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Sarasin Global Strategy and Outlook

Striving for an *inclusive* recovery...

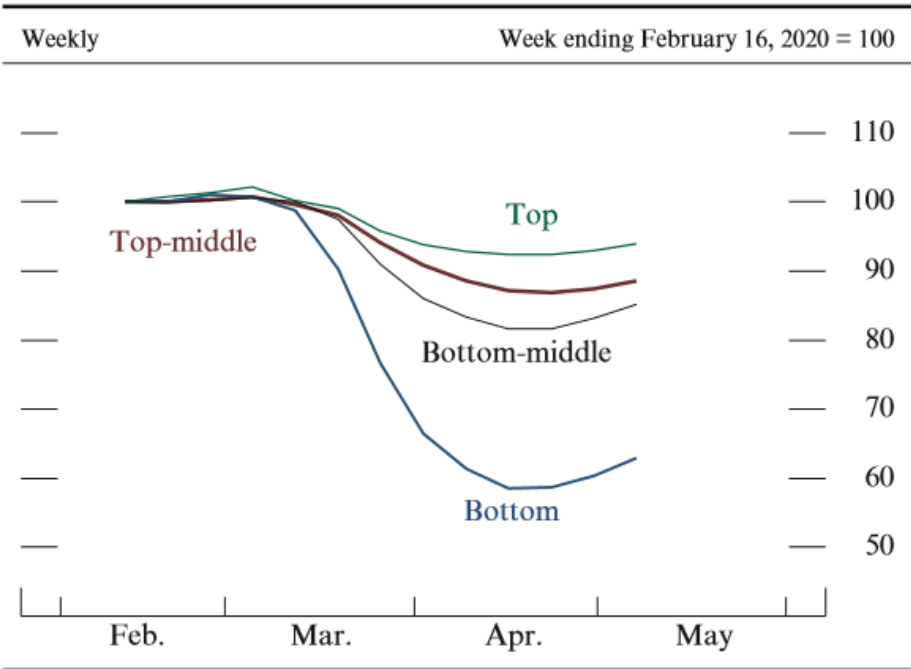
19 June 2020



Social impact: A clear and worrying disparity in US jobs lost during the pandemic...

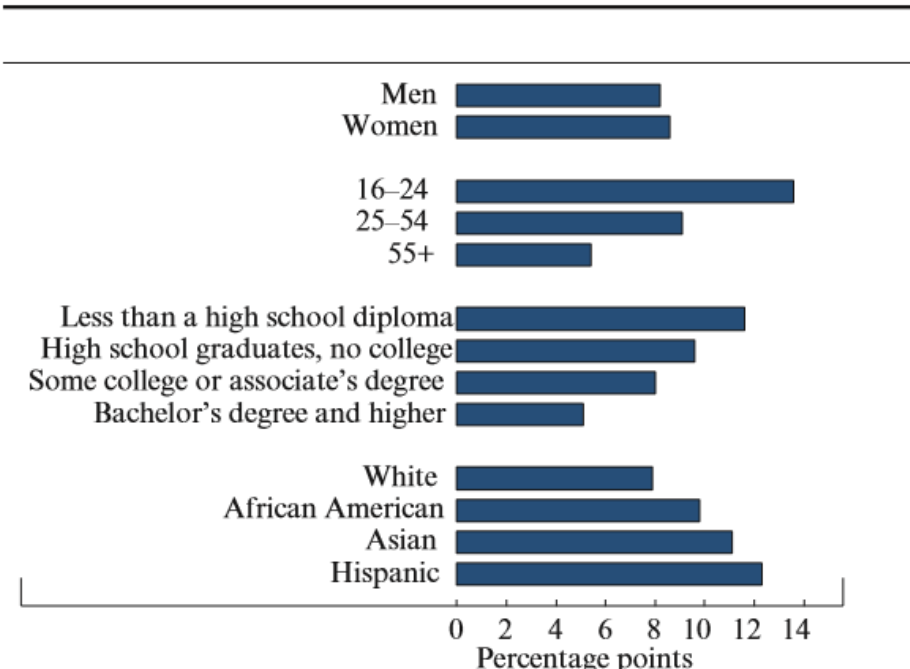
 While job loss has been pervasive workers with lower earnings have seen greater losses...

A. Employment declines for low-, middle-, and high-wage workers



NOTE: Data are weekly and extend through May 10, 2020. Wage quartiles are defined using the February wage distribution.
 SOURCE: Federal Reserve Board staff calculations using ADP, LLC, microdata.

B. Decline in employment-to-population ratio, by demographic group



NOTE: The data are seasonally adjusted and represent the change from February to May 2020.
 SOURCE: Bureau of Labor Statistics via Haver Analytics.

