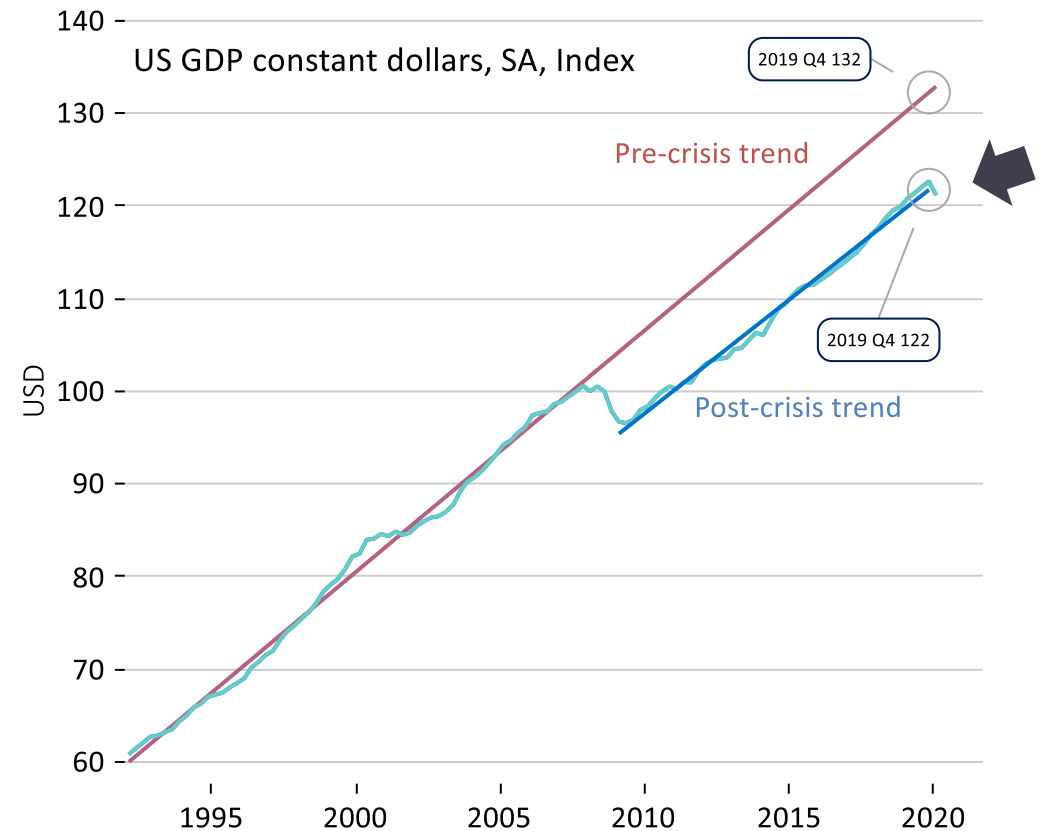
Deep recessions leave deep scars

- 'The record shows that deeper and longer recessions can leave behind lasting damage'
- 'Avoidable household and business insolvencies can weigh on growth for years to come.'
- 'Long stretches of unemployment can damage or end workers' careers as their skills lose value and professional networks dry up, and leave families in greater debt.'
- 'The loss of thousands of small- and medium-sized businesses across the country would limit the strength of the recovery when it comes. These businesses are a principal source of job creation.'
- 'A prolonged recession and weak recovery could also discourage business investment and expansion.'

'The result could be an extended period of low productivity growth and stagnant incomes.'



