

Six Minute Strategy

How to plan for an uncertain and unequal recovery...

16 October 2020



COVID-19

Increasing restrictions in Europe – business sentiment weakening again

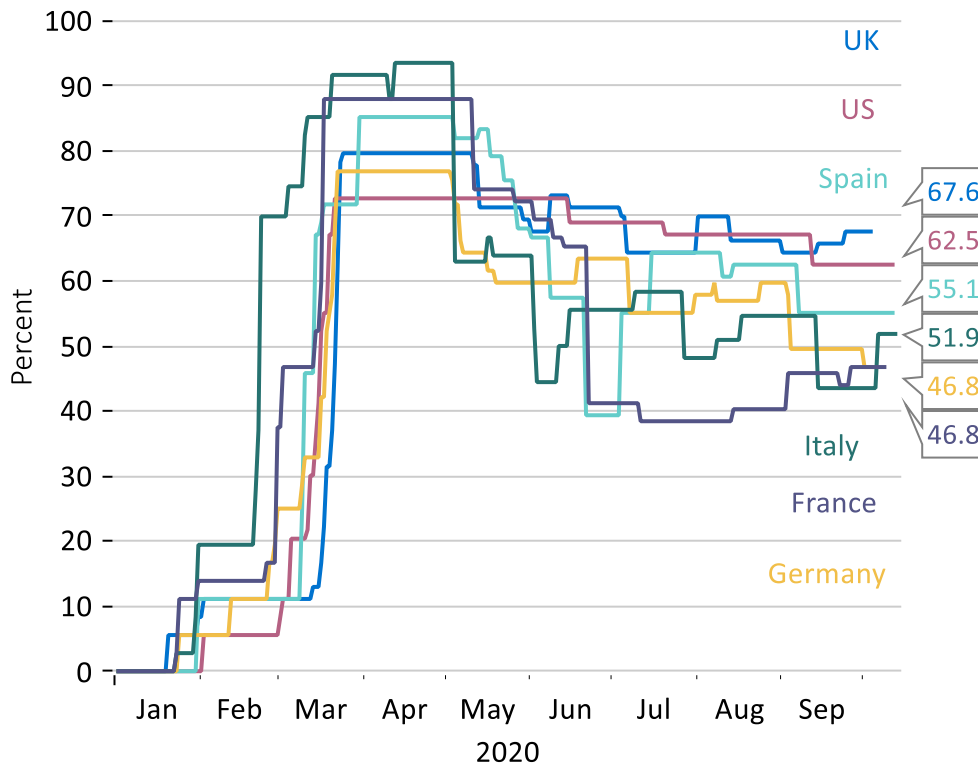


COVID-19 government response tracker



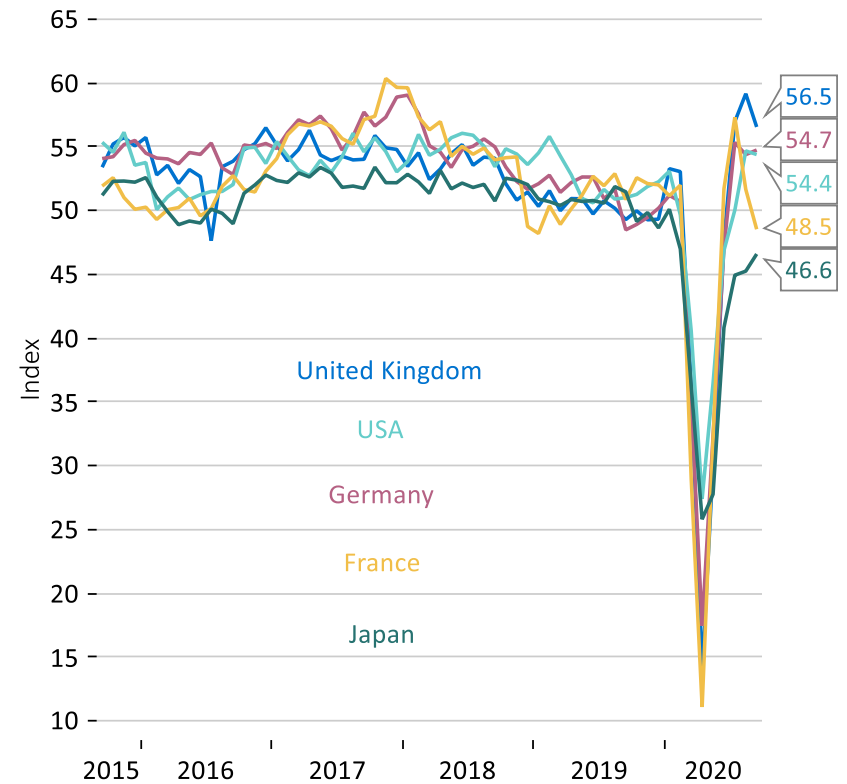
Global business sentiment

COVID-19 Global Stringency Index



Source: Macrobond, 16.10.20

Composite PMI (Markit, SA)



Source: Macrobond, 15.10.20

UK

August GDP data shows pace of recovery slowed...