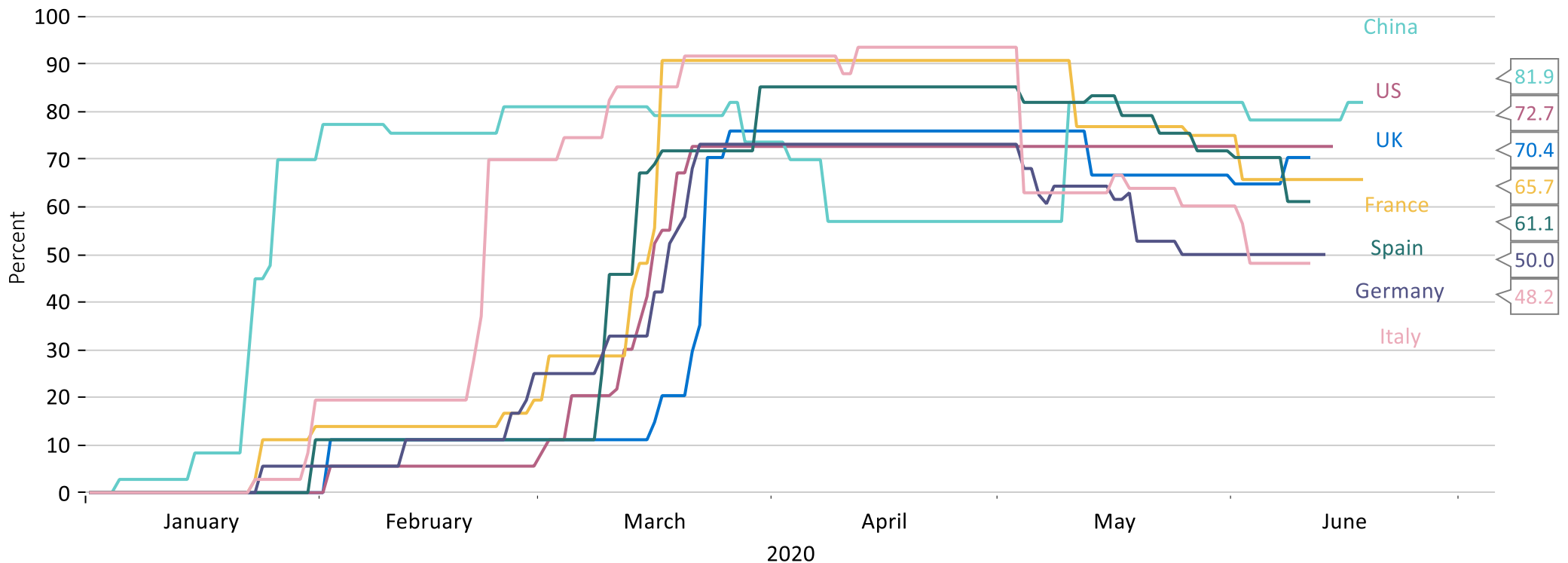
Source: Federal Reserve Monetary Policy Report June 2020

1. Government lockdown restrictions continue to ease...



COVID-19 Government Response Tracker

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.