Financial Crisis: permanent loss and weaker growth





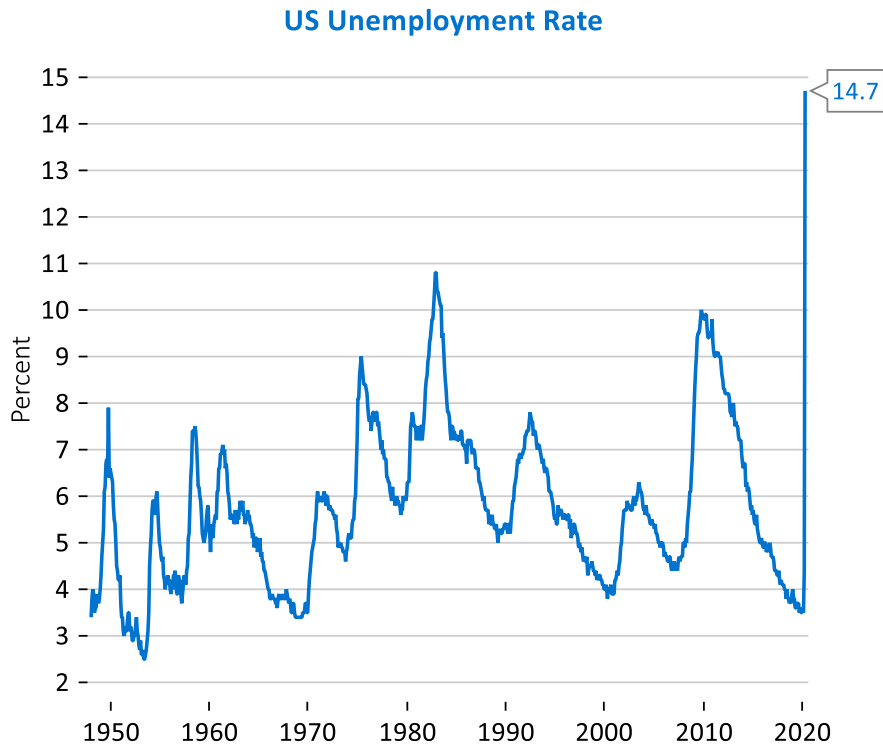
US unemployment: set to rise well past 20%



US Unemployment rate



US Jobless claims



Source: Macrobond

Pre-Corona labour force	164.3
Pre-Corona unemployed	5.8
week 1 claims	3.3
week 2 claims	6.7
week 3 claims	6.61
week 4 claims	5.25
week 5 claims	4.4
week 6 claims	3.17
week 7 claims	2.98
Total unemployed	38.21
Current unemployment rate	23.3%



Non farm employment fell by **20.5 million**; 18.5 million were temporary layoffs, 544K were permanent layoffs



A near total freeze in activity in parts of the UK economy show the pressure for easing lockdown...

