

Sarasin Global Strategy and Outlook

*Making sense of the market recovery...a review of Q2
market performance*

3 July 2020



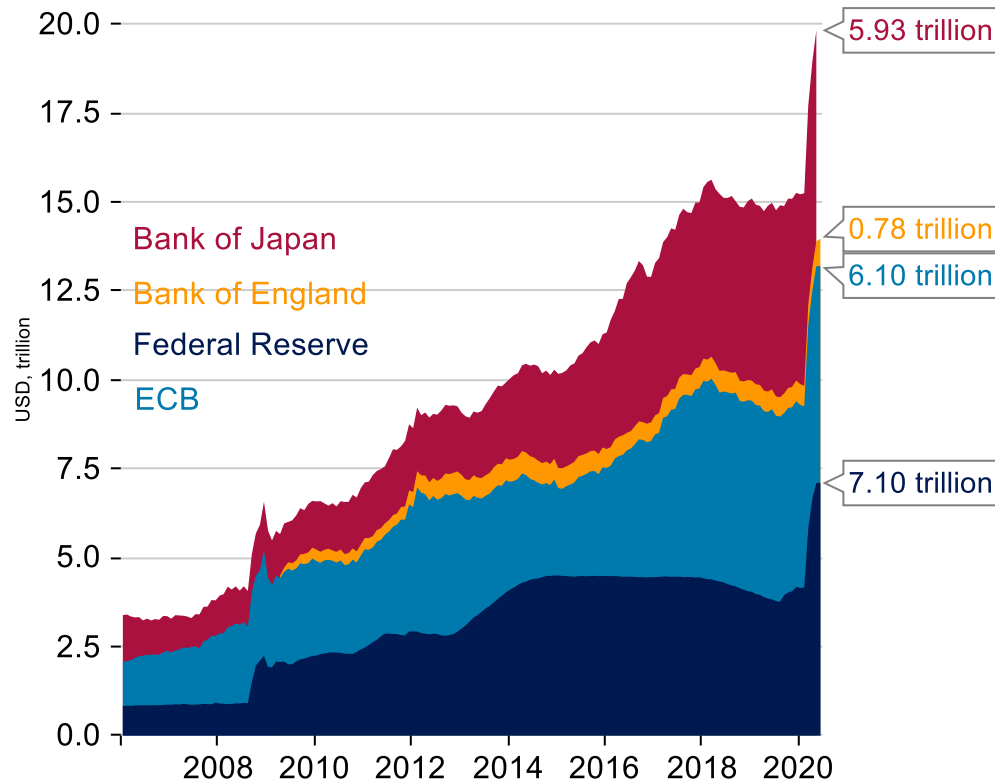


Global stimulus measures on an extraordinary scale...



Major Central banks

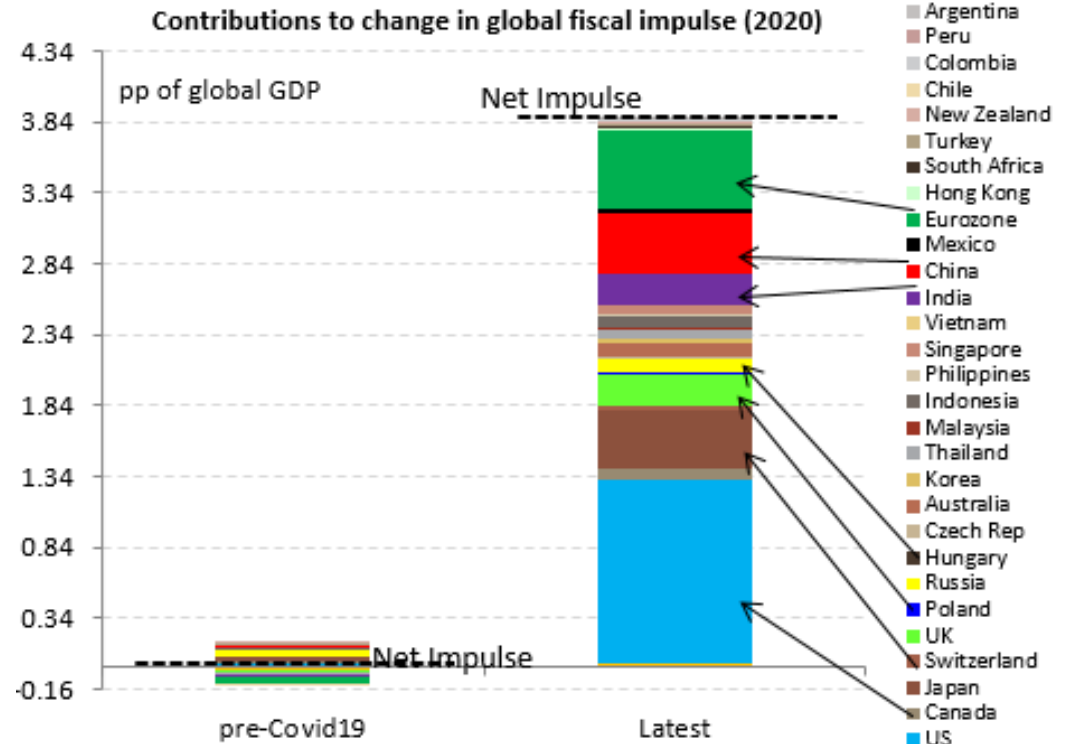
Central bank balance sheets (USD)