But there are risks - China recovery uneven as lockdown measures return

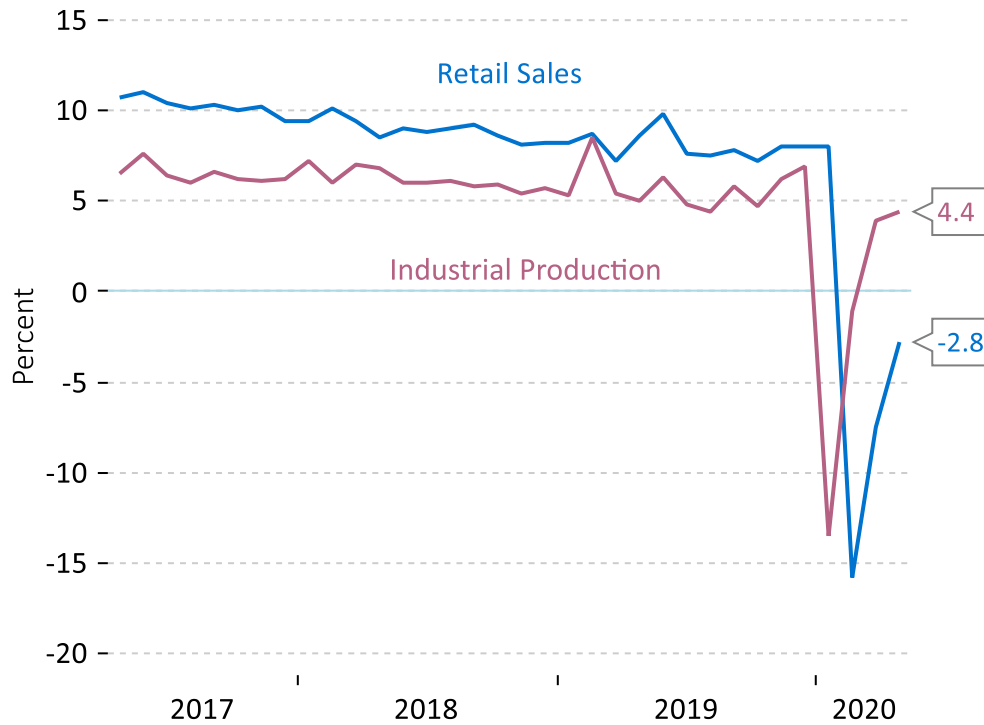


Industrial Production stronger than retail sales



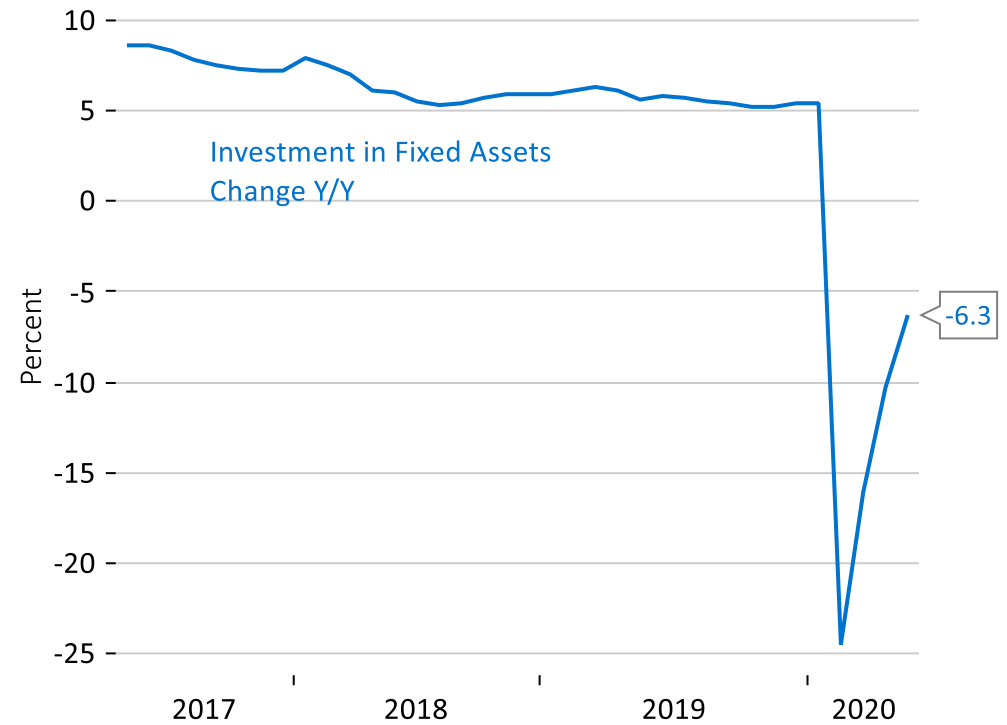
Fixed asset investment lags but steel production at record

China Retail Sales & Industrial Production YoY



Source: Macrobond

China Investment in Fixed Assets Change Y/Y



Source: Macrobond



2. Fiscal programmes will continue to support the consumer...

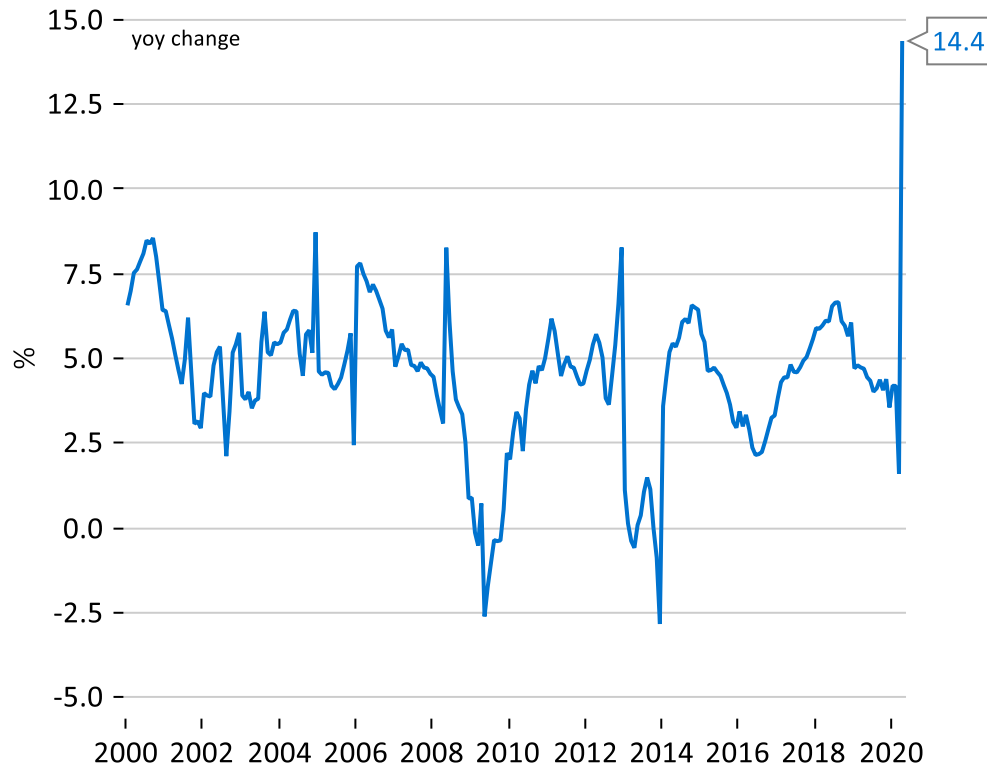


Rising disposable income....