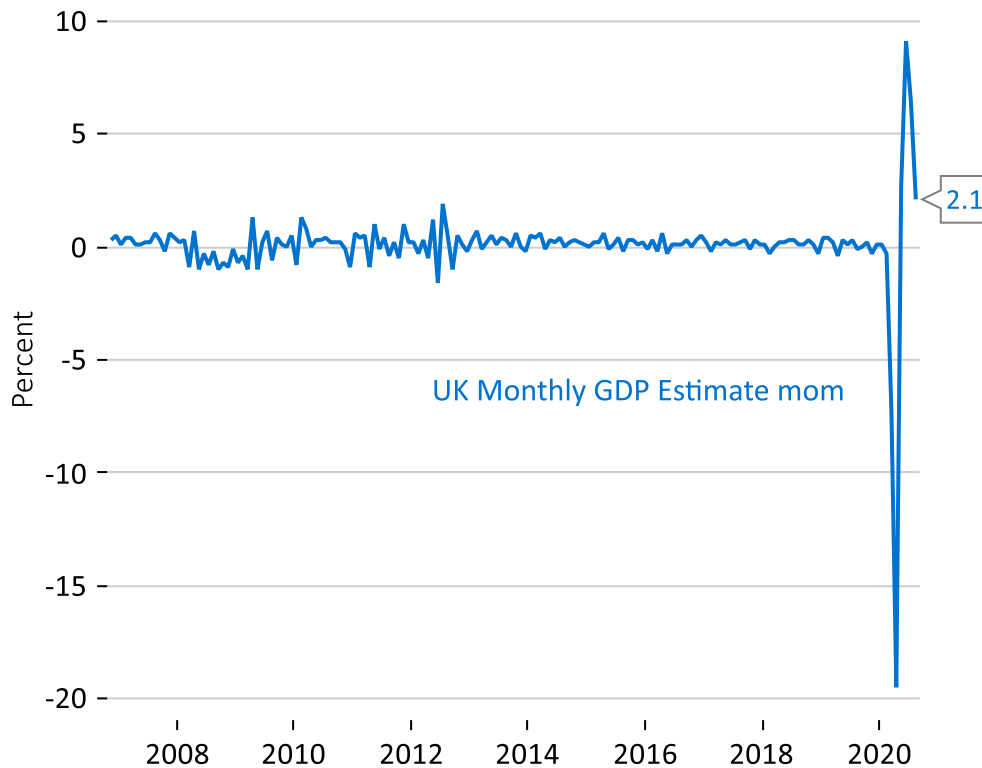


Economy grew 2.1% mom in August (6.4% July, 9.1% June)



Economy remains 9.2% smaller than pre-crisis

UK Monthly GDP Estimate mom



Source: Macrobond, 16.10.20

Table 1: Breakdown of GDP and its components' growth rates by month

	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	Change in GDP (February 2020 to August 2020)
GDP	-0.3%	-7.3%	-19.5%	2.7%	9.1%	6.4%	2.1%	-9.2%
Index of Services	-0.3%	-7.9%	-17.8%	1.8%	8.2%	5.9%	2.4%	-9.6%
Index of Production	0.4%	-4.6%	-19.6%	5.7%	9.8%	5.2%	0.3%	-6.0%
Manufacturing	0.8%	-6.0%	-25.1%	7.8%	12.0%	6.9%	0.7%	-8.5%
Construction	-1.3%	-5.5%	-41.2%	9.1%	21.8%	17.2%	3.0%	-10.8%
Agriculture	-0.8%	-1.8%	-6.0%	0.8%	3.2%	0.1%	-0.4%	-4.3%

Source: Office for National Statistics – GDP monthly estimate

A long, uneven and uncertain recovery (IMF) – China clearly the standout, and stark contrast between regions