Source: Macrobond



Global Fiscal policy



The global fiscal deficit in our forecast increases from -3.3% to -12.6% GDP in 2020.

Source: UBS Global Fiscal Tracker T

Global asset class returns Q2 2020

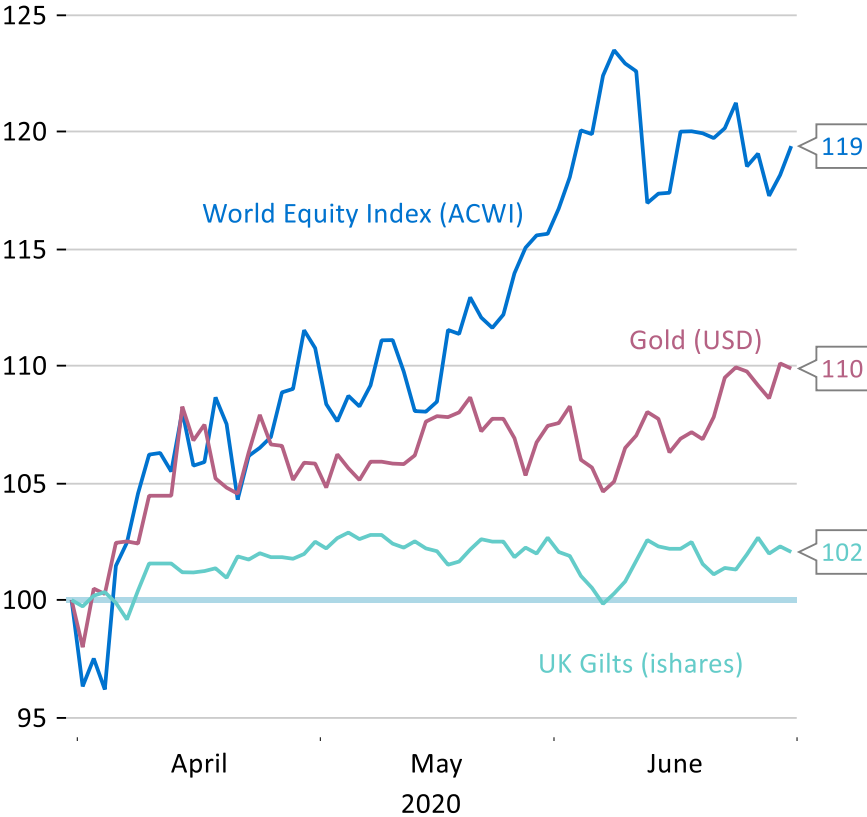


Equities rally reverses much of Q1 losses...