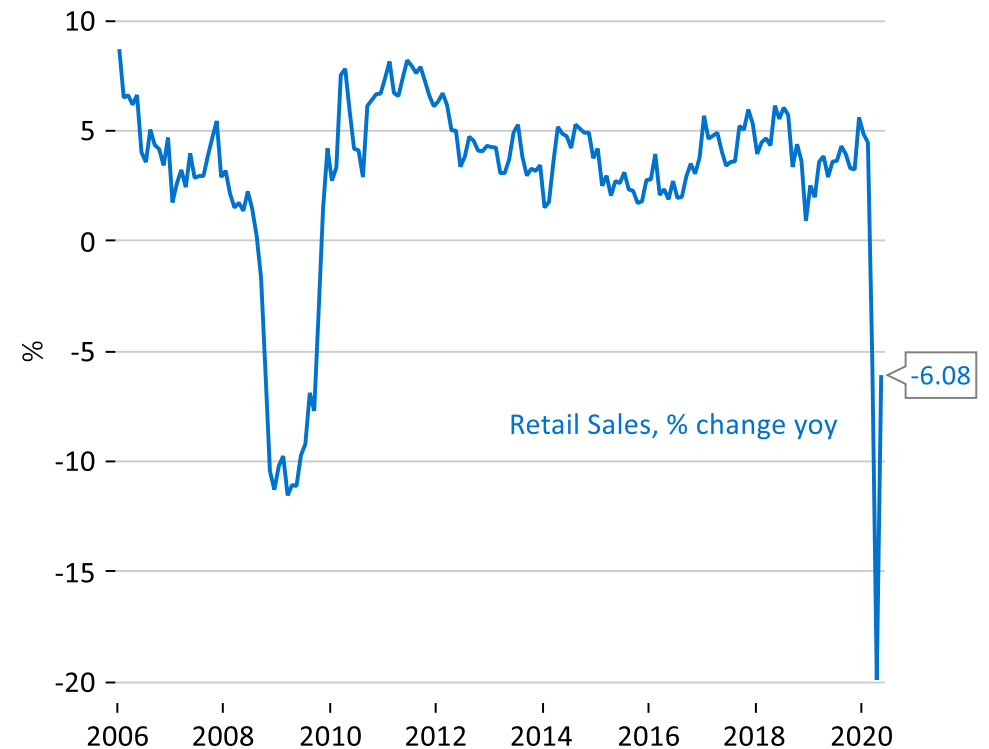
Largest rebound in retail sales on record...

US Disposable Income



Source: Macrobond

US Retail Sales



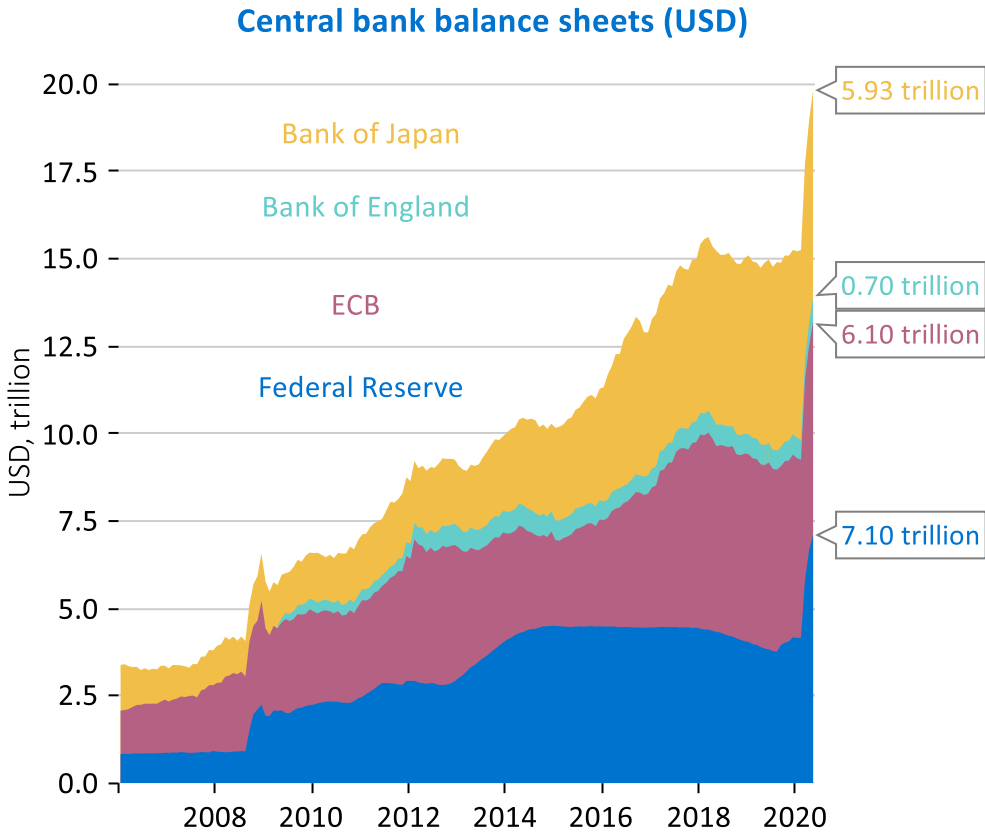
Source: Macrobond

60% of those unemployed have received income support greater than income lost

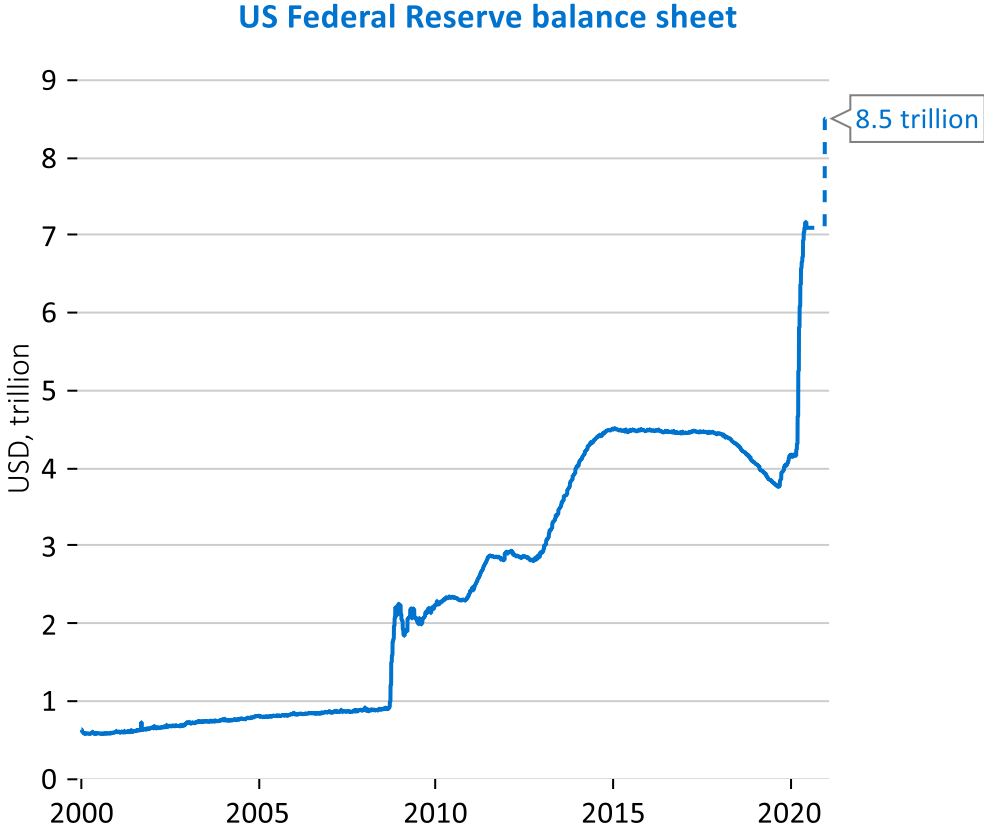
3. Central Bank bond purchases (QE) will continue to expand...

