

Six minute strategy

The EU recovery fund and what it means for markets...

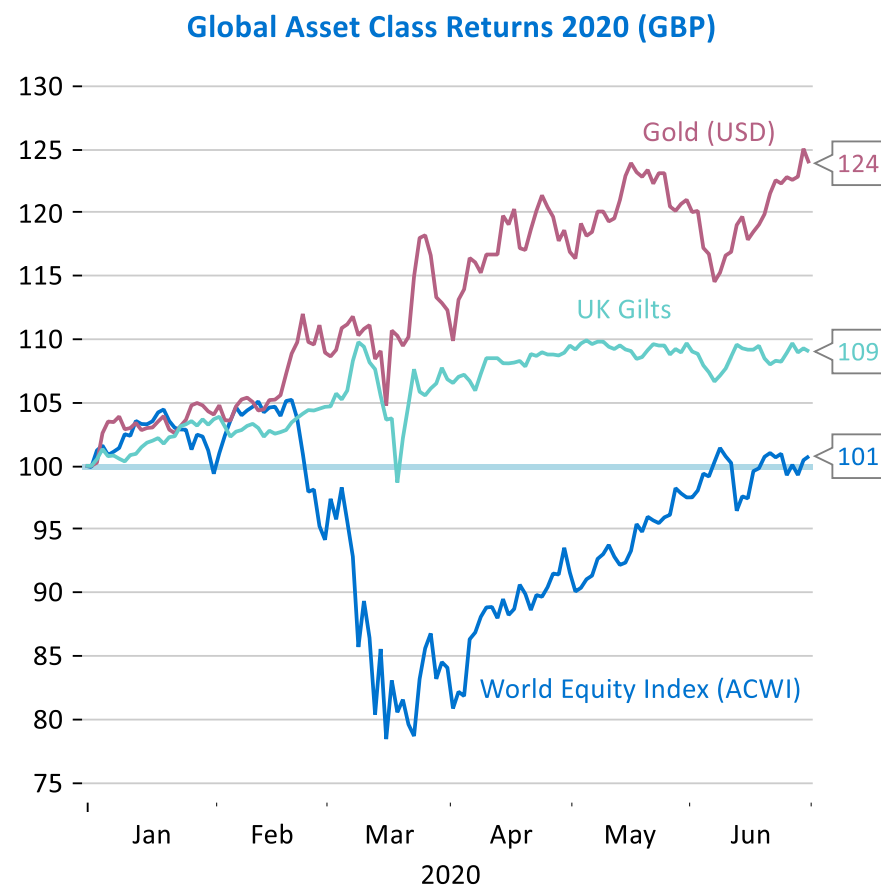
24 July 2020



Assets 2020: Extraordinary volatility subsides - asset returns still led by gold



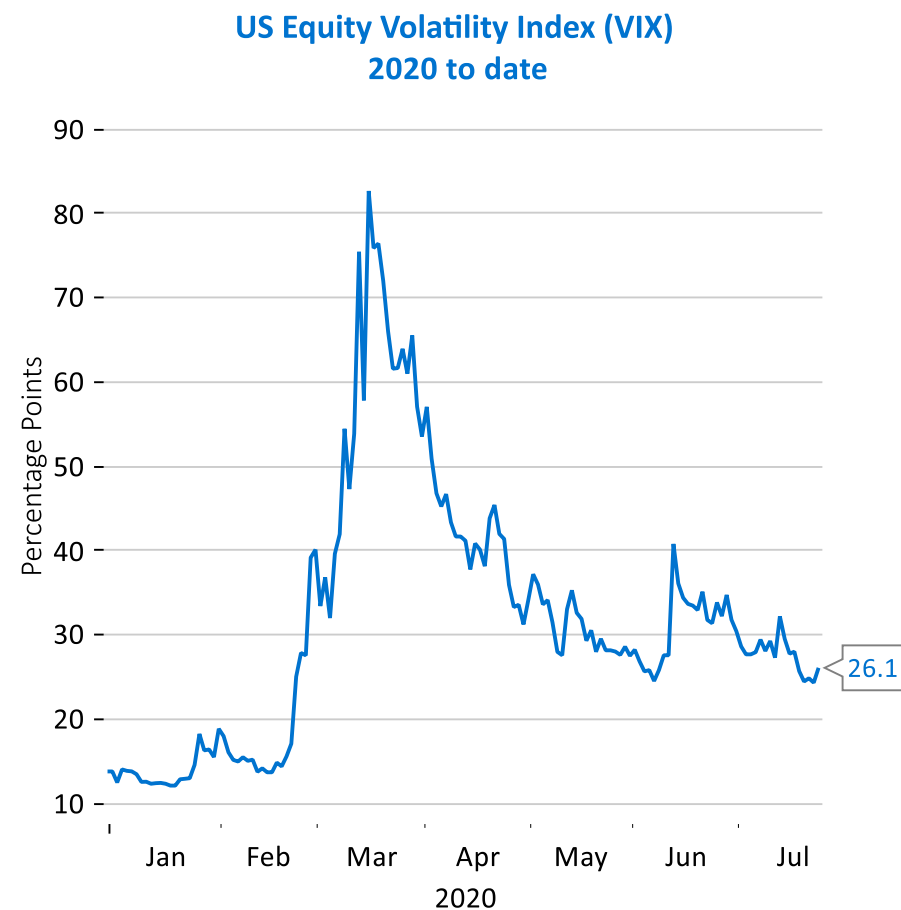
Equities rally reverses Q1 losses – Gold leads