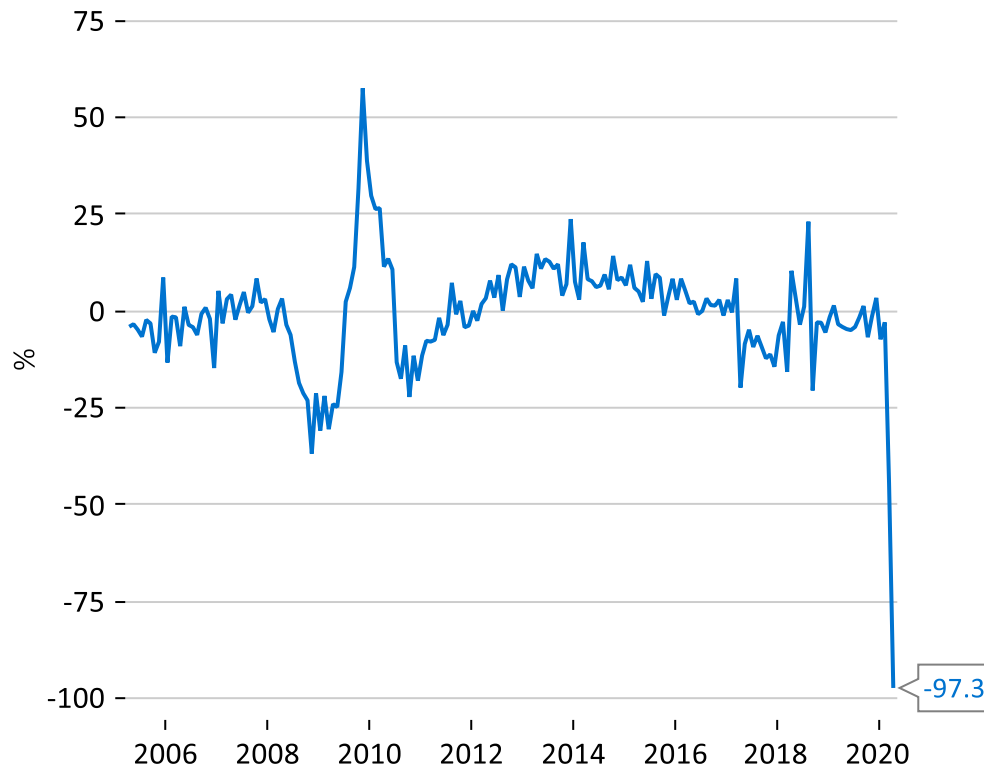


Only 4,321 cars sold in the UK in April – lowest since 1946



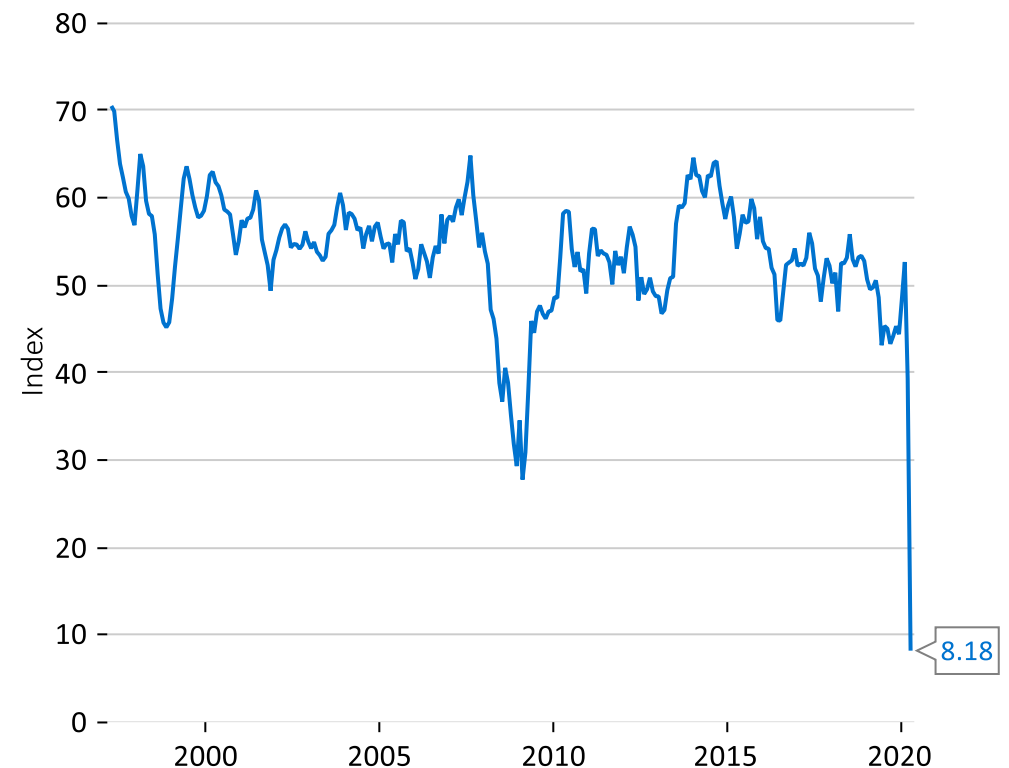
Lowest ever reading for UK Construction Survey