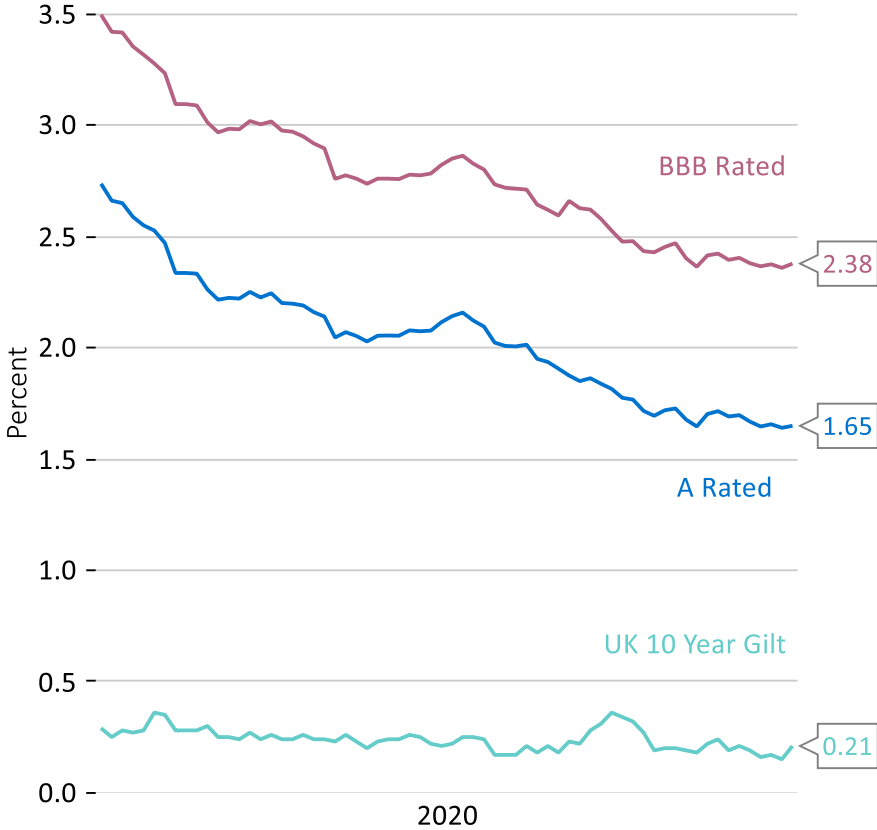
Strong rally in UK corporate bonds

Global Asset Class Returns Q2 2020



Source: Macrobond

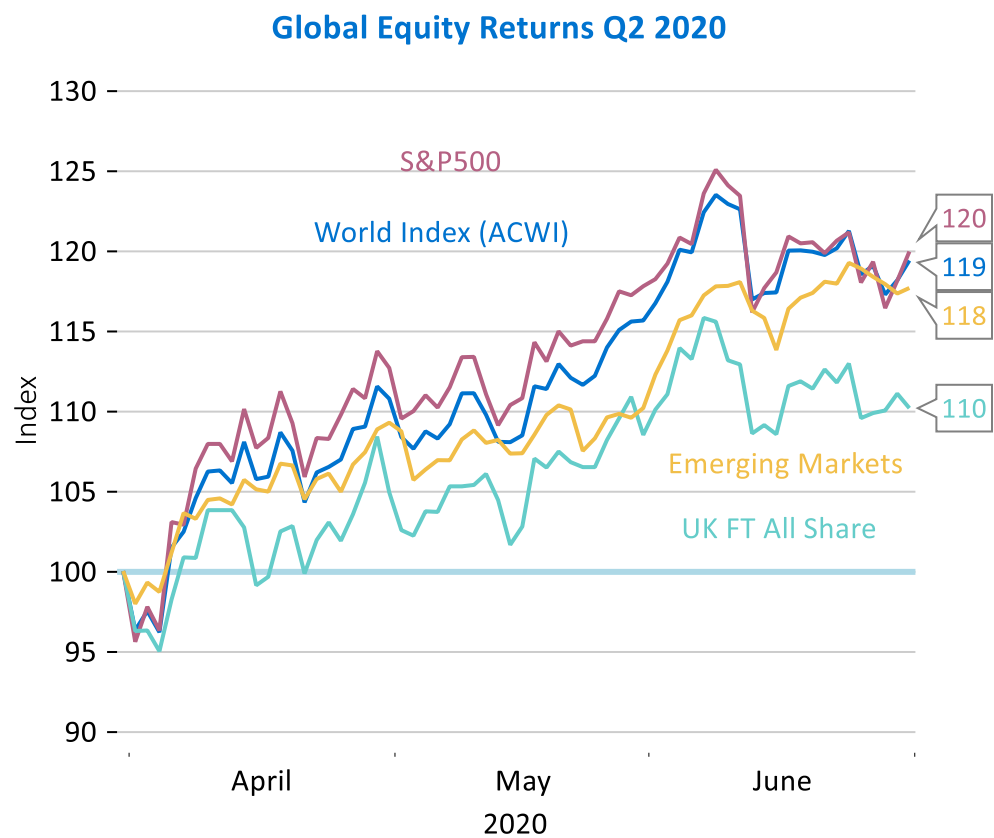
