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Sarasin Global Strategy and Outlook

Managing the aftermath of lockdown...

26 June 2020





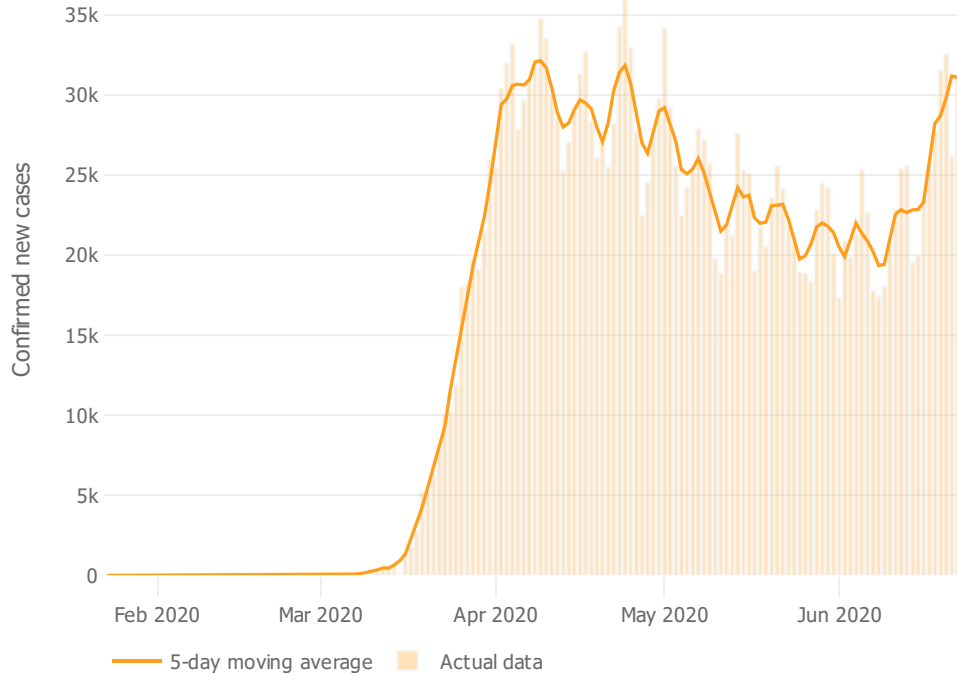
US: New cases accelerating in Southern States but not a new or second round...



US: Daily new cases confirmed (5-day average)

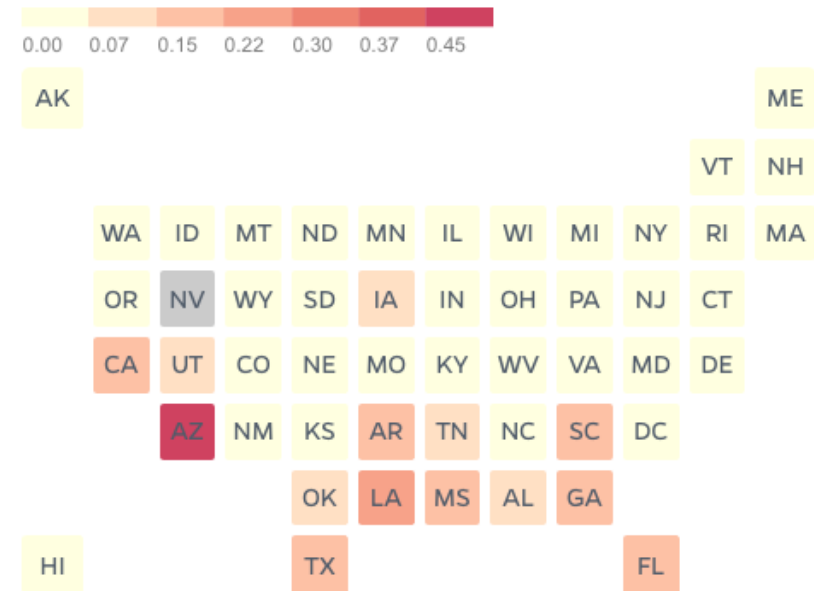


Confirmed cases per 1000 people by US State



JOHNS HOPKINS UNIVERSITY & MEDICINE | CORONAVIRUS RESOURCE CENTER

New confirmed cases per 1,000 people



Source: John Hopkins University June 2020

This graphic was last updated on Wednesday, June 24, 2020 at 03:00 AM EDT.



Texas: Were reopening measures taken too early...?



