

Sarasin Global Strategy and Outlook

A most unusual recovery...in six charts

17 July 2020



1. Uncertainty:

Global growth - a second virus wave or an early vaccine imply very different outcomes

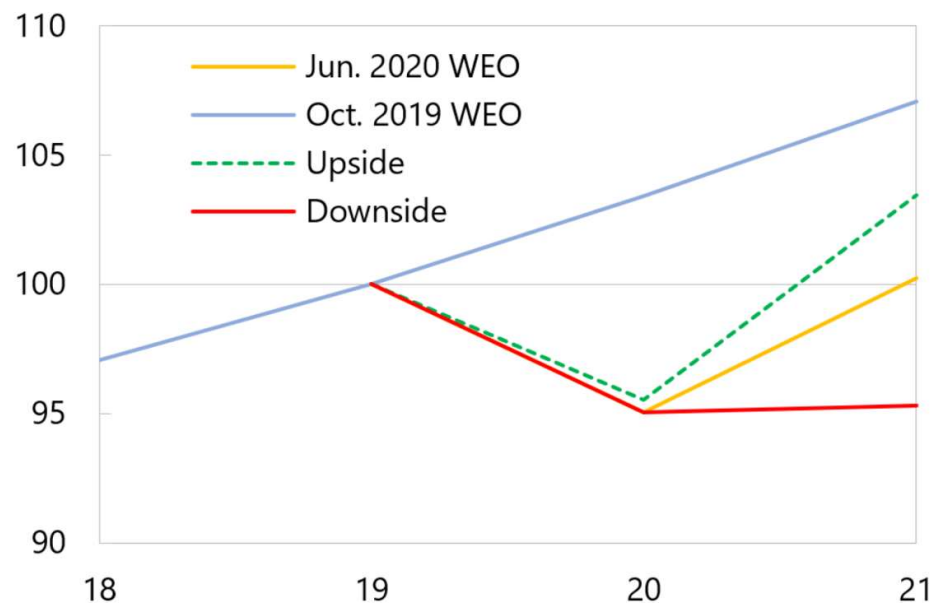


Global GDP Forecasts from IMF World Economic Report (WEO)

An uncertain outlook

Medical breakthroughs could accelerate recovery. A second wave of the virus could cause more disruption.

(index; 2019 GDP level = 100)



Source: IMF staff estimates.

Note: World real GDP in 2019 is indexed to 100.

“These alternative scenarios highlight that uncertainty remains exceptionally high.”



Kristalina Georgieva
Managing Director IMF July 2020

2. Debt:

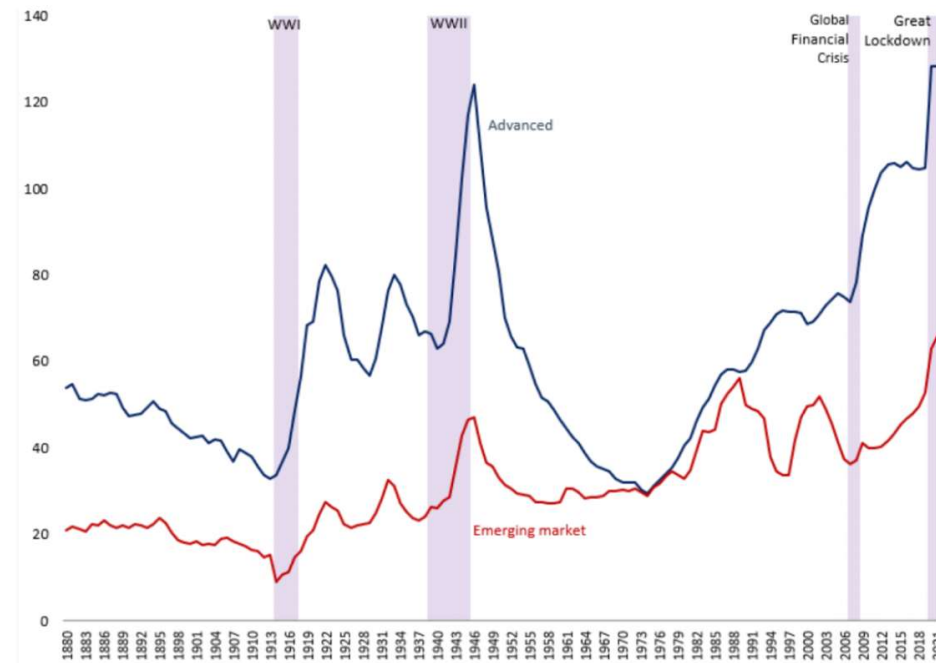
Global public debt reaches its highest level in recorded history



Fiscal stimulus of close to \$11tr means record levels of public debt...

