

Six minute strategy

What might tighter lockdowns mean for global markets...

Guy Monson

July 31 2020



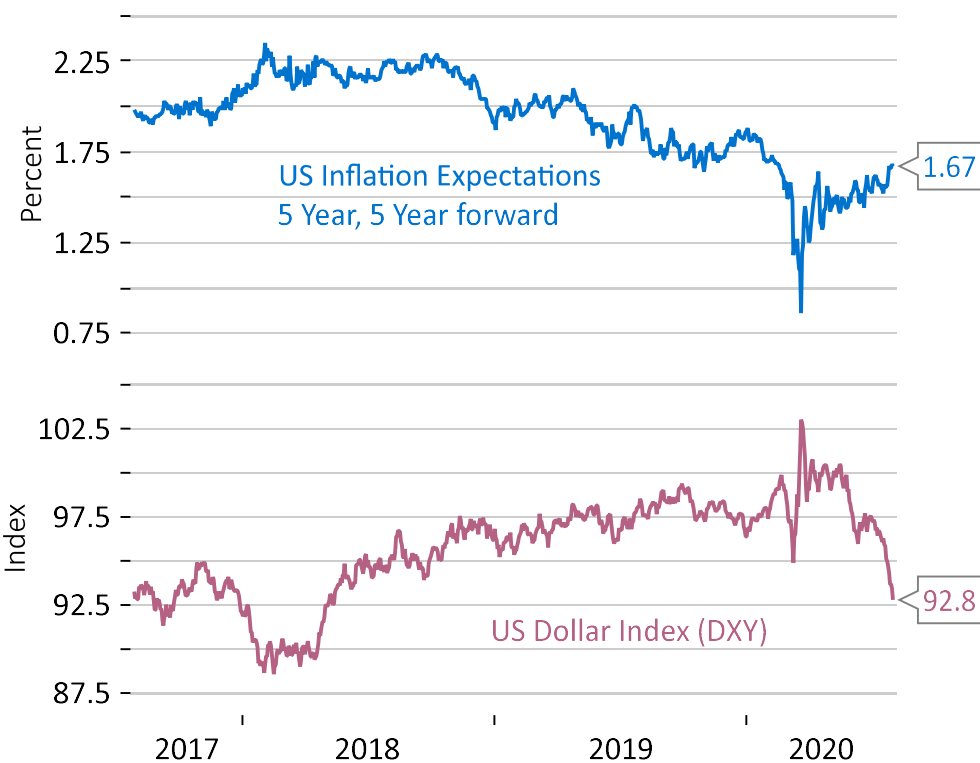
Longer term indicators

Reflationary trend still in place

 US inflation expectations recovering - Dollar trending lower

 Euro break-up collapses – GE business expectations climb

US Forward Inflation & the Dollar



Source: Macrobond

Italian Bond Spreads & the German Industrial Sentiment



Source: Macrobond