Annual rate of change of UK new vehicle sales & registrations



Source: Macrobond

UK Markit Construction PMI



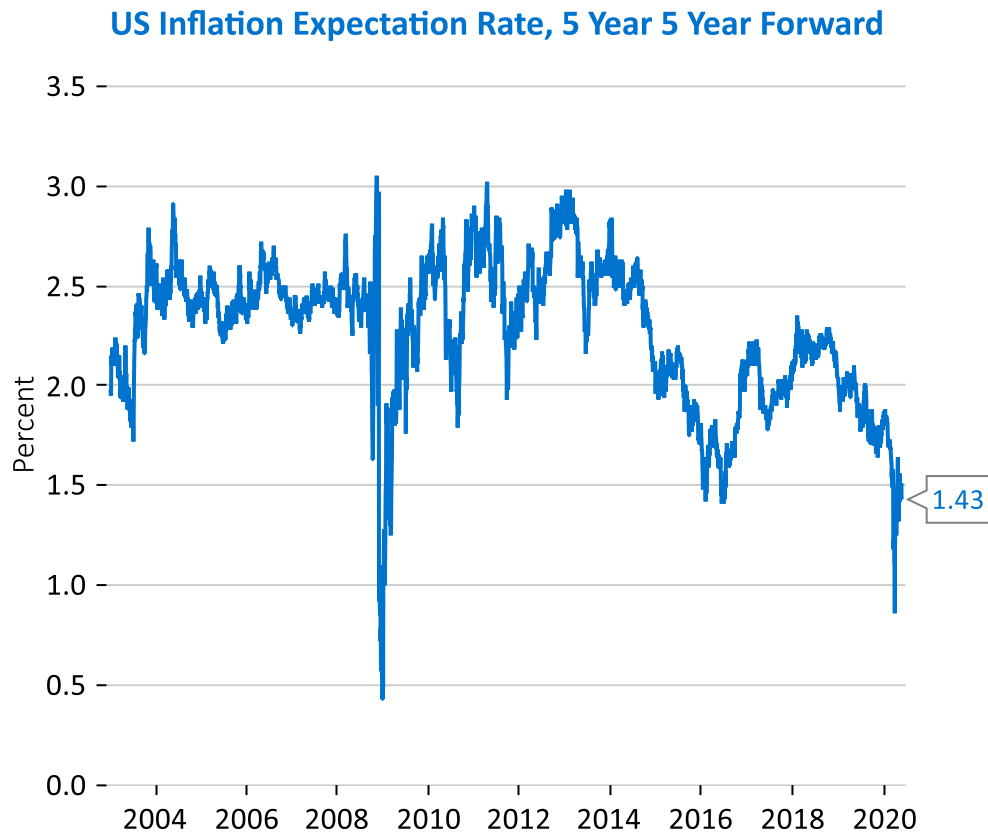
Source: Macrobond

Economic lock down has forced 80% of UK business to consider accessing government support schemes ONS May 2020

Our key indicators of deflationary risk and eurozone break up are not at crisis levels...



Expected US inflation 5 years from now



Source: Macrobond



Ultimately Italy needs 'Corona-Bonds.'