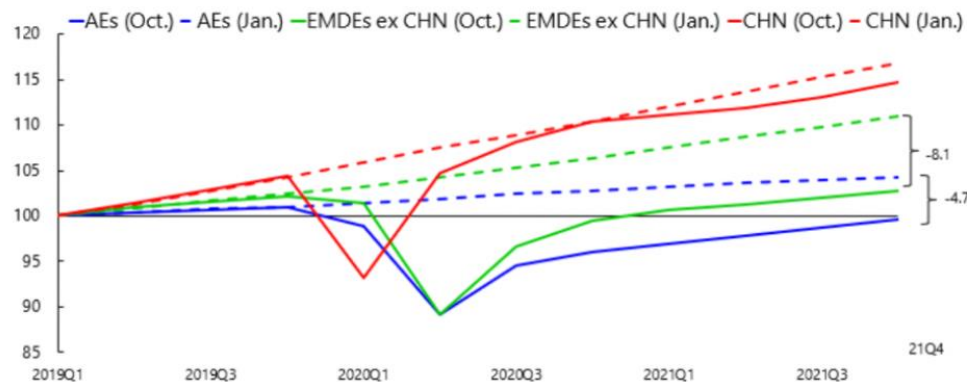


A widening of divergence of Developing and Emerging world growth. 90m people could fall into extreme deprivation

Partial recovery, growing divergence

Except for China, output in both advanced economies and emerging and developing economies will remain below 2019 levels even next year. By end-2021 the loss in output relative to the pre-pandemic projected level for emerging and developing economies excluding China is -8.1%, much larger than the loss for advanced economies of -4.7%.

(index; 2019Q1=100)



Sources: IMF, *World Economic Outlook*, and IMF staff calculations.

Note: AEs= Advanced Economies; EMDEs= Emerging Markets and Developing Economies; CHN= China.

INTERNATIONAL MONETARY FUND

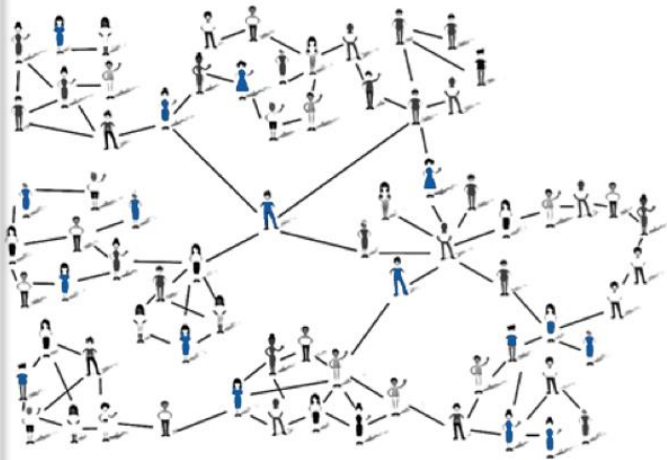
Source: IMF/Gita Gopinath

1. At least H2 2021 before trust in social contact is restored – the prolonged Covid disruption will leave economic scarring



Reconnecting social networks as groups become free of the virus – ‘stranger danger’ persists

A typical human network before Covid-19



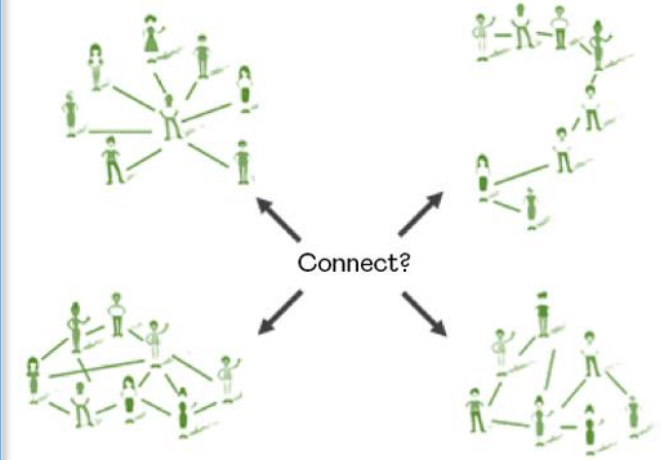
Close proximity to strangers – transport, leisure
Social contact – handshakes, hugs, kisses

Social distancing – network disconnected



The virus cannot travel between disconnected sub-networks

Reconnecting safe networks



Rebuilding trust in friends, colleagues, local community, wider community and ultimately in strangers – reconnecting ‘green zones’

With reference to: EsadeEcPol: Center for Economic Policy and Political Economy, Paris - Exit strategy: from self-confinement to green zones 6.4.20

https://www.esade.edu/itemsweb/wi/research/ecpol/EsadeEcPol_Insigh6_Exit_Strategy.pdf