New Confirmed cases, Opening/Closing measures by State Governor

Texas

Select another state

Texas

How to read this graphic

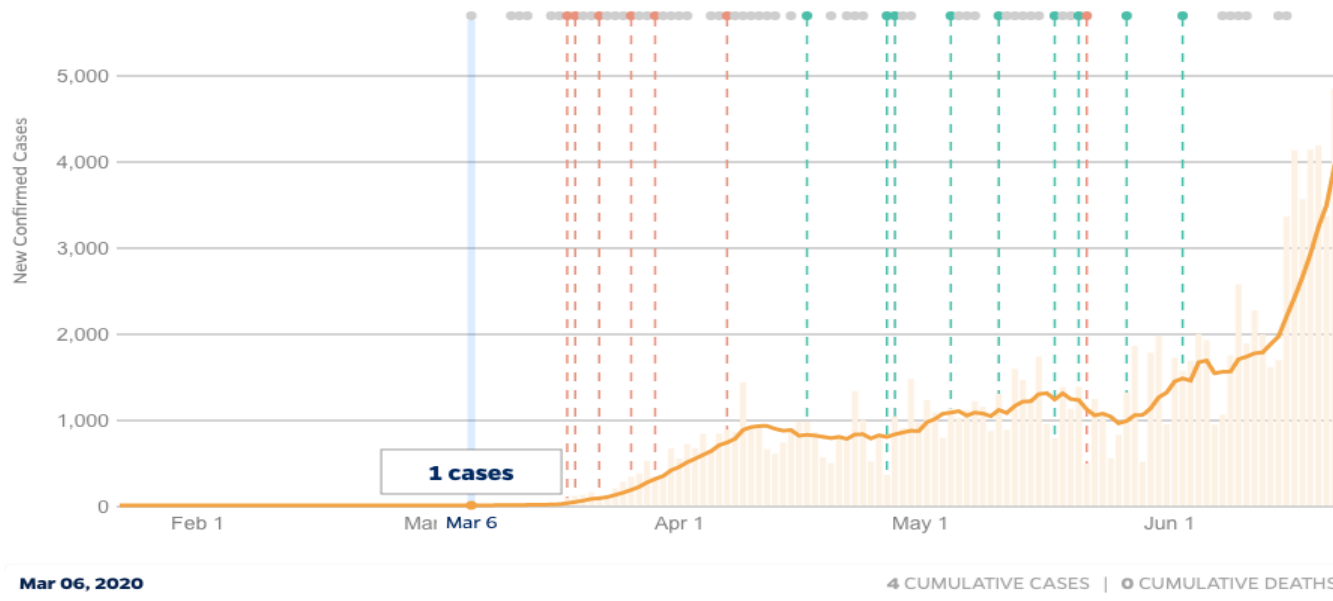
New Confirmed Cases

New Deaths

Timeline of Policy Events

Restriction/closing Opening Deferring decisions to county Other

Previous Next



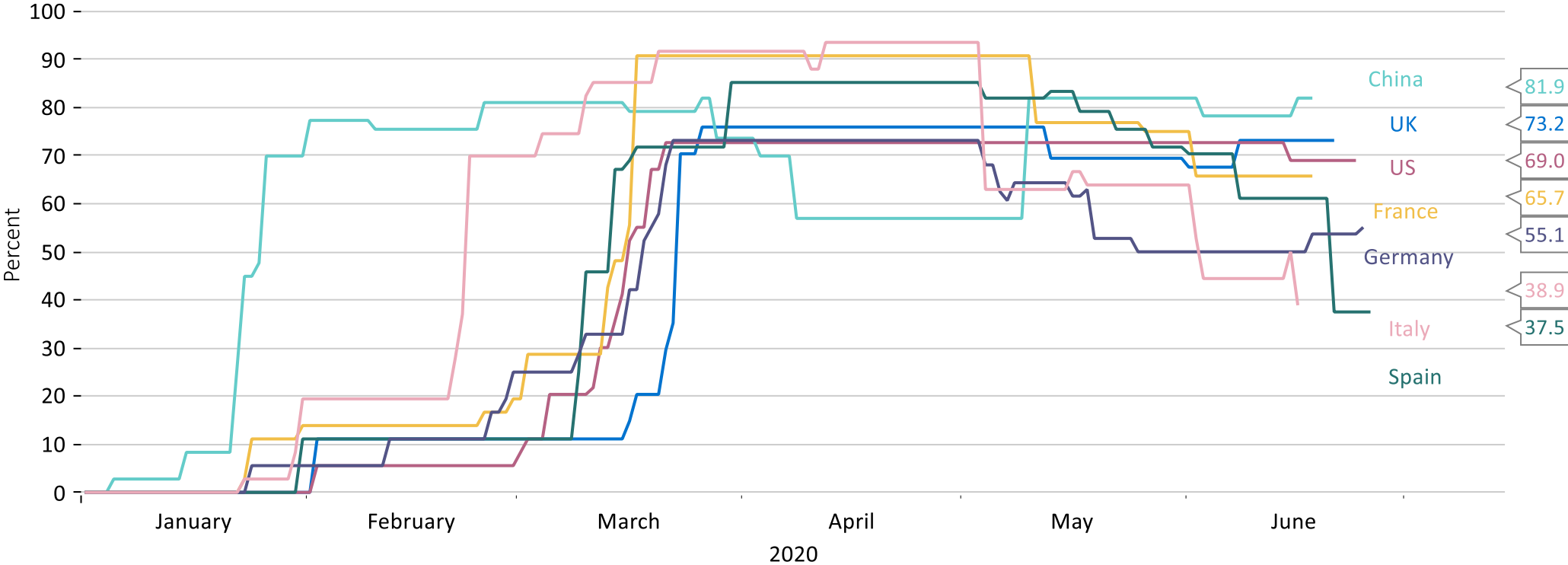
Governor Abbott issued a statement regarding price-gouging medical supplies, pointing out that should there be extensive reports of price-gouging, the Governor can grant the Texas Attorney General broader powers to prosecute those cases.

Source: John Hopkins University June 2020

Government restrictions are easing slowly...