July 2020

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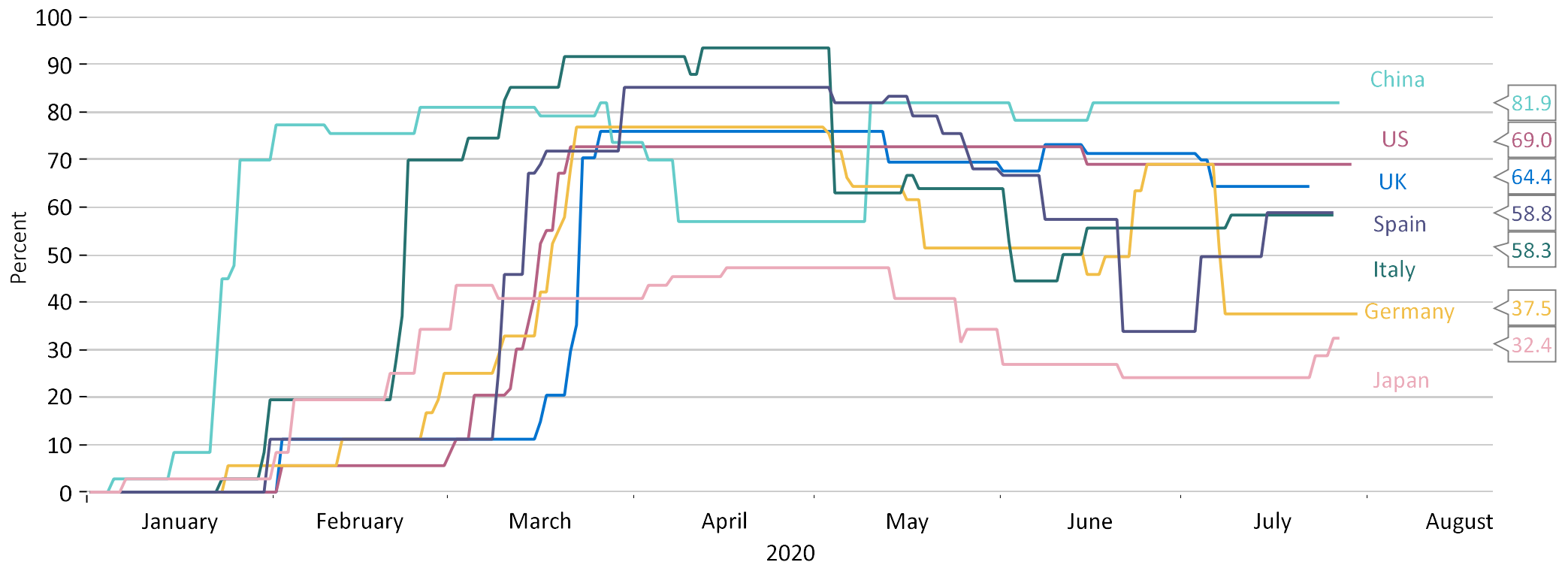
COVID restrictions

Stringency now tightening in most regions



COVID-19 Government Response Tracker

COVID-19 Global Stringency Index



Source: Macrobond 2020

The global Government Response Tracker records government responses worldwide and aggregates the scores into a common Stringency Index . Blavatnik School - University of Oxford.