Soaring public debt

Global public debt is projected to reach 101.5 percent of global GDP in 2020 – the highest level ever.
(percent of GDP)



Sources: Historical Public Debt Database, IMF WEO, Maddison Database Project; and IMF staff calculations.

Note: The aggregate public debt-to-GDP series for advanced and emerging market economies is based on debt-to-GDP data for a constant sample of 25 countries and 27 countries, respectively. The averages are calculated using weights derived from GDP in PPP terms.

3. US Economy:

Retail Sales and Home Building back at Pre-Pandemic levels...

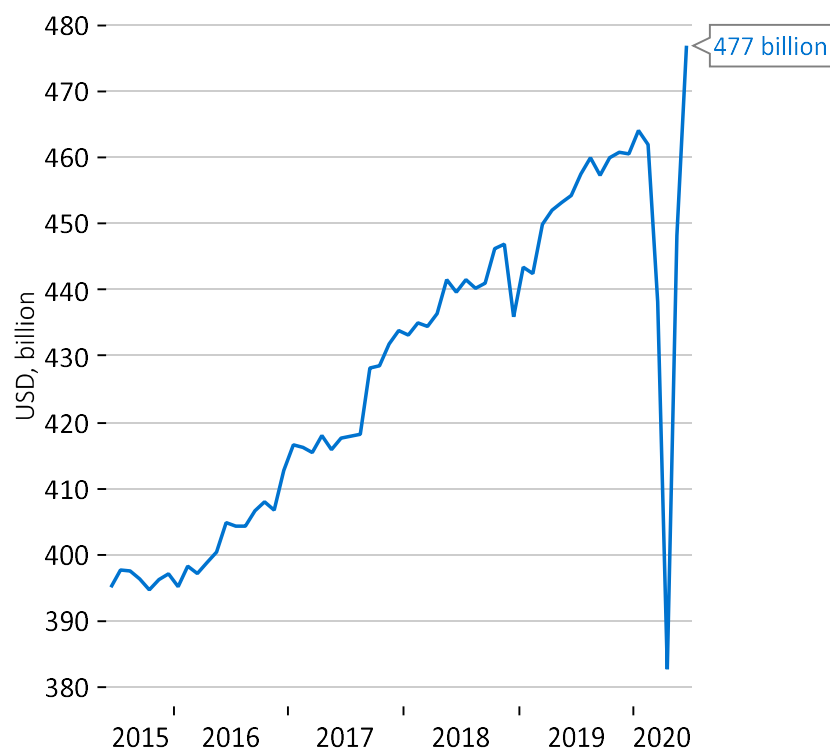


Retail Sales supported by government transfers



Builder Sentiment recovers on record low mortgage rates

US Retail Sales



Source: Macrobond

US Home Builders Housing Index (NAHB)



Source: Macrobond

‘Savings are up, incomes are up, home prices are up. So you will see the effect of this recession...but not right away. So it’s just very peculiar times....’ Jamie Dimon Chair &CEO JP Morgan Chase July 14