COVID-19 Global Stringency Index



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.

Economic outlook: Depth of recession becoming clearer, but *outlook cloudier* even when activity can fully resume

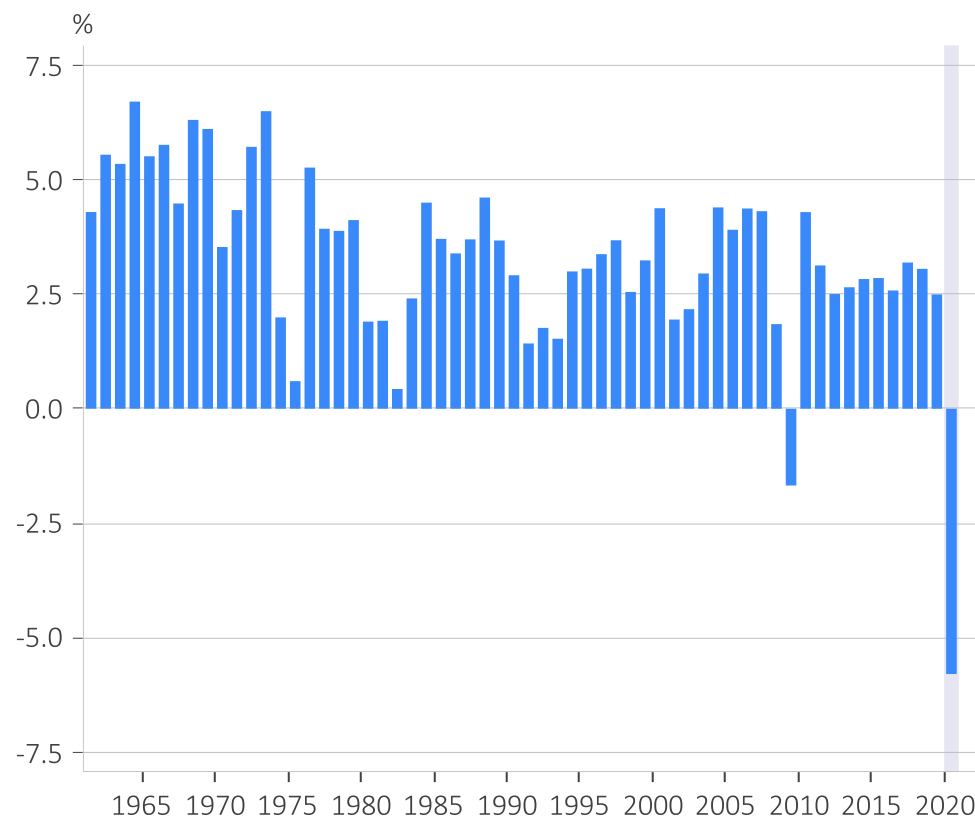
Sarasin Forecasts 2020 2021

	2020	New forecasts	2021
China	-2.2%	1.0%	8.7%
US	-5.0%	-4.5%	3%
Eurozone	-9.0%	-9.5%	6.1%
UK	-9.0%	-10.3%	7.2%
Japan	-8.5%	-4.2%	1.4%
World	-5.8%	-5.8%	4.2%



2020 Recession is likely to be worse than 2008-09

Global GDP, USD, real



Source: Macrobond and Sarasin and Partners

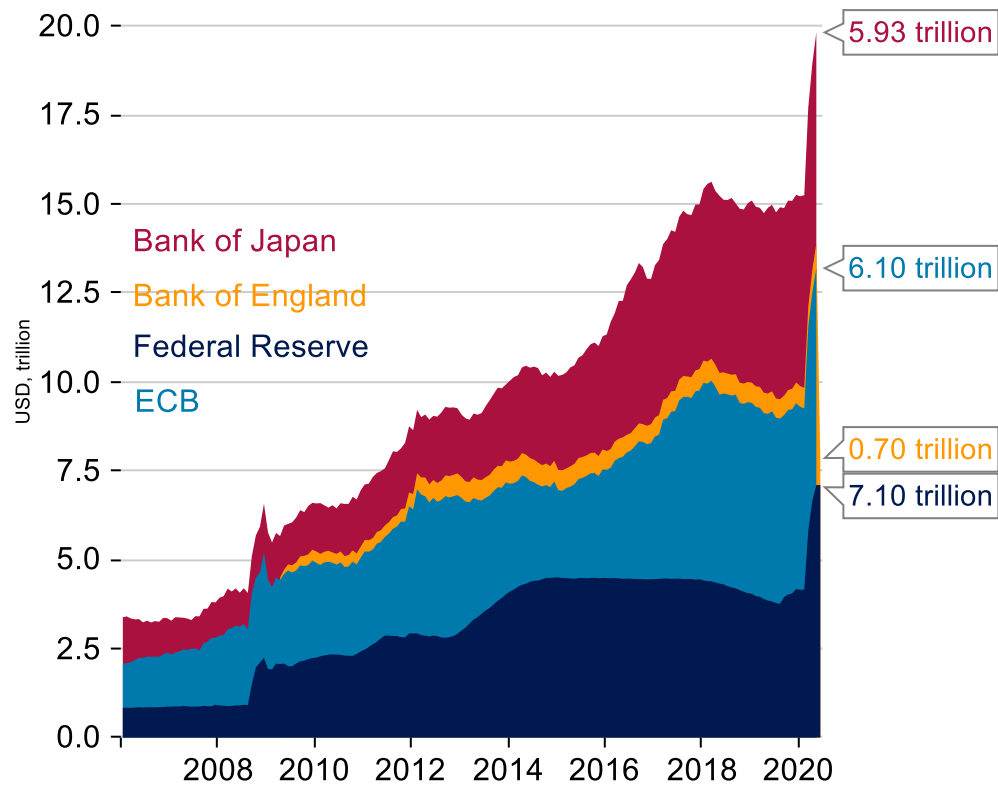


Global stimulus measures on an extraordinary scale...