 Central Bank balance sheet growth far faster than in 2008/9

 Fed measures in just 9m exceed the 10 years post GFC...



Source: Macrobond



Source: Macrobond

The Bank of England agreed to purchase £100 bn of government bonds to meet the inflation target in the medium term.” 18 June 2020

Especially as inflation still remains worryingly low...

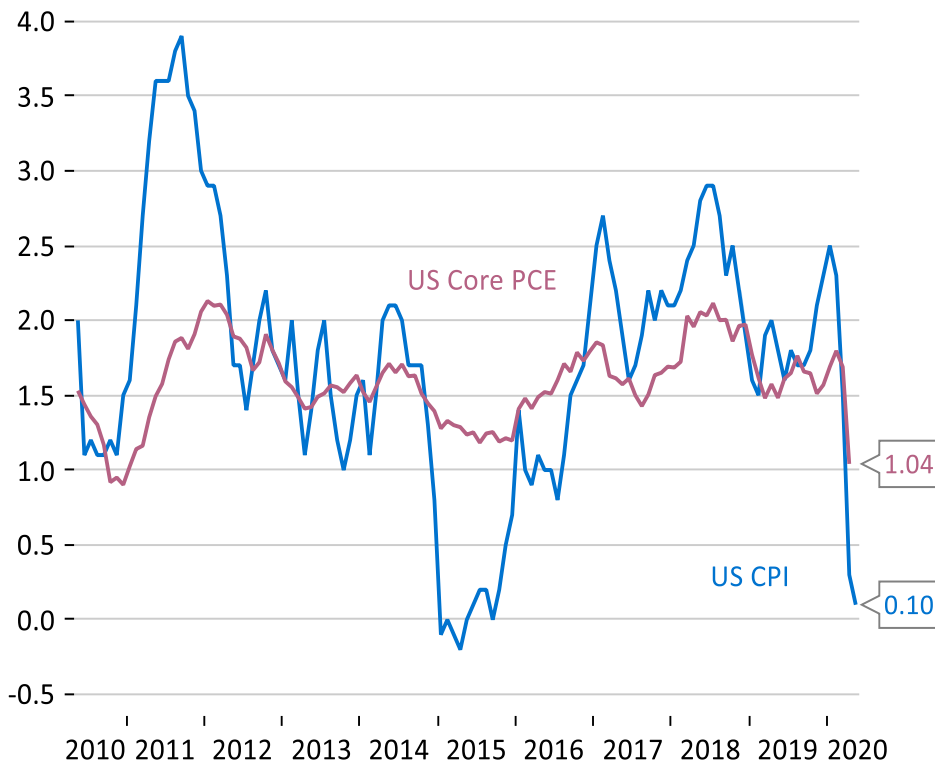


US CPI negative for 3 consecutive months



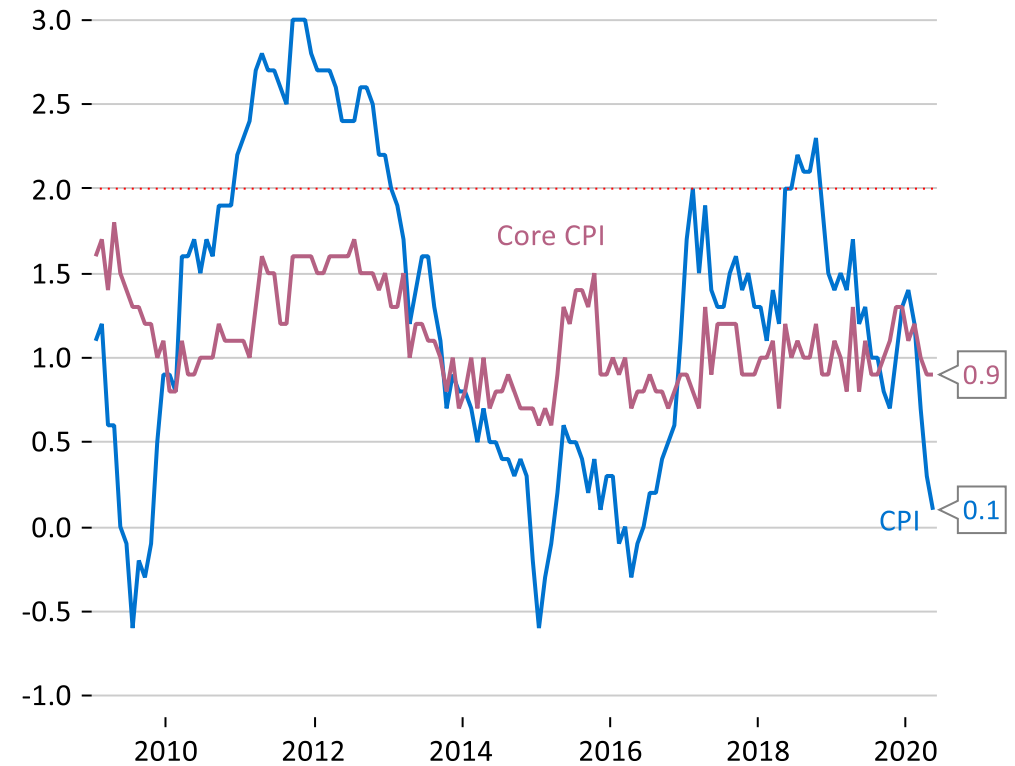
Headline CPI only just positive across Eurozone