Sterling Fixed Income Yields Q2 2020



Source: Macrobond

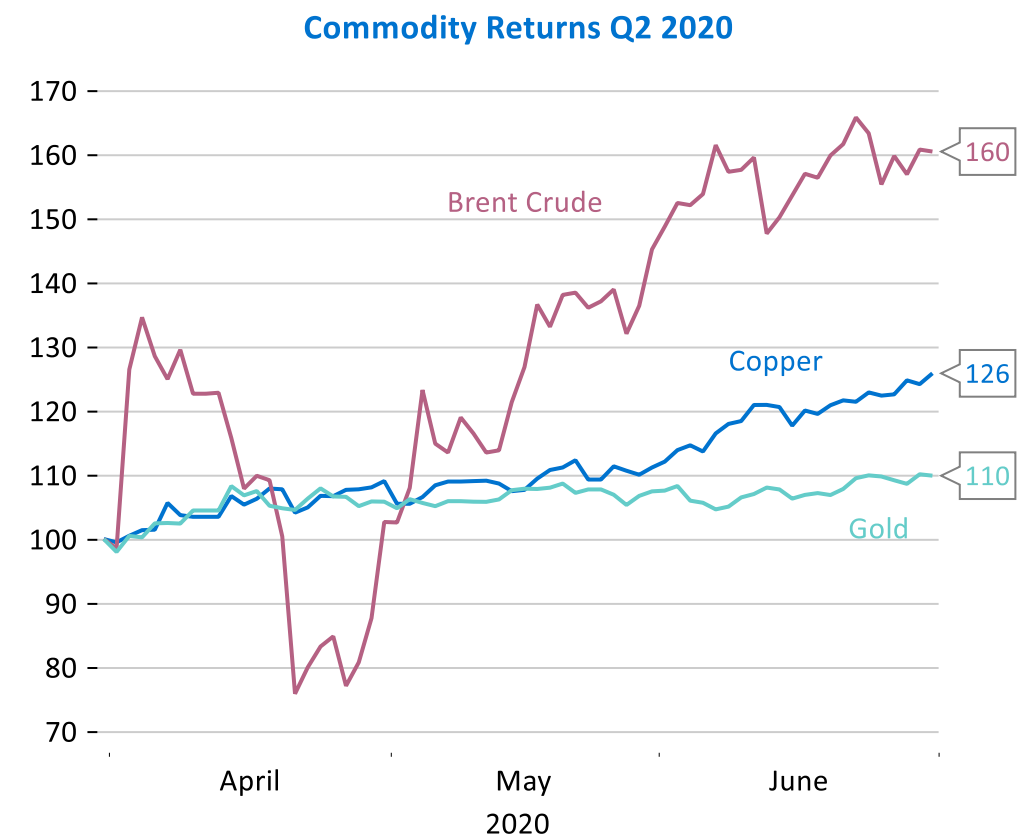
An extraordinary recovery in equities and commodities...