Major Central banks

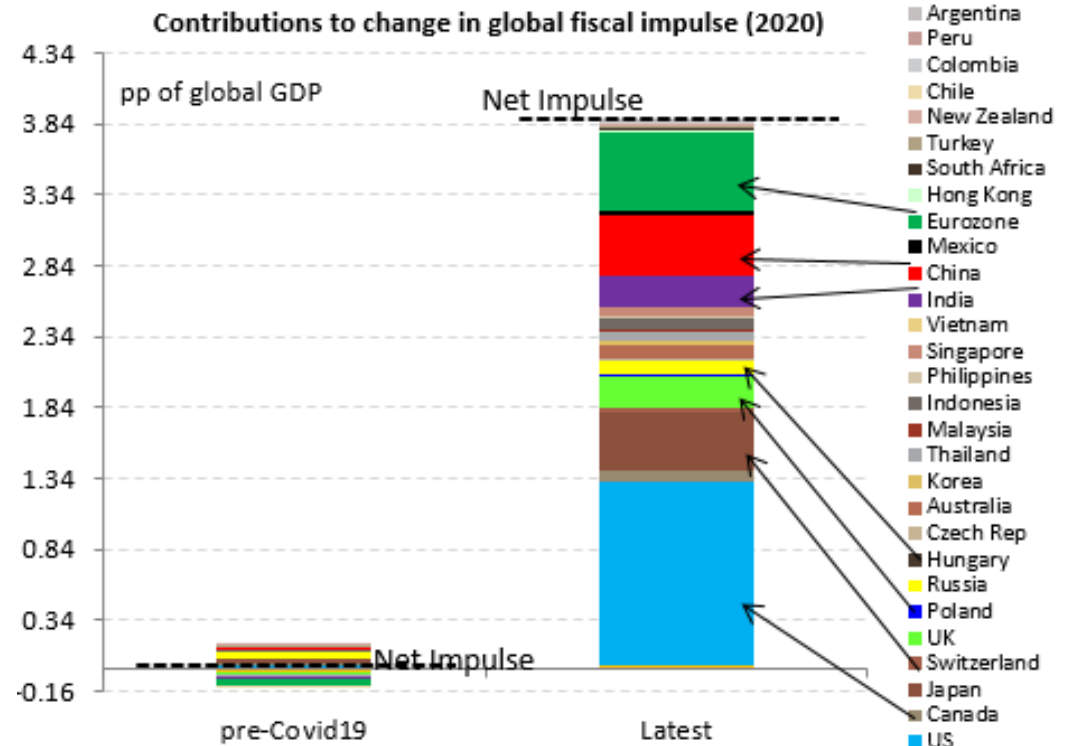
Central bank balance sheets (USD)



Source: Macrobond



Global Fiscal policy



Source: UBS Global Fiscal Tracker



Europe – a global leader at last?



1. EU Recovery Plan ambitious

- **Size and composition:** €750bn (5.4% EU GDP). €500bn Grants + €250bn Loans.
- **Funded:** New debt issued in financial markets 2028-2058