US Economy

Fear of 2nd spike, business openings slowing & expiring benefits

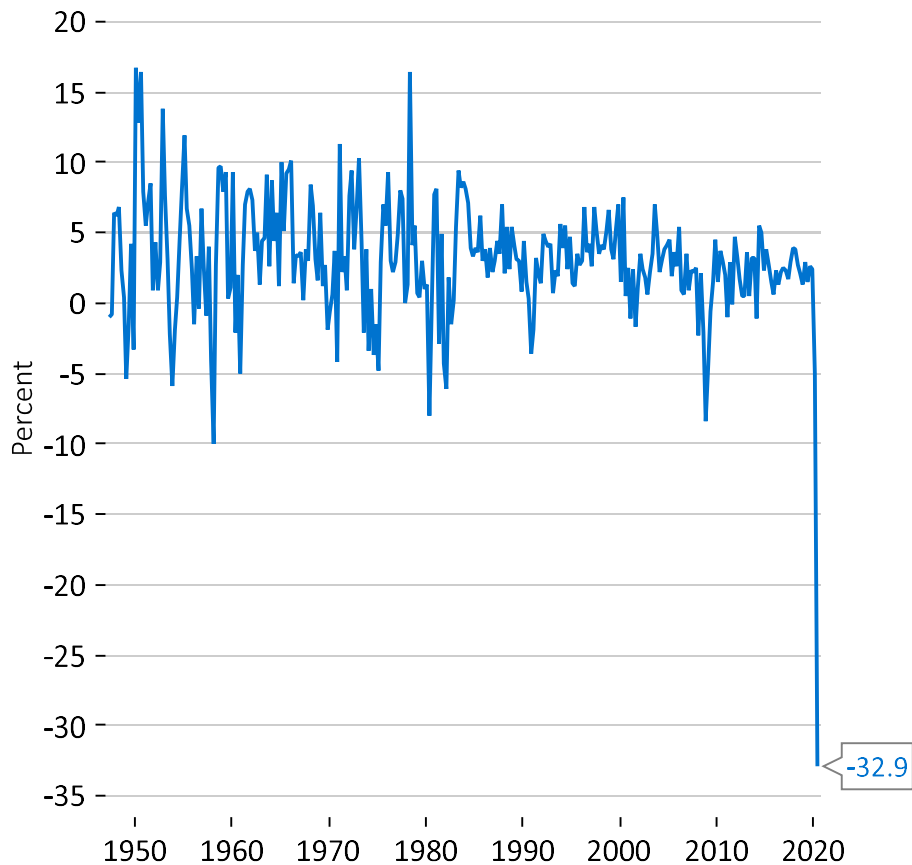


US Economy shrank the most on record in Q2 2020



900K increase in claiming continuous benefits

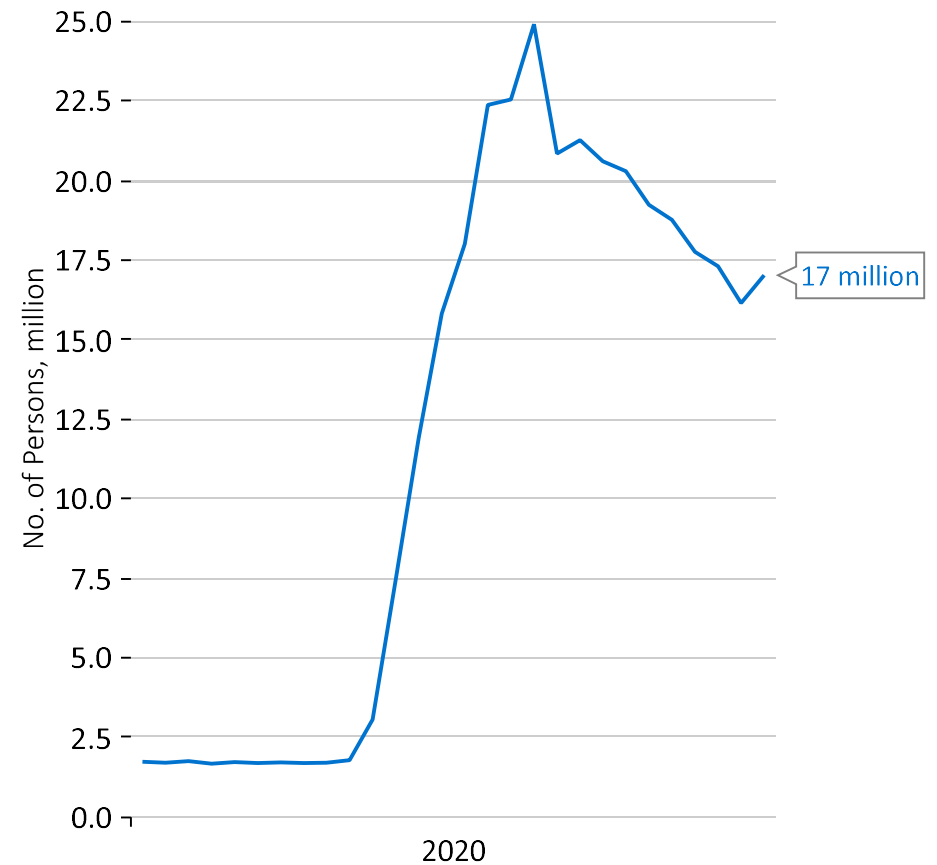
US GDP Change QoQ annualised



Source: Macrobond

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US Unemployment - Continuing Claims



Source: Macrobond

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Federal Reserve

Not thinking about - thinking about raising rates...