US Inflation measures



Source: Macrobond

Euro Area Inflation Measures



Source: Macrobond



In the UK a GDP contraction of 20.4% last month and inflation 4 year low means growth will be prioritised



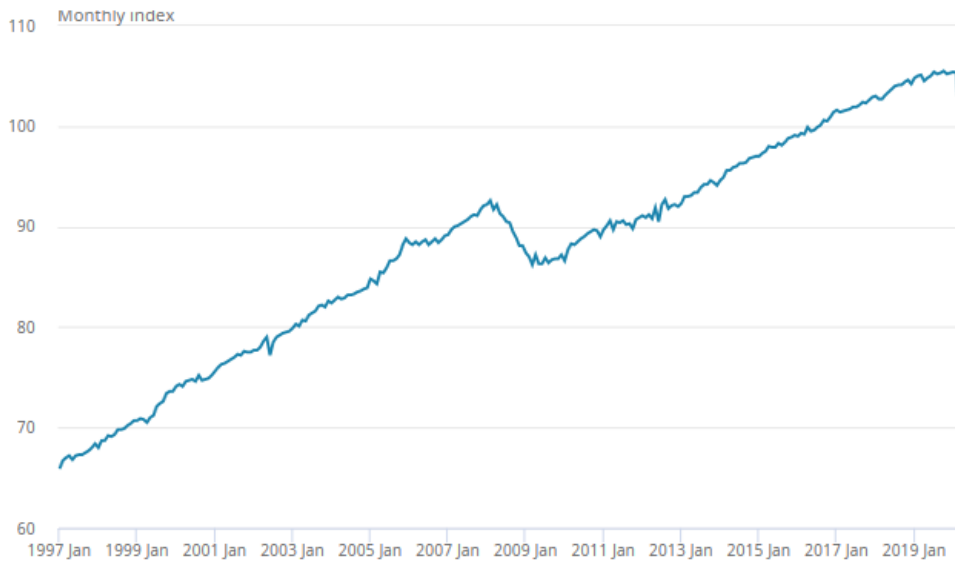
Unprecedented correction in UK GDP



Core inflation already worryingly low

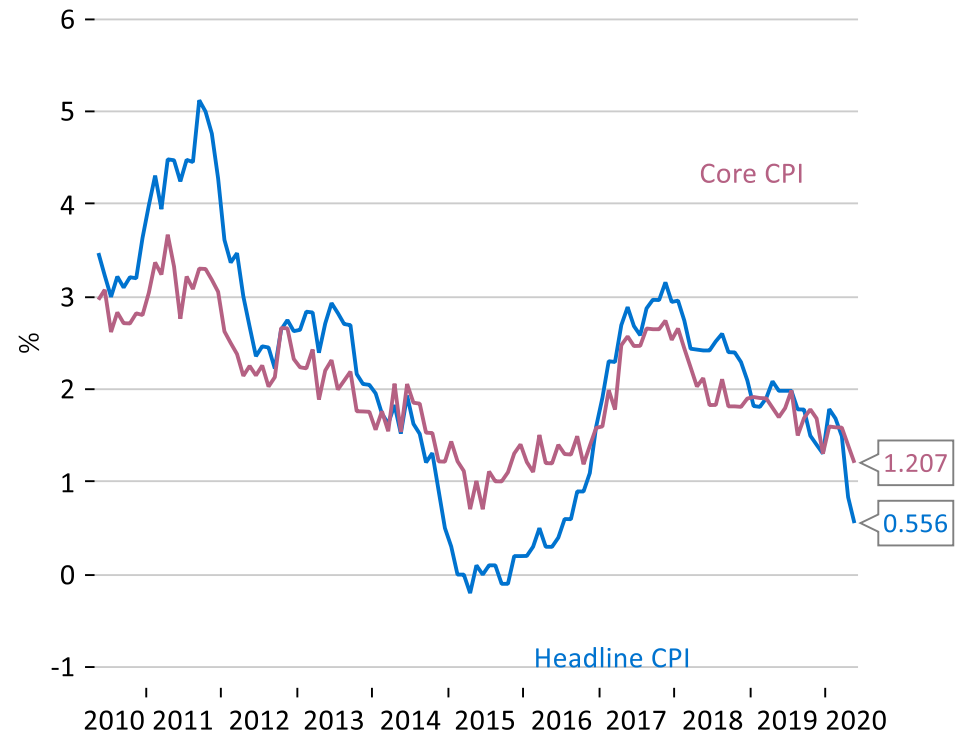
Figure 3: GDP fell by 20.4% in April 2020, following a fall of 5.8% in March 2020