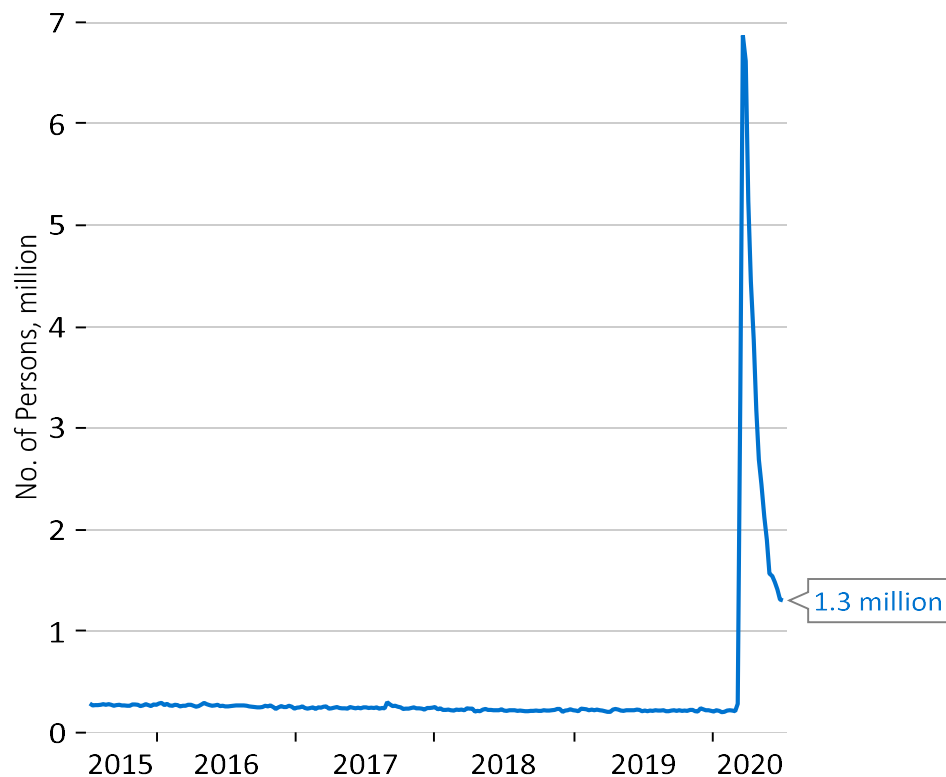
4. US Labour market:

Jobs recovery may be stalling...



Smallest decline since March 2020

US Initial Jobless Claims

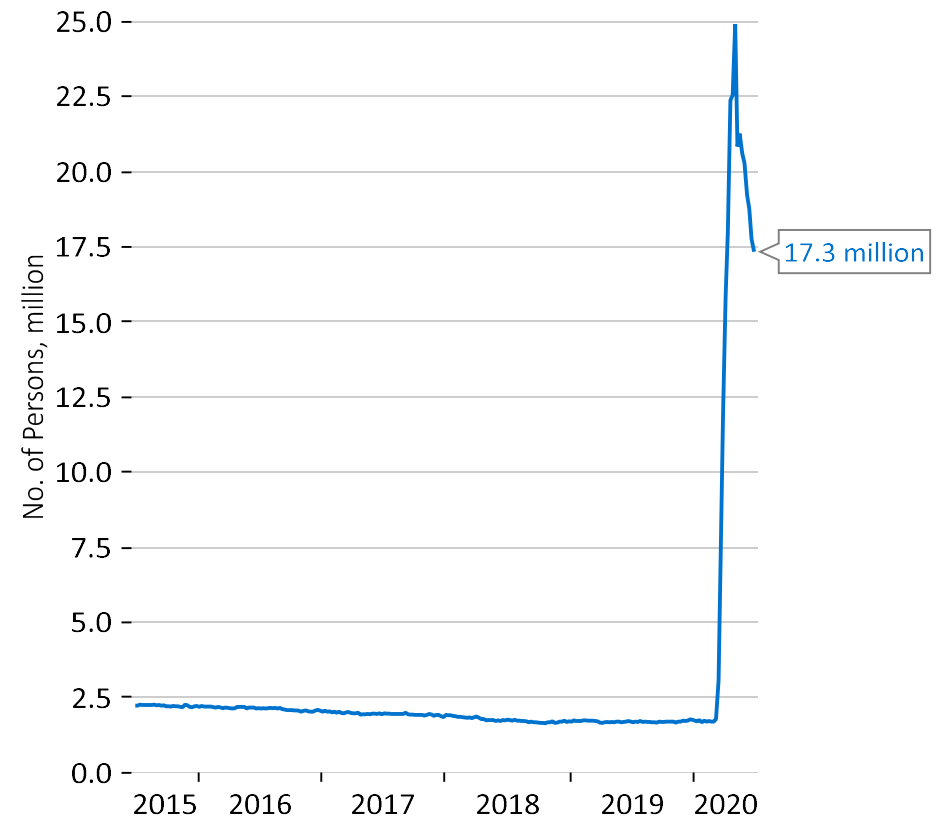


Source: Macrobond



Long-term unemployment with burden on weakest...