Source: Macrobond



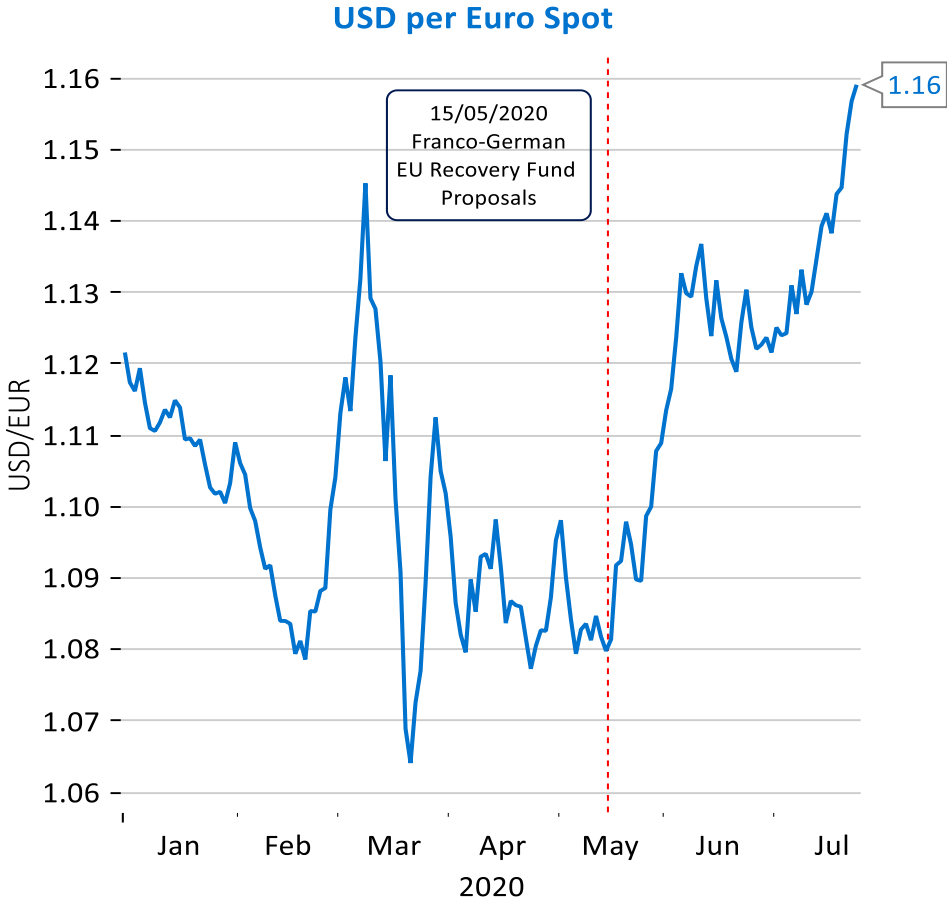
Equity volatility still comparatively elevated...