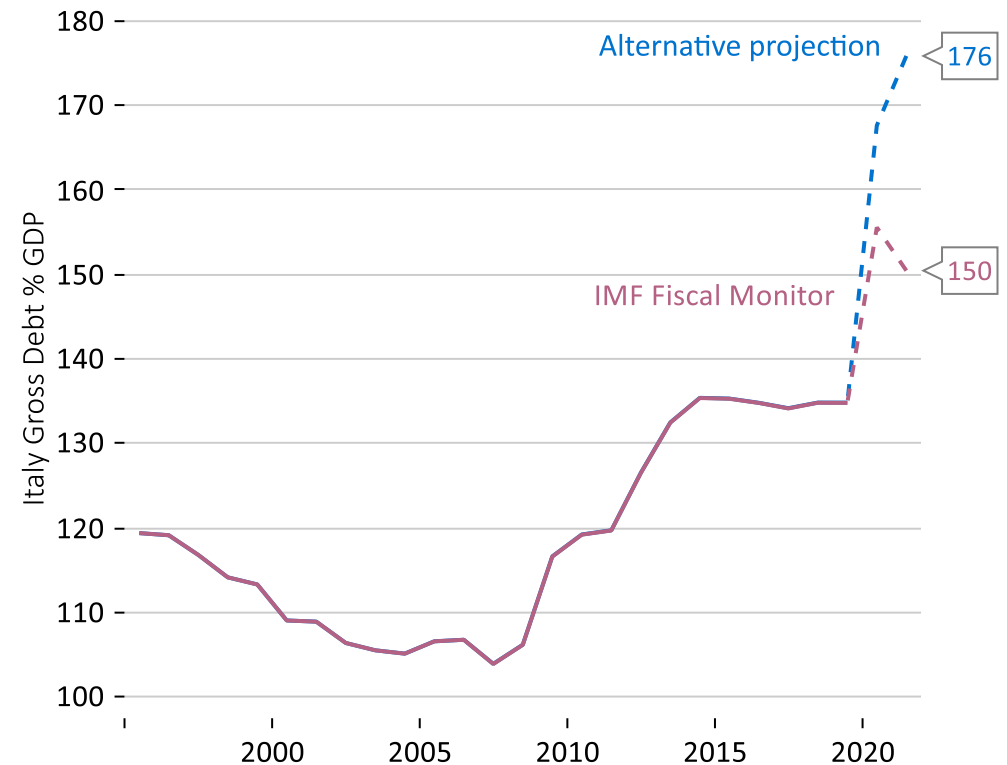
2. ECB surprises

- The ECB decision exceeded market expectations for bond purchases - PEPP package increased by **€600bn**, from €750bn - **total package to €1.35bn.**



Projections - Italy gross debt as a share of GDP

Italy, Government gross debt as a share of GDP



Source: Macrobond

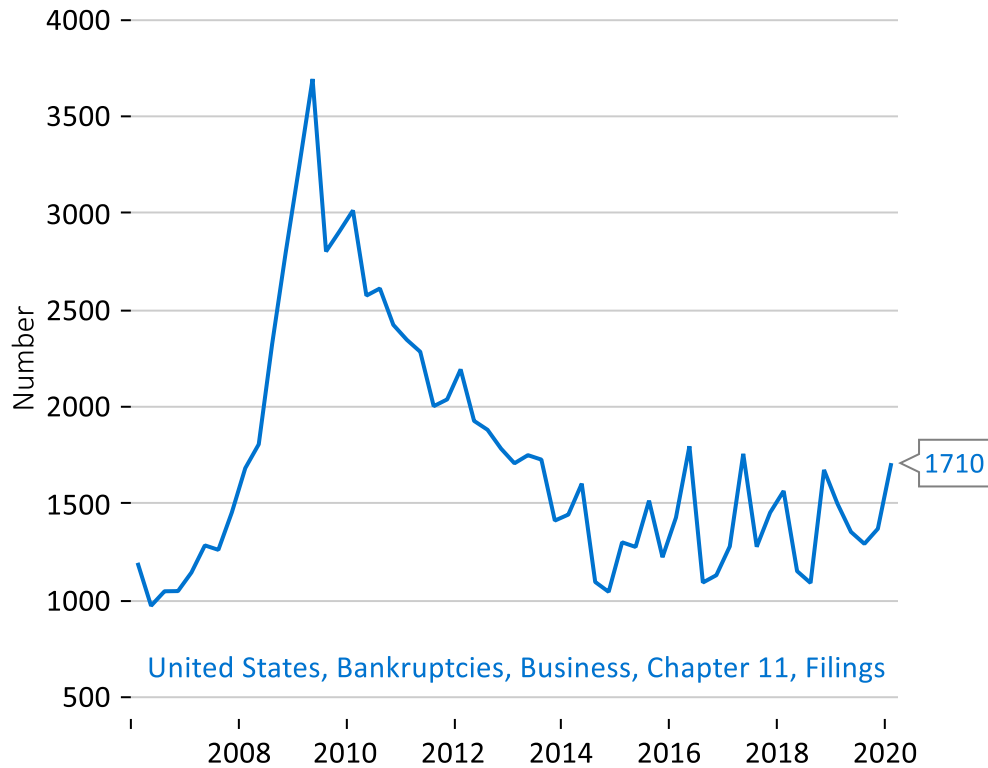
Uncertainty 1: Default picture still uncertain