US Continuing Jobless Claims



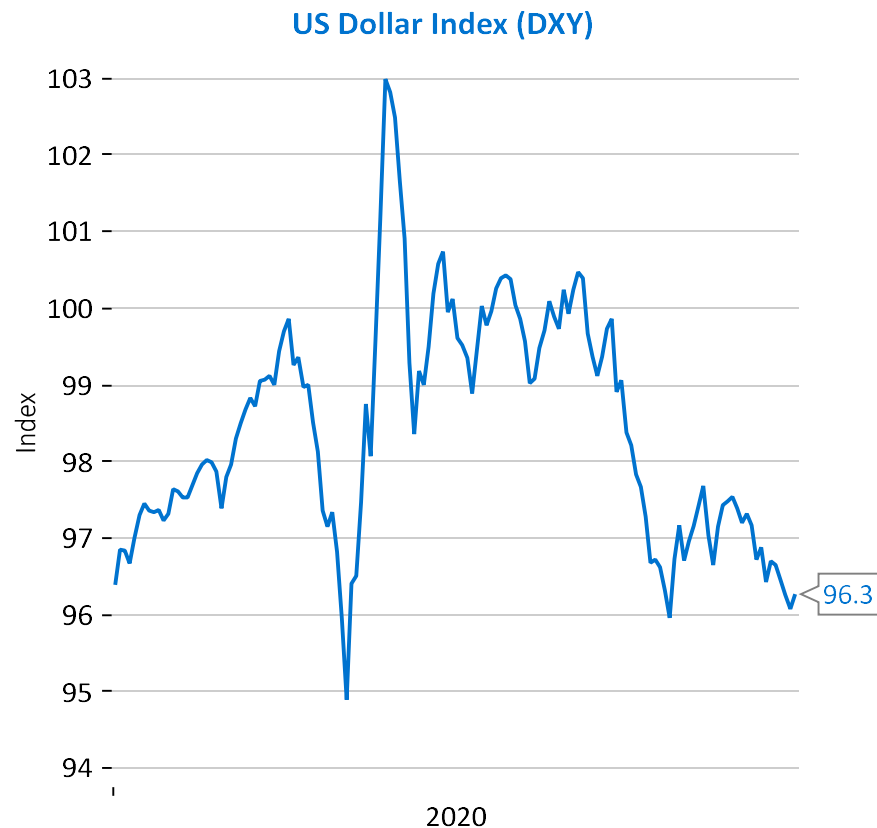
Source: Macrobond

5. The Dollar & Commodities:

Dollar lower – Copper higher



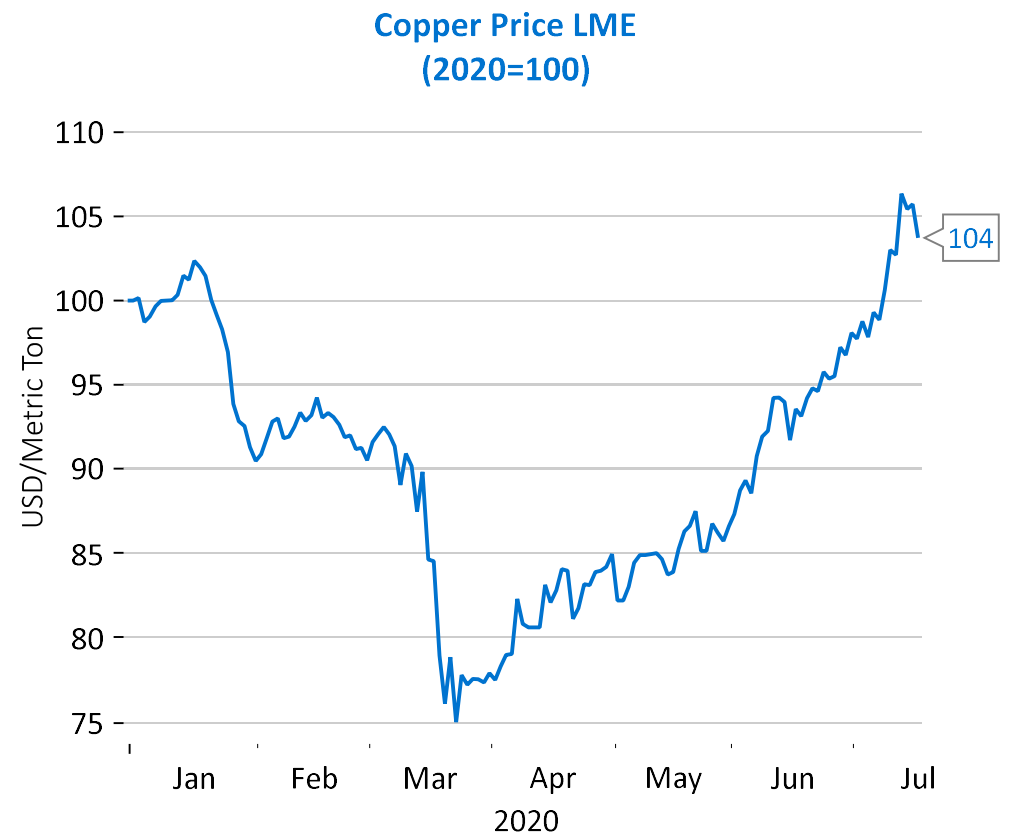
Global equity rally continues