Italy less Germany 10 Year Govt Bond Yield

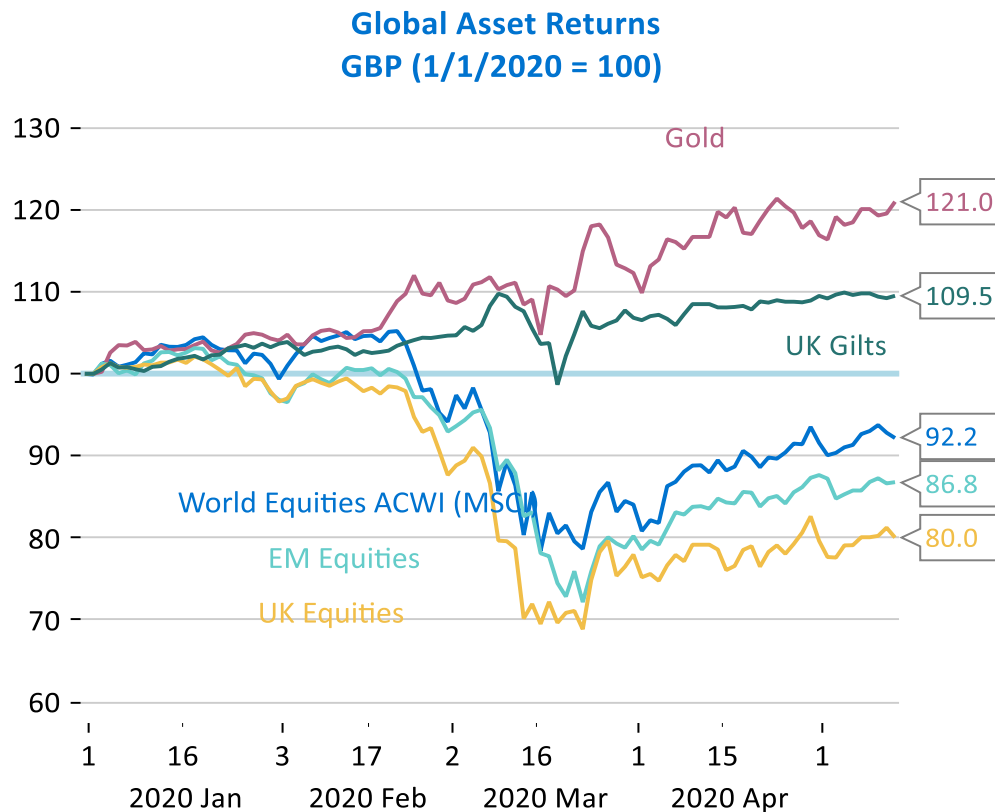


Source: Macrobond

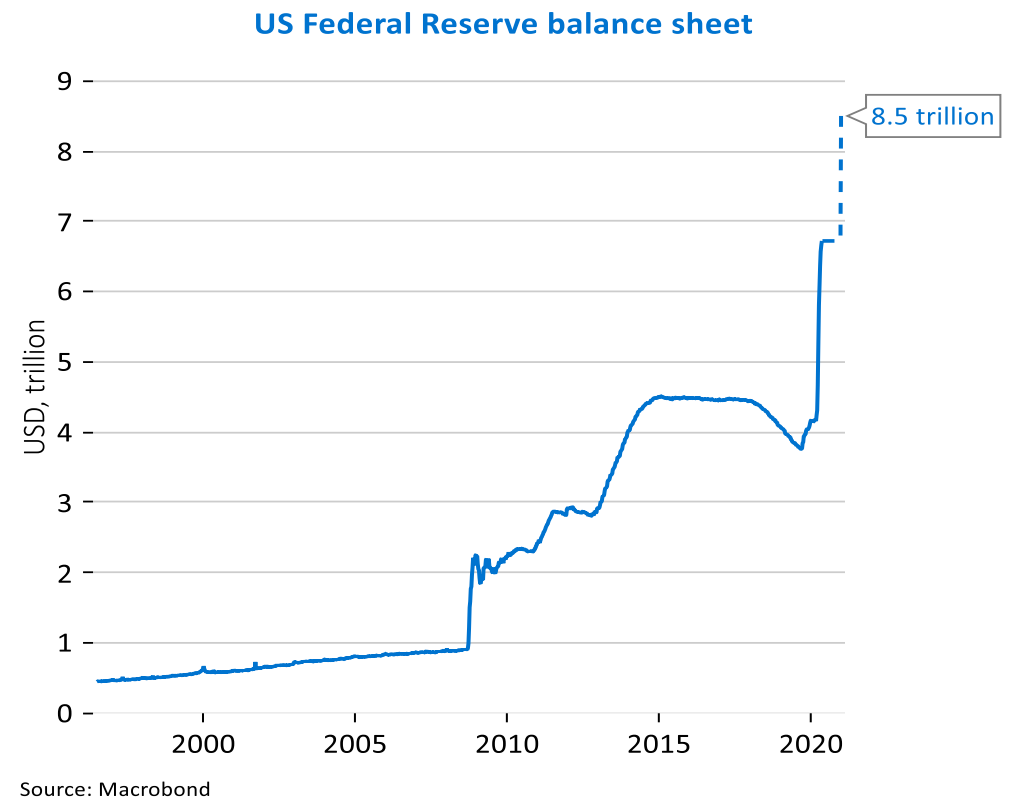
Equities saw the fastest fall into a bear market in history but have recovered more than half their declines on the back of stimulus ...



Global equities rally from March lows...