Quarterly data has yet to pick up effects of Covid-19



Little visibility yet on bankruptcies

US Business Bankruptcies

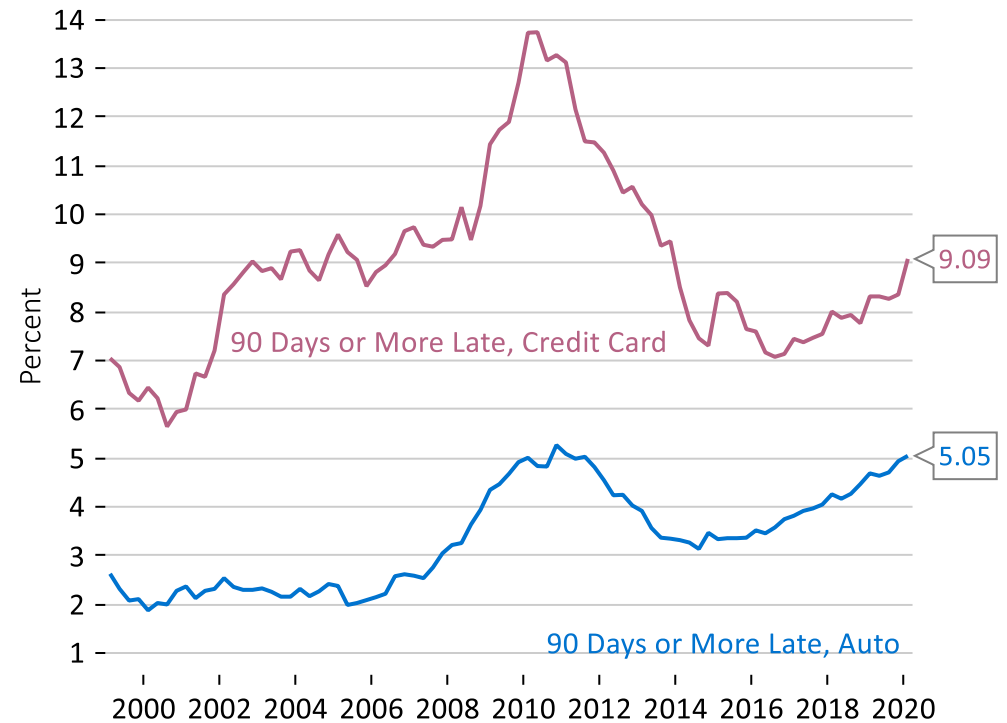


Source: Macrobond



Uptick in consumer defaults pre-Covid-19

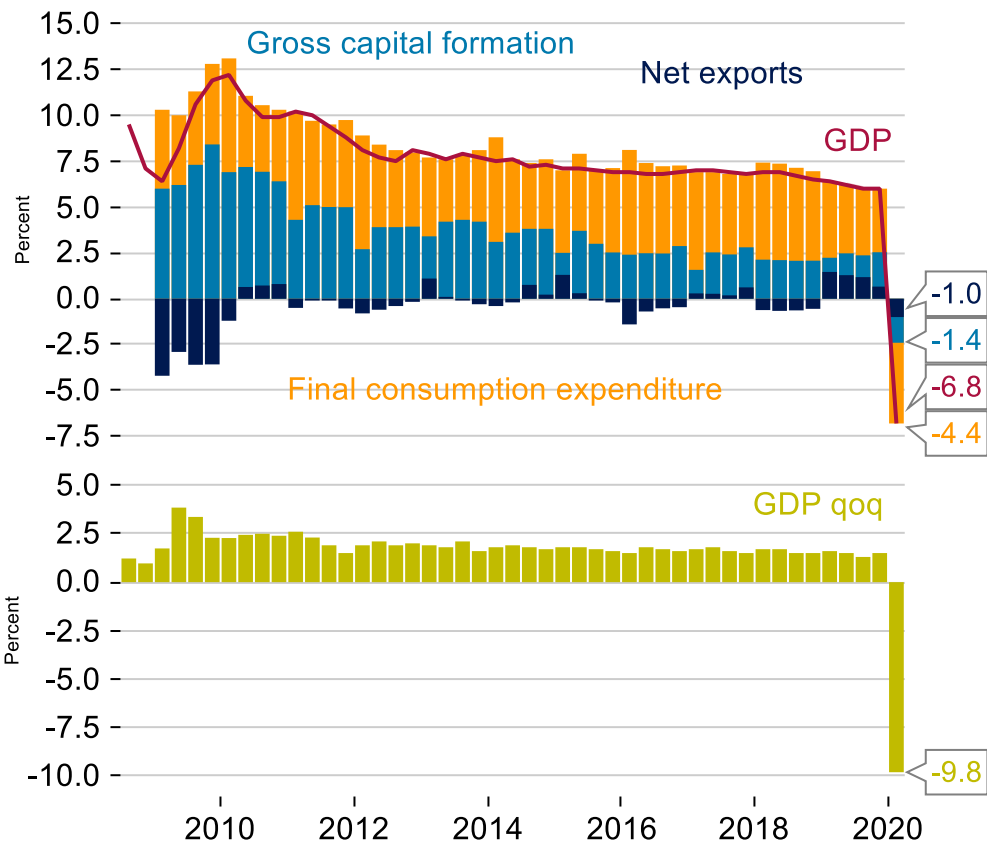
United States, Deposits & Loans, Consumer Credit, By Delinquency