Source: Macrobond



Commodity prices recover led by oil



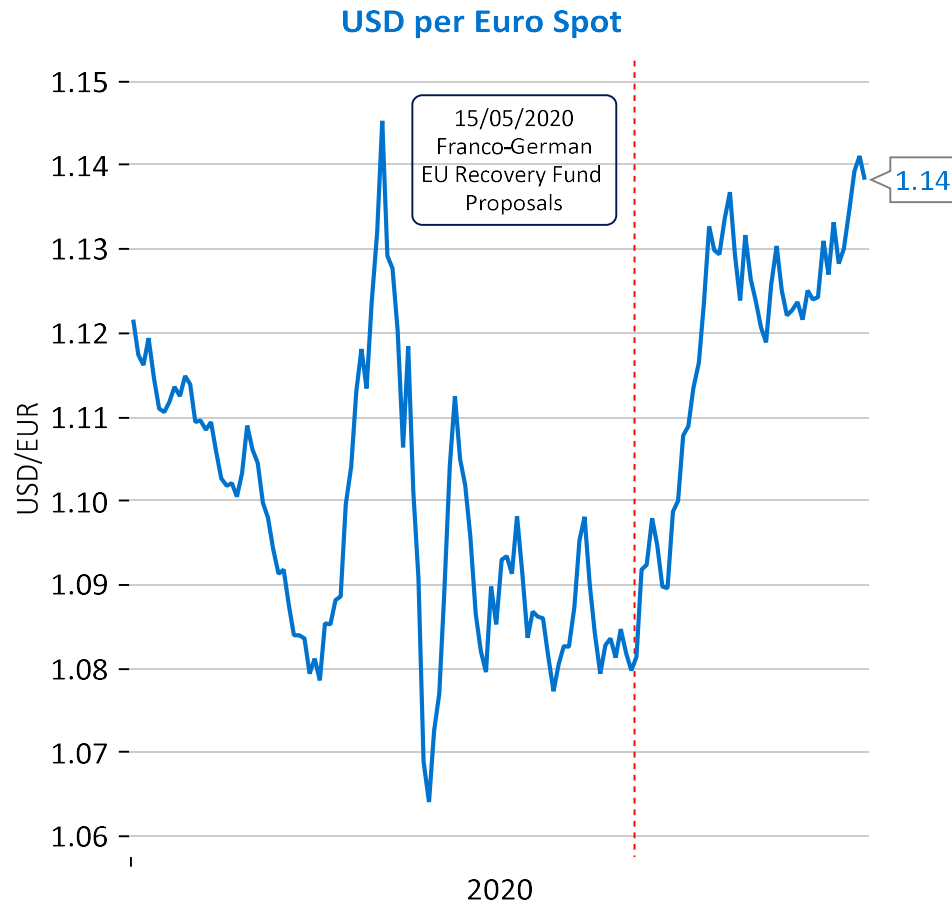
Source: Macrobond

6. European assets outperform:

Strong COVID response, bold ECB policy & EU recovery fund...