- 'We have seen some signs in recent weeks that the increase in virus cases and the renewed measures to control it are starting to weigh on economic activity.'
- 'Some measures of consumer spending based on debit card and credit card use have moved down since late June'
- 'I think fundamentally, this is a disinflationary shock. There's a lot of discussion about how this might lead to inflation over time, but you know, where--we are seeing disinflationary pressures around the world going into this'
- 'We see core inflation dropping to one percent.'



US 10 year bond yields make new lows



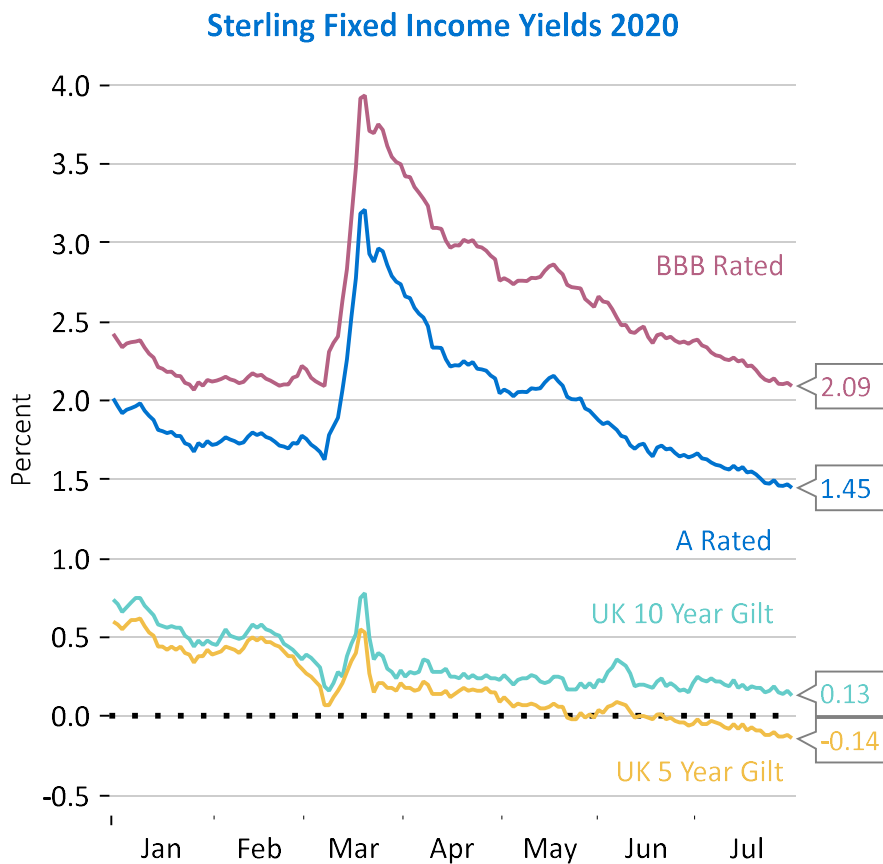
Source: Macrobond

Source: FOMC Press Conference July 29 2020 & Dot Plot June 9-10

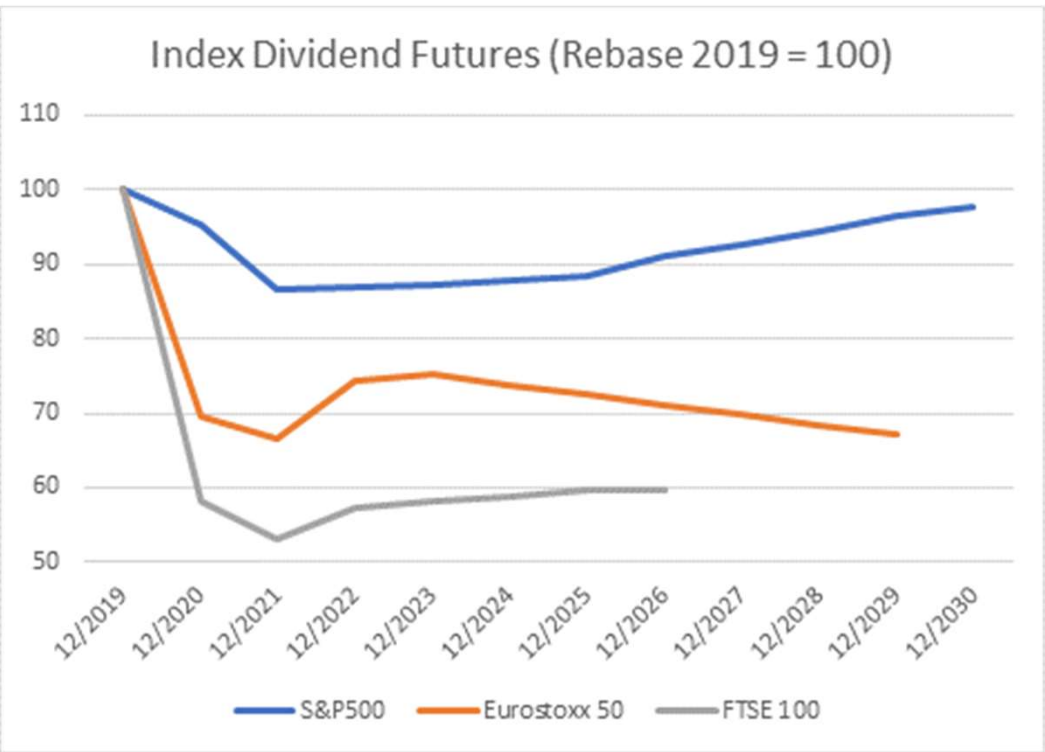
1. Income

Yields under more pressure...