Source: Macrobond

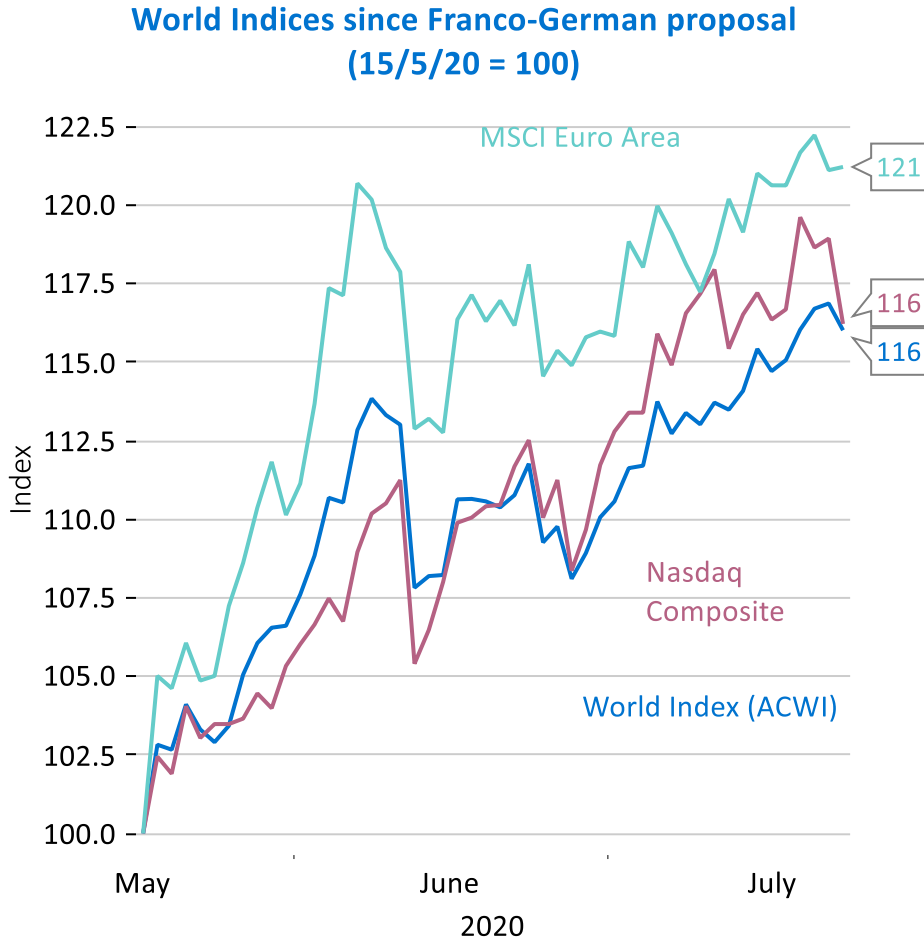
Europe outperforms: The ground-breaking EU recovery fund...

Euro rallies



Source: Macrobond

Euro equities outperform since recovery fund announced



Source: Macrobond

Better growth prospects in euro area and UK...