Monthly index, January 1997 until April 2020



Source: Office for National Statistics - GDP monthly estimate

UK Inflation



Source: Macrobond



Massive public sector borrowing & a framework for a Brexit deal could mitigate growth shock

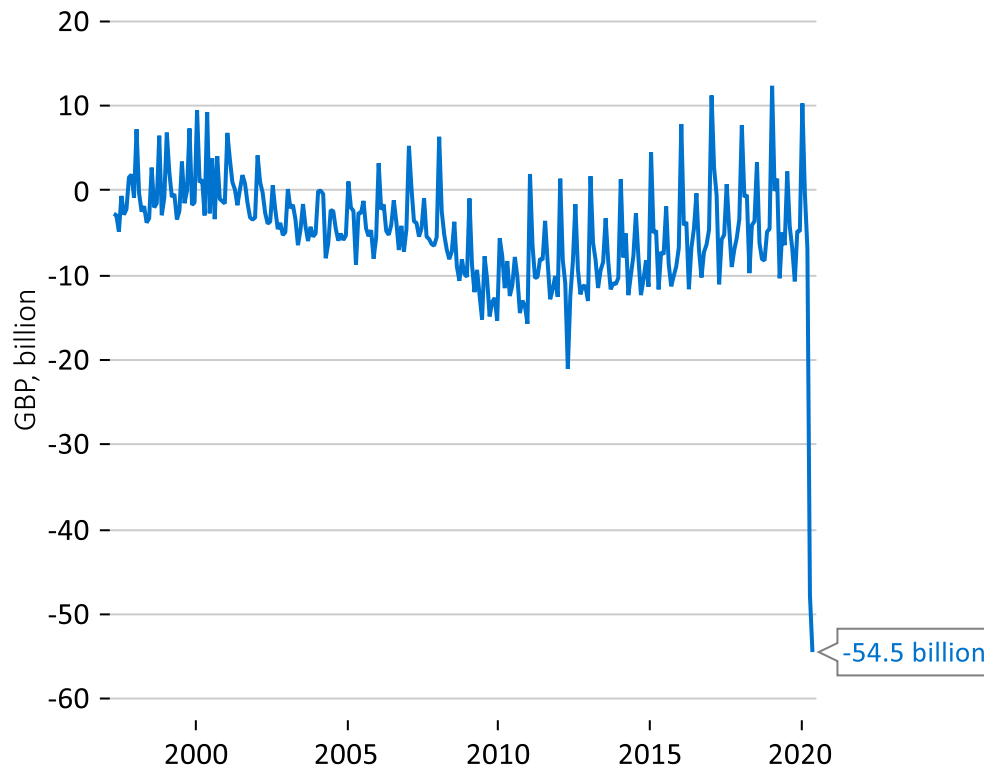


Borrowing in May highest since records began



Statement post meeting of Boris Johnson & EU June 2020

UK Public Sector Net Borrowing, GBP



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

UK Debt rose above 100% of GDP for the first time since 1963 ONS

Our key indicators continue to stabilise

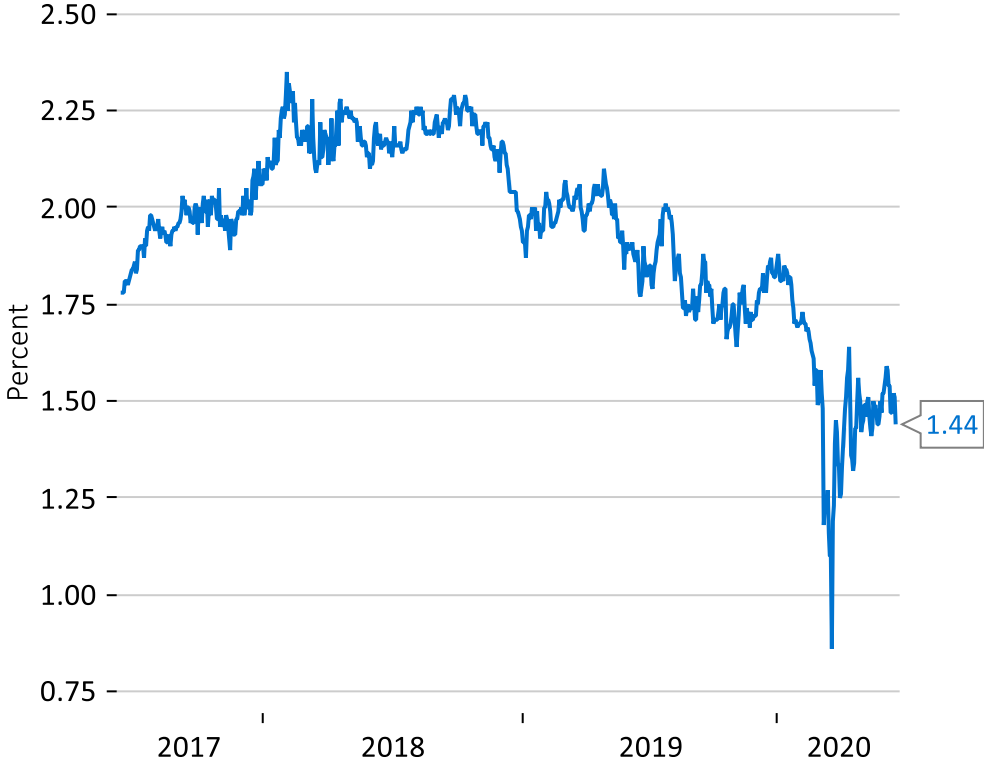


US inflation expectations appear stable



Euro break-up risk has lessened

US Inflation Expectation Rate, 5 Year 5 Year Forward



Source: Macrobond

Italy less Germany 10 Year Govt Bond Yield



Source: Macrobond

The global rally in risk assets continues...