Global equity rally continues



Source: Macrobond

Commodity prices recover led by oil



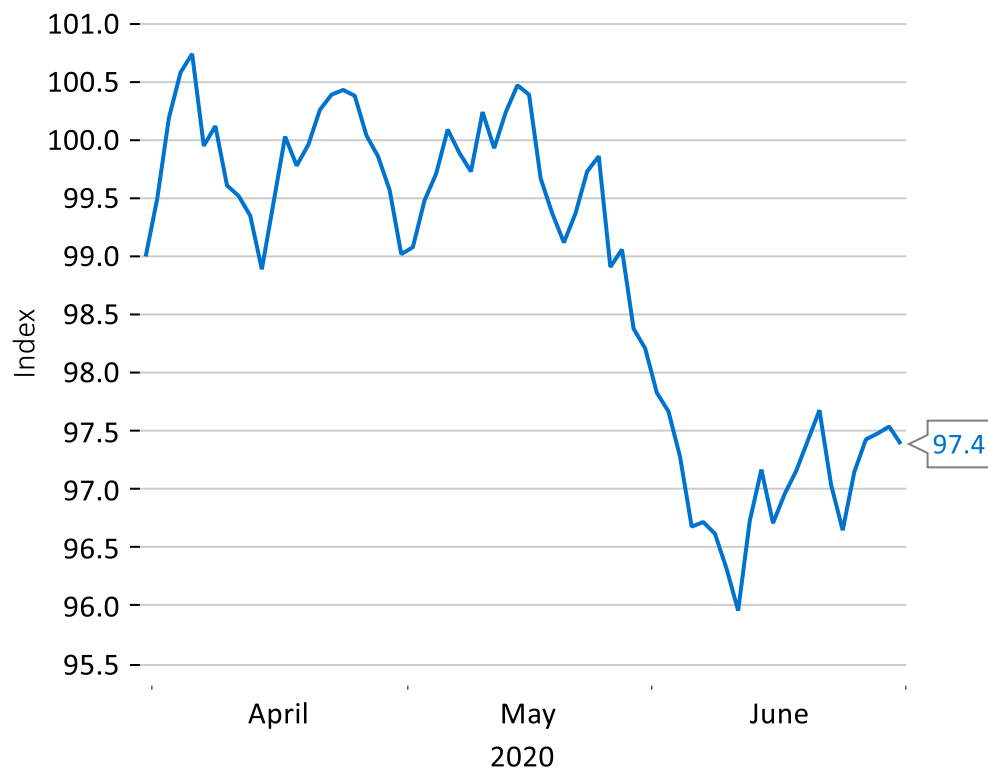
Source: Macrobond

Dollar weakness continues to ease financial conditions globally...helping equity volatility fall



Dollar weaker over the Quarter...

U.S. Dollar Index (DXY)

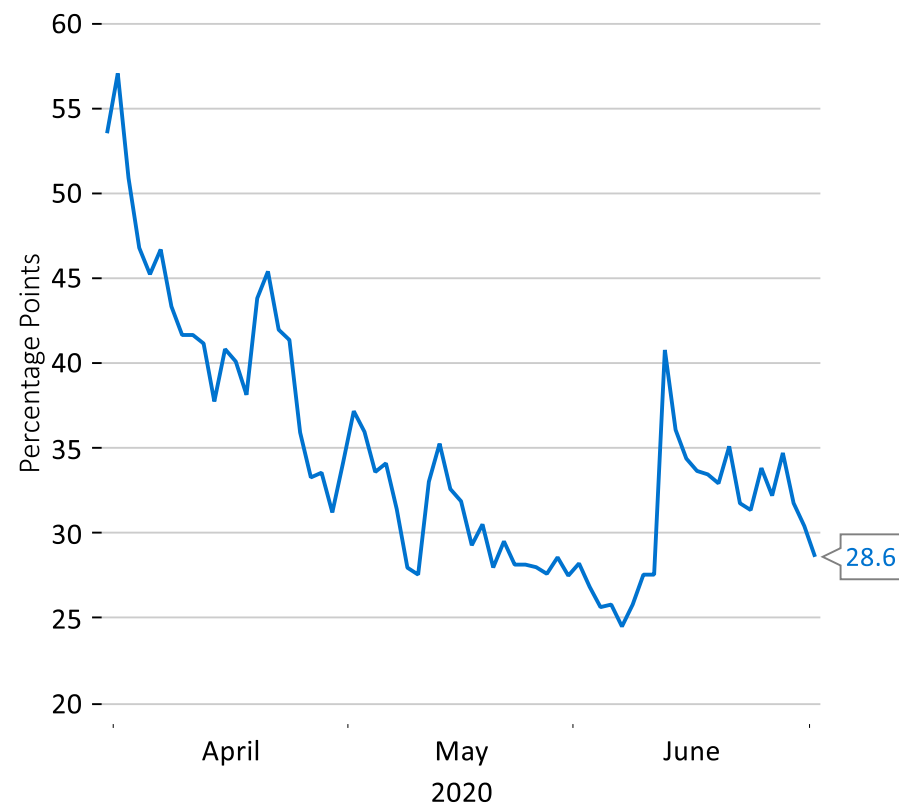


Source: Macrobond



Volatility continues to fall...