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



‘The virus is the cause, not the usual suspects...something worth keeping in mind as we respond’ Jerome Powell Federal Reserve 13 5 2020

Economic risks severe but policy response extraordinary

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

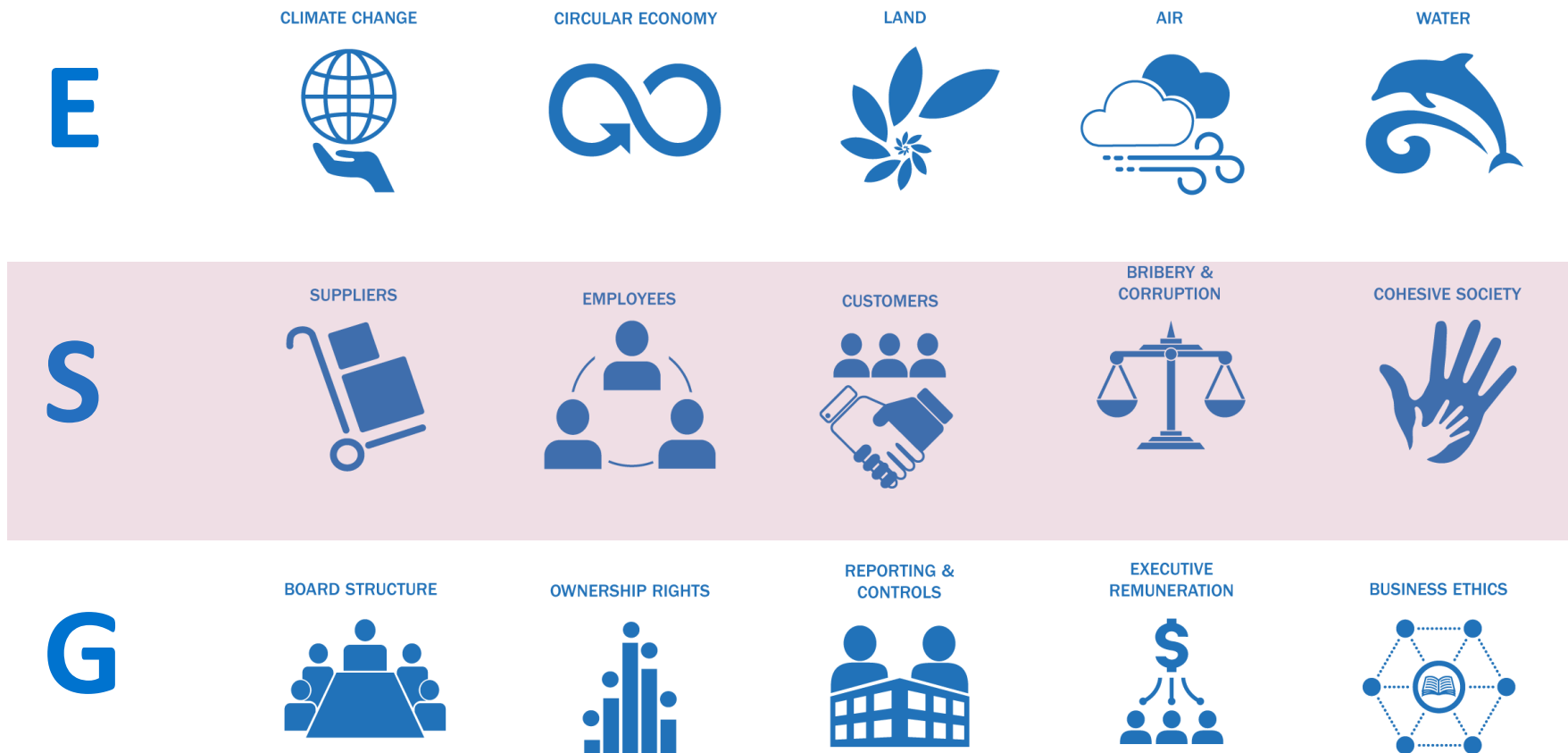


Global strategy update May 2020

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 yields• Neutral corporates: Central Banks backstop investment grade bonds - solvency and liquidity risk diminished• High 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 unattractive• Earnings outlook opaque but shock is ultimately temporary• Last year of Presidential cycle• Retain 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 assets.• Gold 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, emerging world economic crisis, no-deal Brexit Longer-term: Damage to global trade linkages, balance sheet impairment for corporates and households, valuations stretched

ESG analysis is now even more important

Tolerance of harmful activities will be reduced - resulting in investment risk



*During and after COVID-19 we urge the business community & the companies we invest in to take what steps they can & to consider the following in particular: **Provide paid leave, prioritise health and safety, maintain employment, maintain supplier & customer relationships, financial prudence***

Important information

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