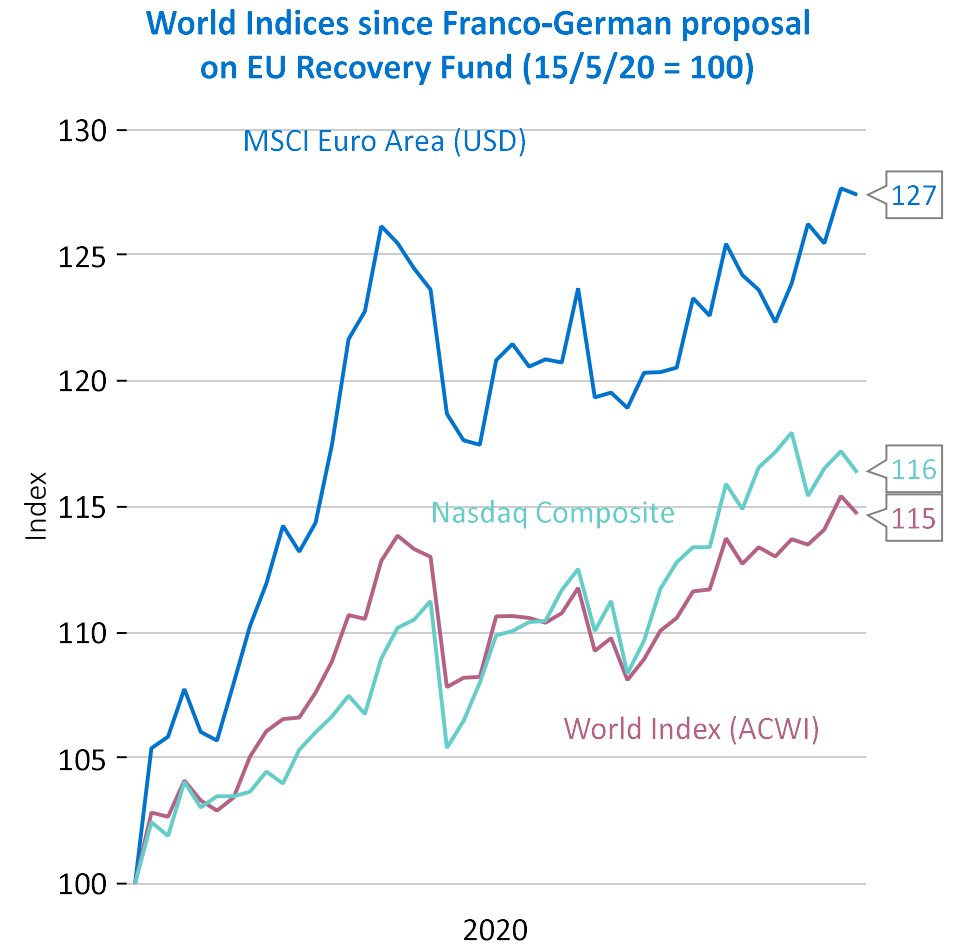
Euro Rallies



Source: Macrobond



Euro Area equities outperform US since market low



Source: Macrobond

Economic damage severe but a global recovery has begun

Fiscal and monetary policy the most expansionary in post-war history



Global strategy update July 2020

Bonds	Neutral – Corporate yields attractive with central bank support <ul style="list-style-type: none">• UW Gilts – interest rates suppressed, yield curve management likely• OW investment grade credit – attractive yield premium plus central bank support• Caution High Yield and EM debt
Equities	Neutral – Earnings yield attractive, gradual improvement in earnings & dividend visibility <ul style="list-style-type: none">• OW Global equities – thematic earnings still robust• Neutral UK equities – valuations attractive, discount still likely on UK assets• UW EM equities. Extent of economic and social damage from COVID-19 under estimated
Alternatives	Overweight – Long-term inflation plus returns attractive <ul style="list-style-type: none">• Neutral Other Alternatives– infrastructure and renewables• OW Uncorrelated Alternatives - Gold to hedge against unprecedented policy stimulus & debt
Cash	Underweight – zero or negative yield in all markets <ul style="list-style-type: none">• No currency preference
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, long-term rise in government debt, COVID19 damage to most vulnerable in society

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