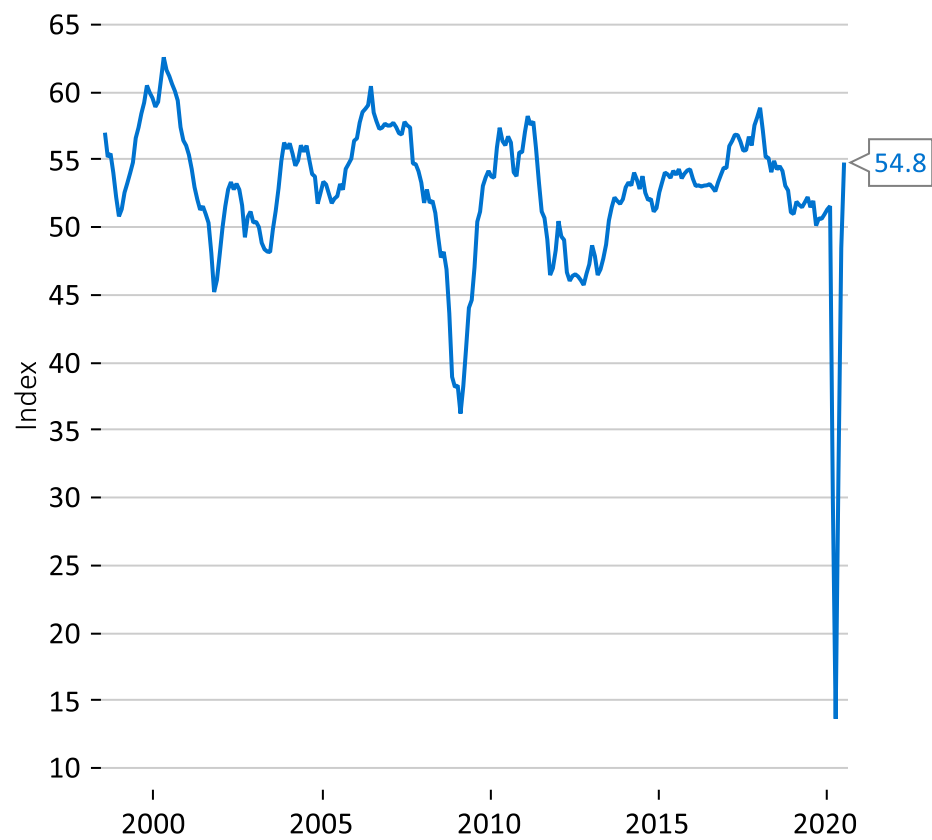


PMI accelerates for first time in 5 months



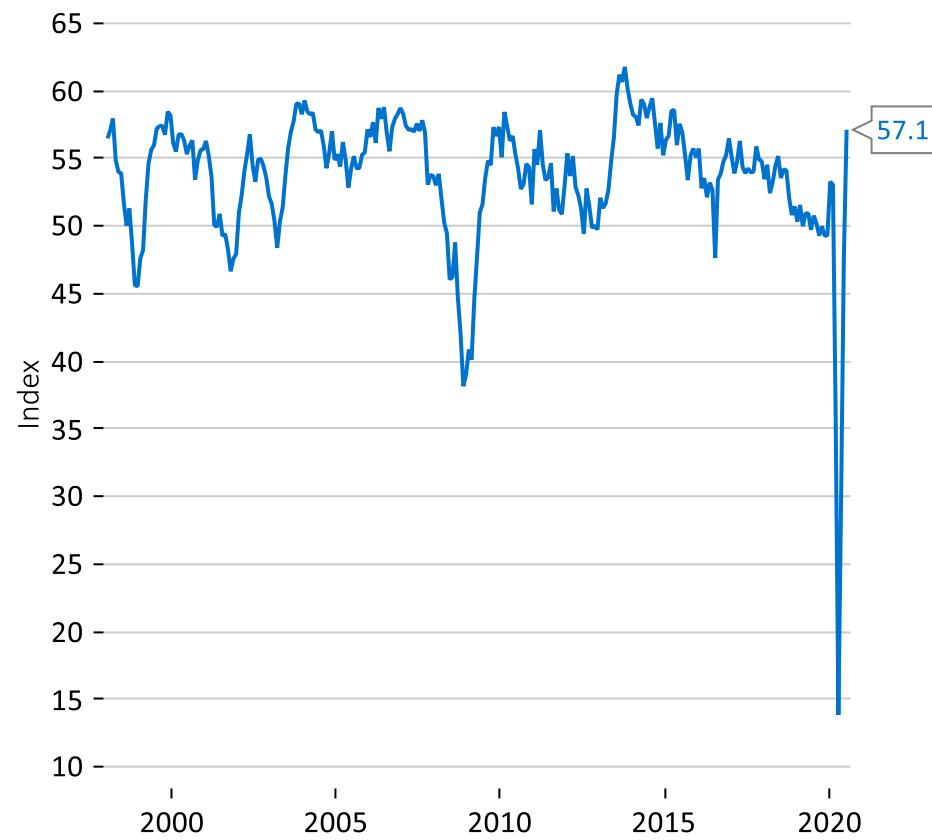
Highest reading since June 2015

Euro Area Composite PMI
(Markit)



Source: Macrobond

UK Composite PMI
(Markit)



Source: Macrobond

Europe: The Four Pillars amount to € 1.29 trillion



1. **ESM** – Light conditionality attached, with capacity up to 2% of member states GDP, totalling €240bn
2. Support to mitigate Unemployment Risks in an Emergency (**SURE**) - re-insurance system worth €100bn
3. European Investment Bank (**EIB**) to help banks lend up to €200bn
4. **Recovery Fund – €750bn**
Composed: € 390 grants and € 360bn loans
Funded by the issuance of joint EU debt in financial markets, and disbursed mostly in 2021-2022