Source: Macrobond

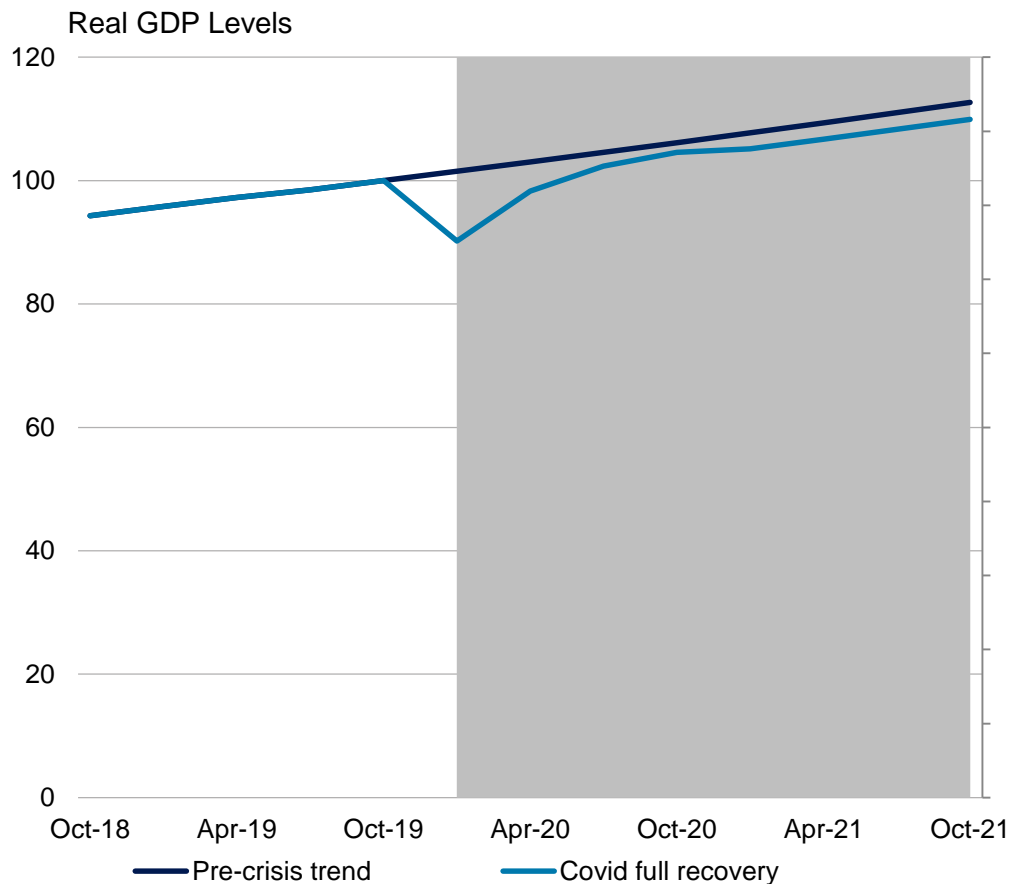
Uncertainty 2: Chinese policy response - a V-shaped recovery this time or not?

GDP decomposition



Source: Macrobond

GDP growth: 1% in 2020, and 8.7% in 2021





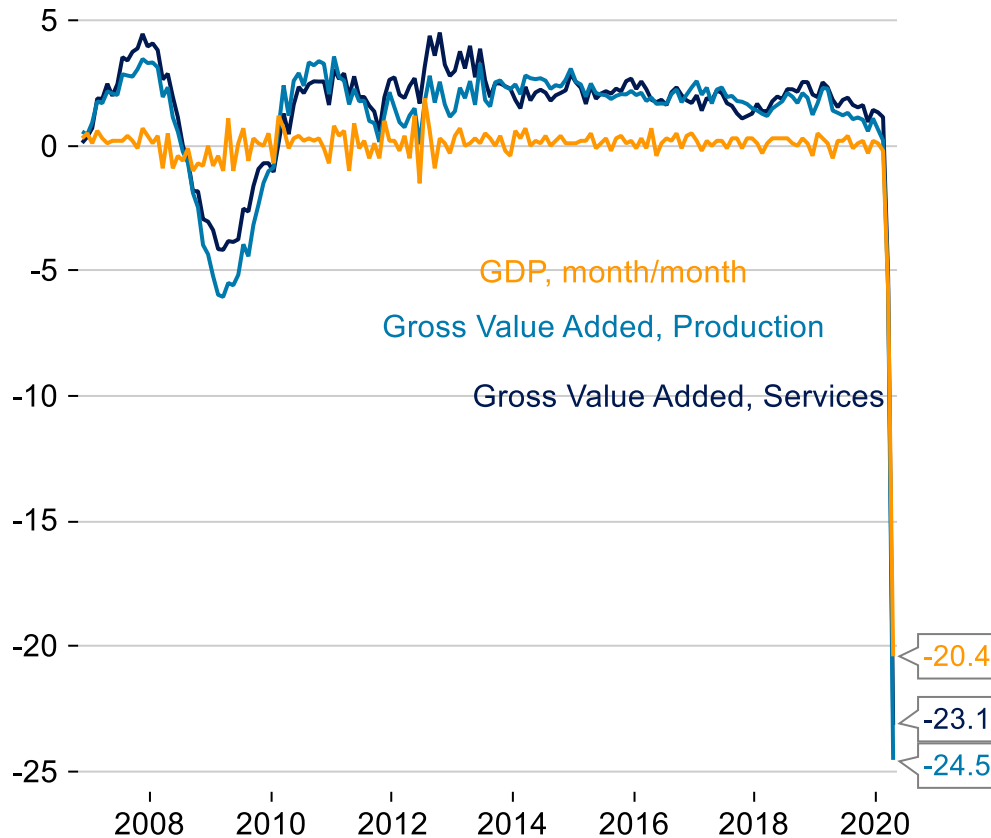
Uncertainty 3: UK - Can Boris Johnson afford No-Deal Brexit?