US Equity Volatility Index (VIX) Q 2020 to date



Source: Macrobond

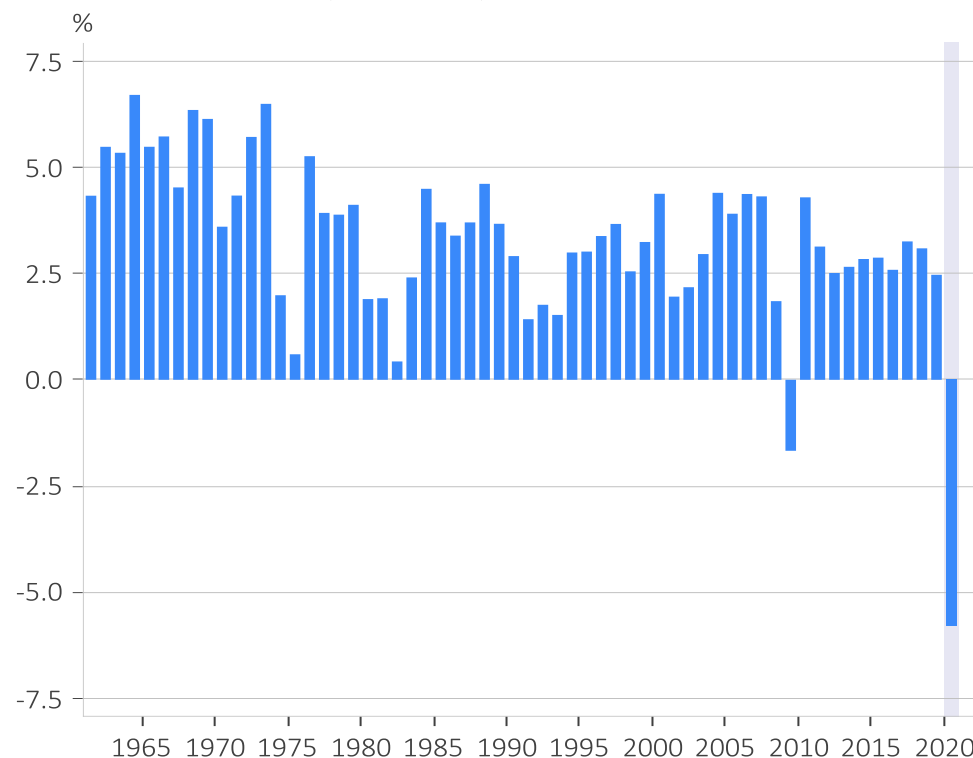
Economic outlook: Depth of recession becoming clearer, but *outlook clouded* even when activity can fully resume

	Sarasin Forecasts		2021
	2020	2020	
		New forecasts	
China	-2.2%	1.0%	8.7%
US	-5.0%	-4.5%	3%
Eurozone	-9.0%	-9.5%	6.1%
UK	-9.0%	-10.3%	7.2%
Japan	-8.5%	-4.2%	1.4%
World	-5.8%	-5.8%	4.2%



2020 Recession is likely to be worse than 2008-09

Global GDP, USD, real



We assume that the economies will be shutdown by 25% - 40% across regions and countries don't fully resume by the end of the year with around 2.5%-5% still remaining closed