2. Long term effects on the economy – reduced productivity growth

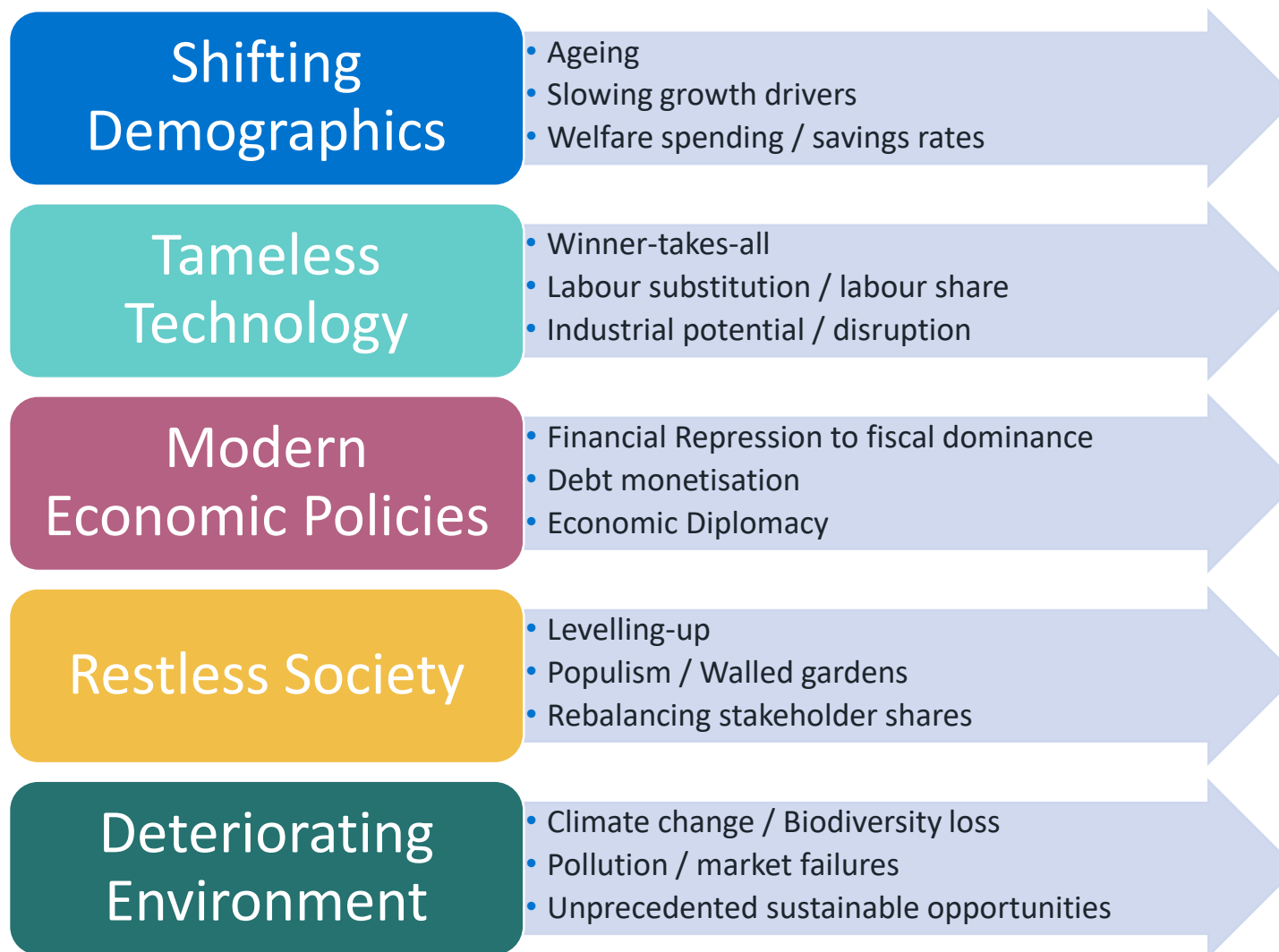
Impact on business investment and sales

1. The **sharp near-term fall in investment** may permanently reduce the economy's capital stock and productive capacity. Lower spending on R&D can have long-lasting effects through reduced productivity growth (Anzoategui *et al* (2019)).
2. The **number of new firms formed could fall**. Research finds that younger firms tend to be more productive (Alon *et al* (2018)) and may be more likely to engage in innovation (Acemoglu *et al* (2018)).
3. Hysteresis: **Laid-off workers could lose skills** and become detached from the labour market, lowering labour supply (Blanchard and Summers (1986)). They could also stop accumulating on-the-job skills , potentially lowering their productivity when they return to work

Source: Sarasin & Partners

Setting-out the landscape for a post-virus world

Stay global, stay thematic & focus on real, sustainable & socially responsible assets



Source Sarasin Investment Strategy Group, October 2020

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