April contraction severe



Statement Boris Johnson plus EU June 2020



Source: Macrobond

EU-UK Statement following 'High Level Meeting'

“The Parties agreed nevertheless that new momentum was required. They supported the plans agreed by Chief Negotiators to intensify the talks in July and to create the most conducive conditions for concluding and ratifying a deal before the end of 2020. *This should include, if possible, finding an early understanding on the principles underlying any agreement.*”

Prime Minister Boris Johnson met the President of the European Council Charles Michel, the President of the European Commission, Ursula von der Leyen, and the President of the European Parliament, David Sassoli, on 15 June 2020

The global equity rally continues...underpinned by extraordinary liquidity

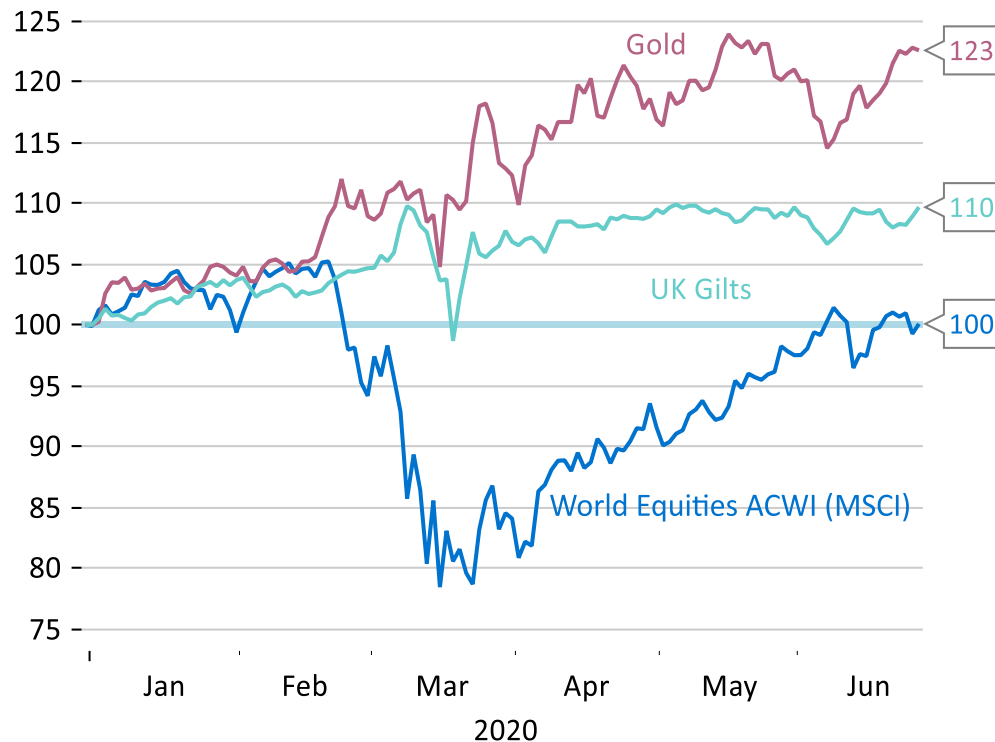


The 2020 US Bear market lasted just 34 days



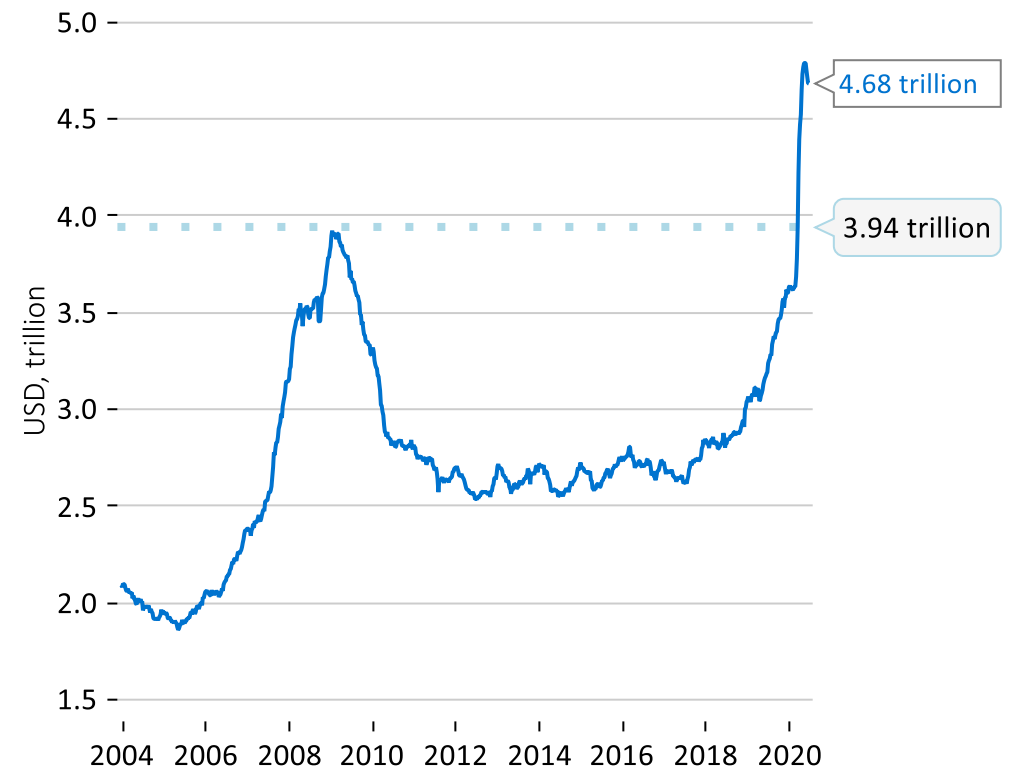
Cash still waiting for a home

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



Source: Macrobond

US Total Money Market Fund Assets, USD



Source: Macrobond

Economic risks severe but policy response extraordinary



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



Global strategy update June 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

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