UK bond yields continue to fall



Dividend Futures suggest a long climb back



Source: Macrobond

Source: Macrobond 2020

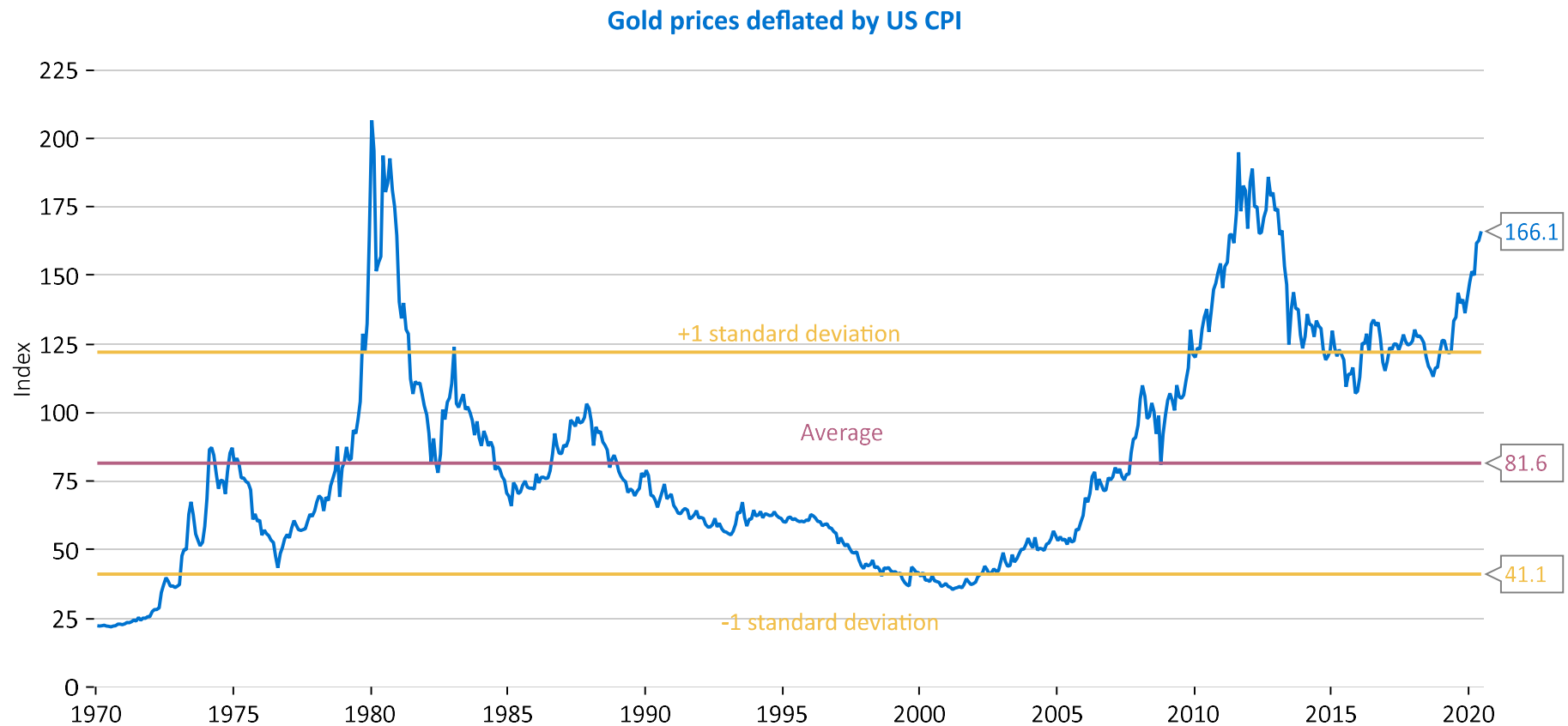
Source: Bloomberg/Sarasin 2020

2. Gold