The recovery fund is a breakthrough for the EU

Europe will be 'forged in crises' Jean Monnet 1888-79

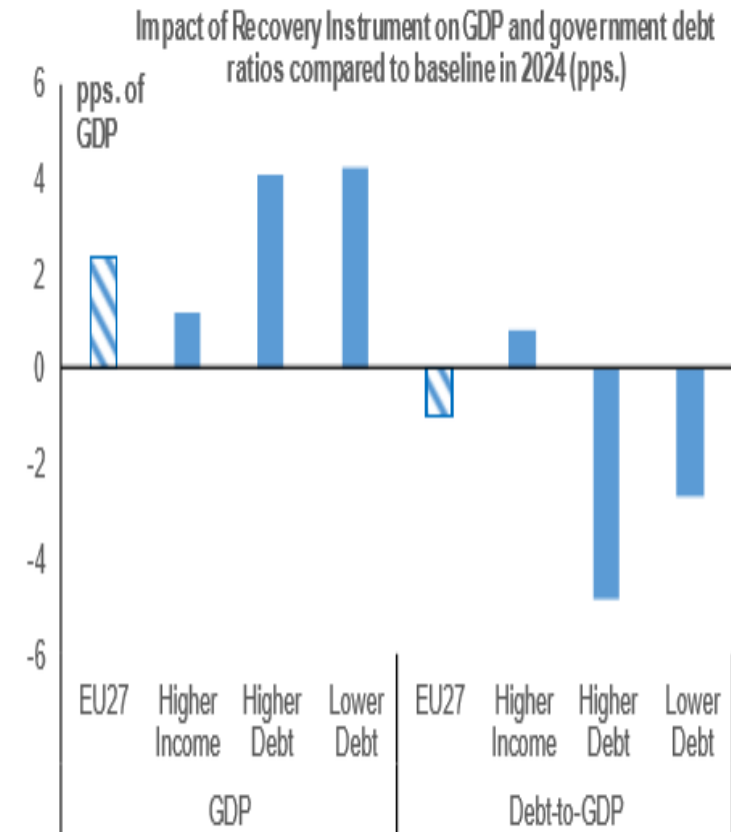


- **Progress to Fiscal Union:**

- ✓ Already transfers via Budget
- ✓ Already ESM
- ✓ **Now Recovery Fund**
 - ✓ *Grants do not add to debt levels*
 - ✓ *Significant increase in EU budget/investment*
 - ✓ *Cost/Debt Sustainability improved*
 - ✓ *EU bonds issued 'across the curve' a key 'safe' asset*
- ✗ Banking & Capital Markets Union incomplete
- ✗ North-South economic divide widened by COVID
- ✗ East-West Political divide a possible stumbling bloc



Modelling by the EC (QUEST)



Source: Commission services

EC estimates that mobilised investment is estimated to raise real EU GDP levels by around 1% in 2021 and 2022, rising to 2% by 2024.

Europe: Preliminary conclusions



1. Bonds:

- New EU Bonds - a safe haven & a long-term alternative to US Treasuries
- Recovery Fund supportive of economic recovery in countries ***without fiscal space*** – a greater role for peripheral debt in global funds

2. Equities:

- EU Crisis Response ‘World Leading’: Assumption that Euro structure *‘fails in a crisis’* could now be revised triggering a re-rating of EU equities.
- European policy objectives (green, pro-growth, and investment) – this could, over time, alter the impression of European equities as late cycle ‘Banks & Cyclical.’ A trigger for re-rating vs tech rich US?

3. Currency:

- Massive EU Debt Issuance can improve Euro reserve currency status & drive fund/reserve flows over the longer term – currency positive

4. Climate

- EU Climate spend now world leading in volume & fiscal focus – opportunities for global Climate investors in EU equities, green bonds and infrastructure

E, S & G - Social challenges post crisis driving the economic agenda

Environmental impacts remain after making a profit

E

The social contract is the core pillar of trust

S

Governance is the foundation on which a company stands

G

CLIMATE CHANGE



CIRCULAR ECONOMY



LAND



AIR



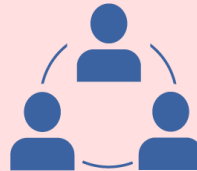
WATER



SUPPLIERS



EMPLOYEES



CUSTOMERS



BRIBERY & CORRUPTION



COHESIVE SOCIETY



BOARD STRUCTURE



OWNERSHIP RIGHTS



REPORTING & CONTROLS



EXECUTIVE REMUNERATION



BUSINESS ETHICS



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