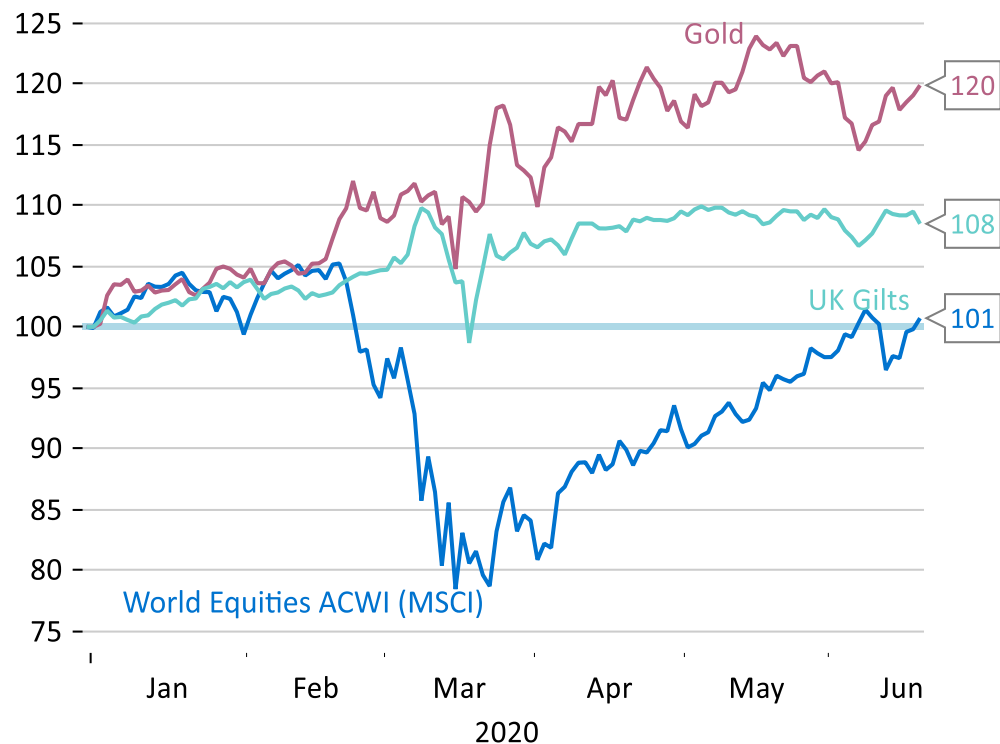


The 2020 US Bear market lasted just 34 days



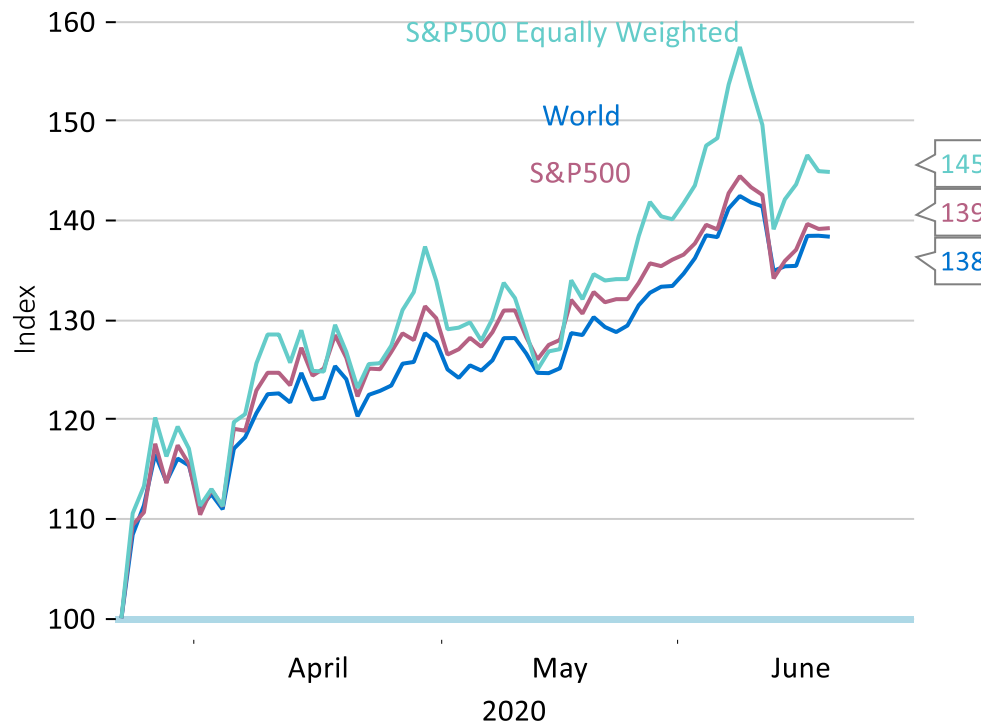
Extraordinary rally...a correction to be expected

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



Source: Macrobond

Global Equity returns from
market low 23/3/20



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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