Real price trends and correlations with US equity prices



Real Gold Prices are elevated but not at all time highs



Source: Macrobond

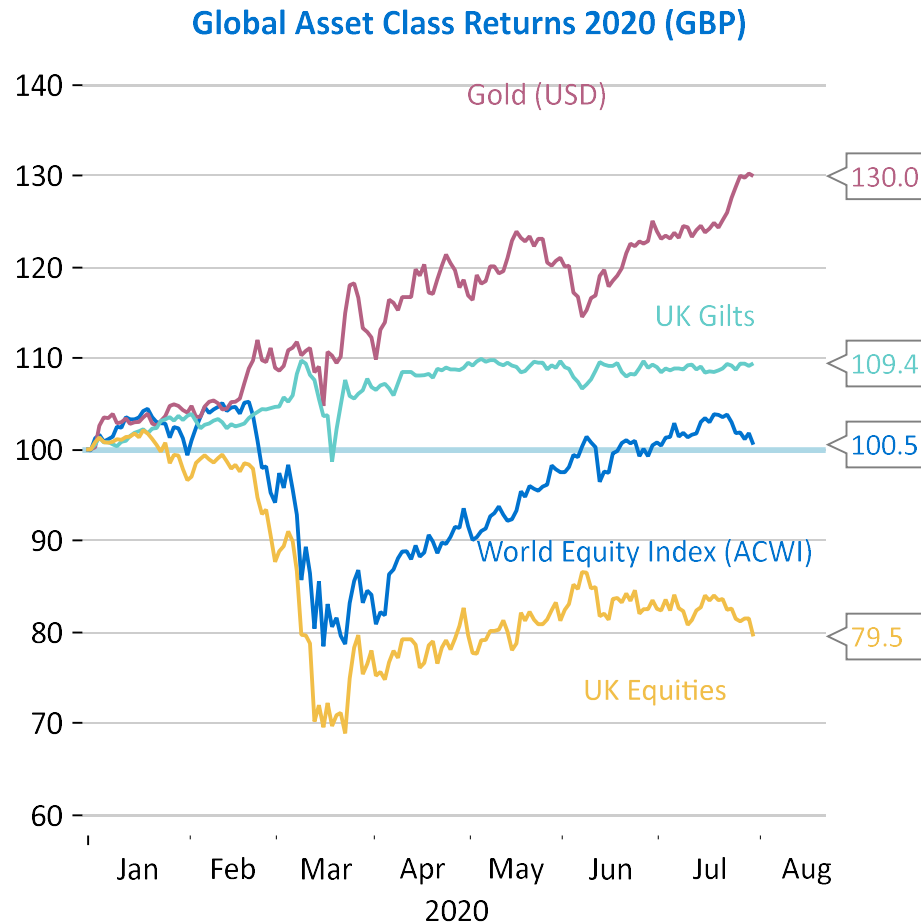
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3. Assets 2020:

Extraordinary volatility subsides - asset returns still led by gold - UK equities the laggard



Equities rally reverses Q1 losses – Gold leads

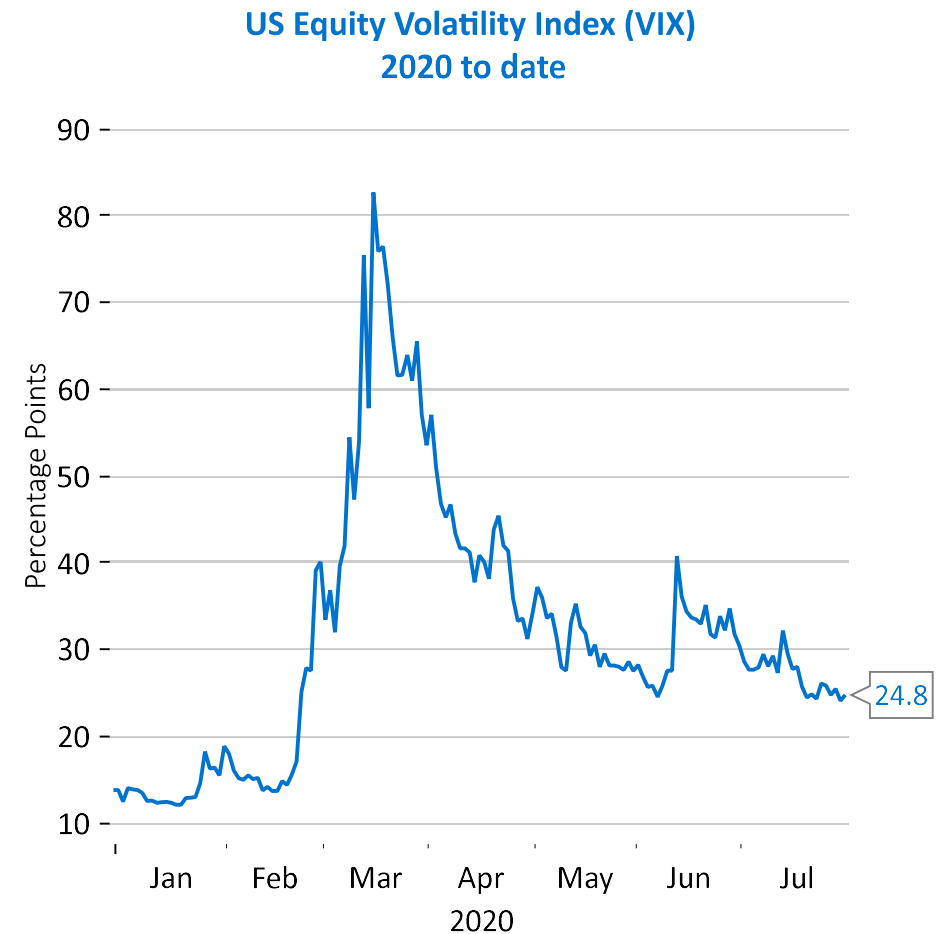


Source: Macrobond

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Equity volatility still comparatively elevated...



Source: Macrobond

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SARASIN

& PARTNERS

Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