Rebound in the US labour market

Anecdotal pace of employment growth has slowed in last weeks as virus spreads

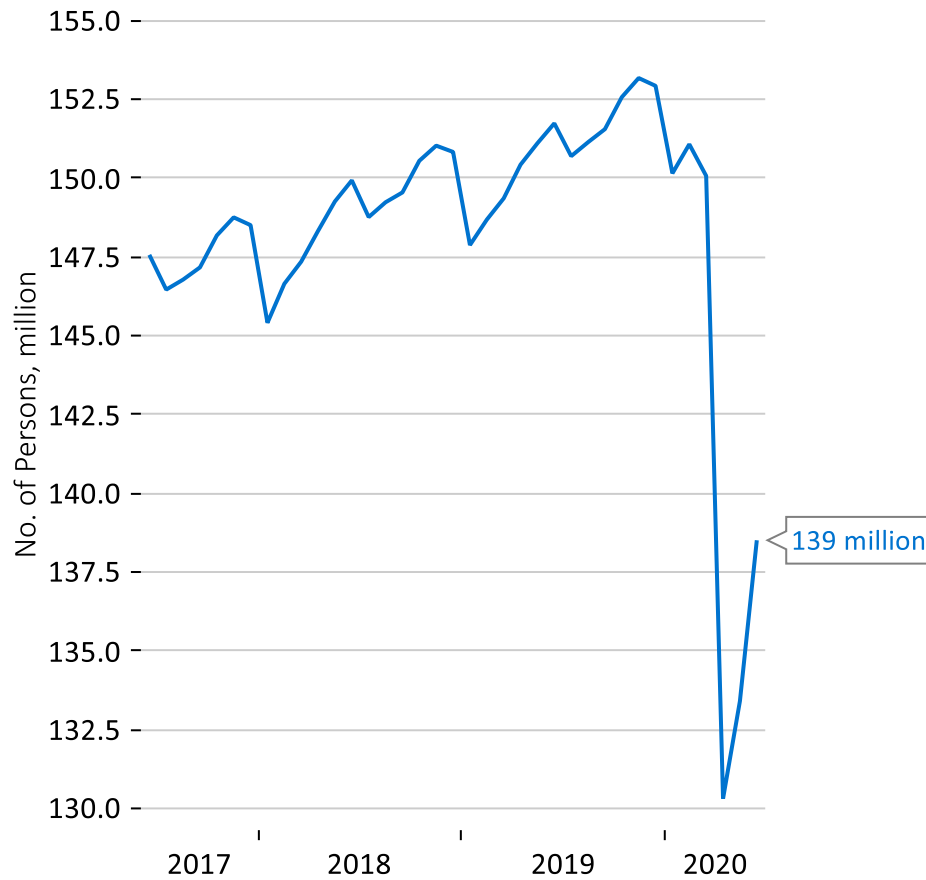


Number of working Americans climbs



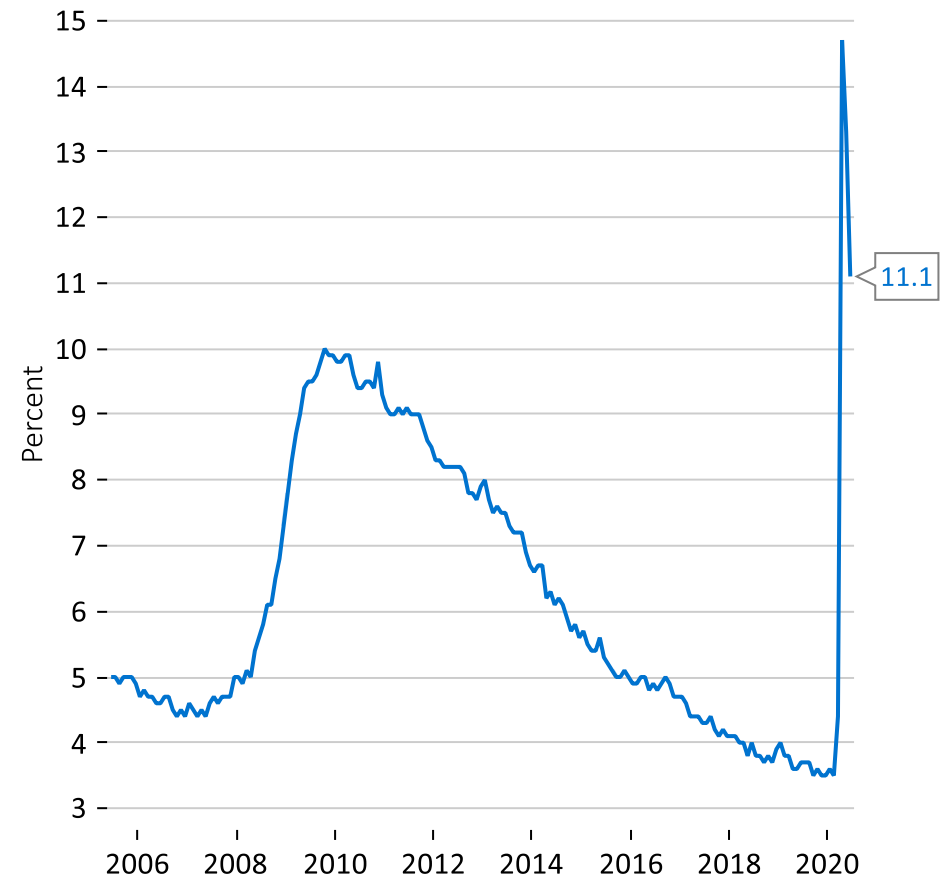
Unemployment fell for a second month

US Employment, Nonfarm Payroll



Source: Macrobond

US Unemployment Rate



Source: Macrobond

Strong rebound in business surveys but economy remains very fragile...

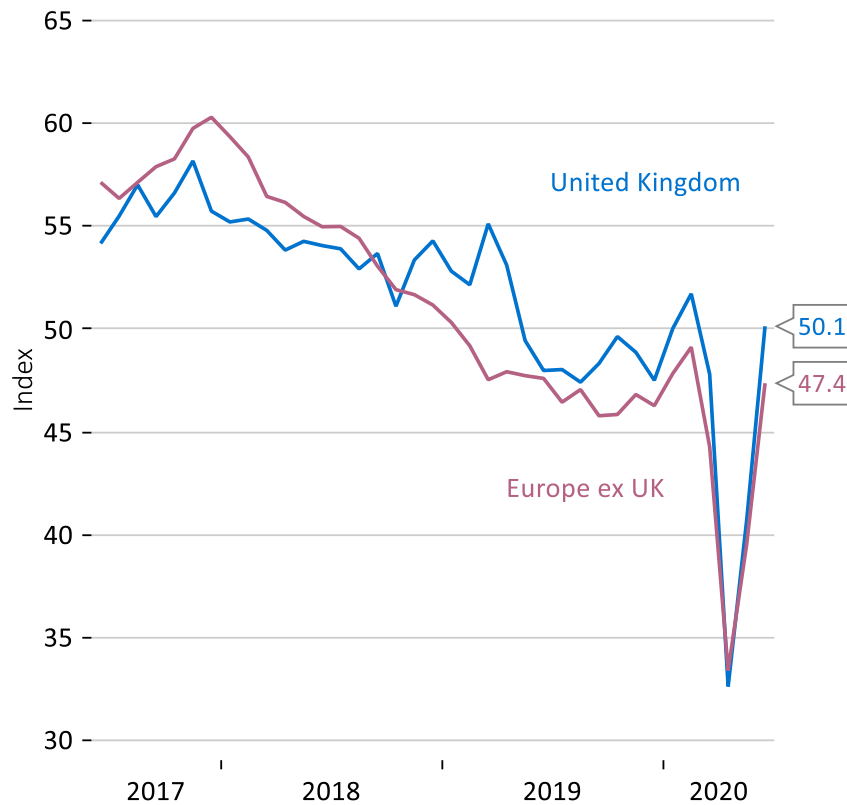


UK survey moves back above 50



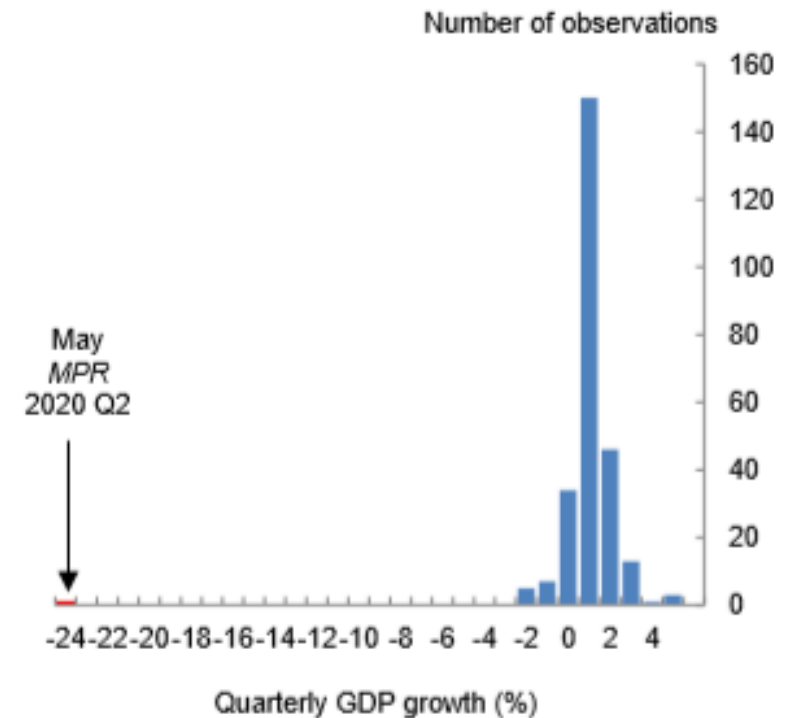
UK Economic shock still traumatic

Manufacturing Surveys PMI, Markit



Source: Macrobond

Chart 3: Distribution of quarterly GDP growth since 1955



Source: ONS and Bank calculations

From speech given by Andrew G Haldane Chief Economist Bank of England 30.6.2020

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	<p>Neutral – Corporate yields attractive with central bank support</p> <ul style="list-style-type: none">• Underweight gilts – interest rates suppressed, yield curve management likely• Overweight investment grade credit – attractive yield premium plus central bank support• Caution high yield and emerging market debt
Equities	<p>Neutral – Earnings yield attractive, gradual improvement in earnings & dividend visibility</p> <ul style="list-style-type: none">• Overweight global equities – thematic earnings still robust• Neutral UK equities – valuations attractive, discount still likely on UK assets• Underweight emerging market equities. Extent of economic and social damage from COVID-19 under estimated
Alternatives	<p>Overweight – Long-term inflation plus returns attractive</p> <ul style="list-style-type: none">• Neutral other alternatives– infrastructure and renewables• Overweight uncorrelated alternatives - gold to hedge against unprecedented policy stimulus and debt
Cash	<p>Underweight – zero or negative yield in all markets</p> <ul style="list-style-type: none">• No currency preference
Risks	<p>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</p>

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