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Sarasin Global Strategy and Outlook

Can Markets hold on to the rally?

12 June 2020



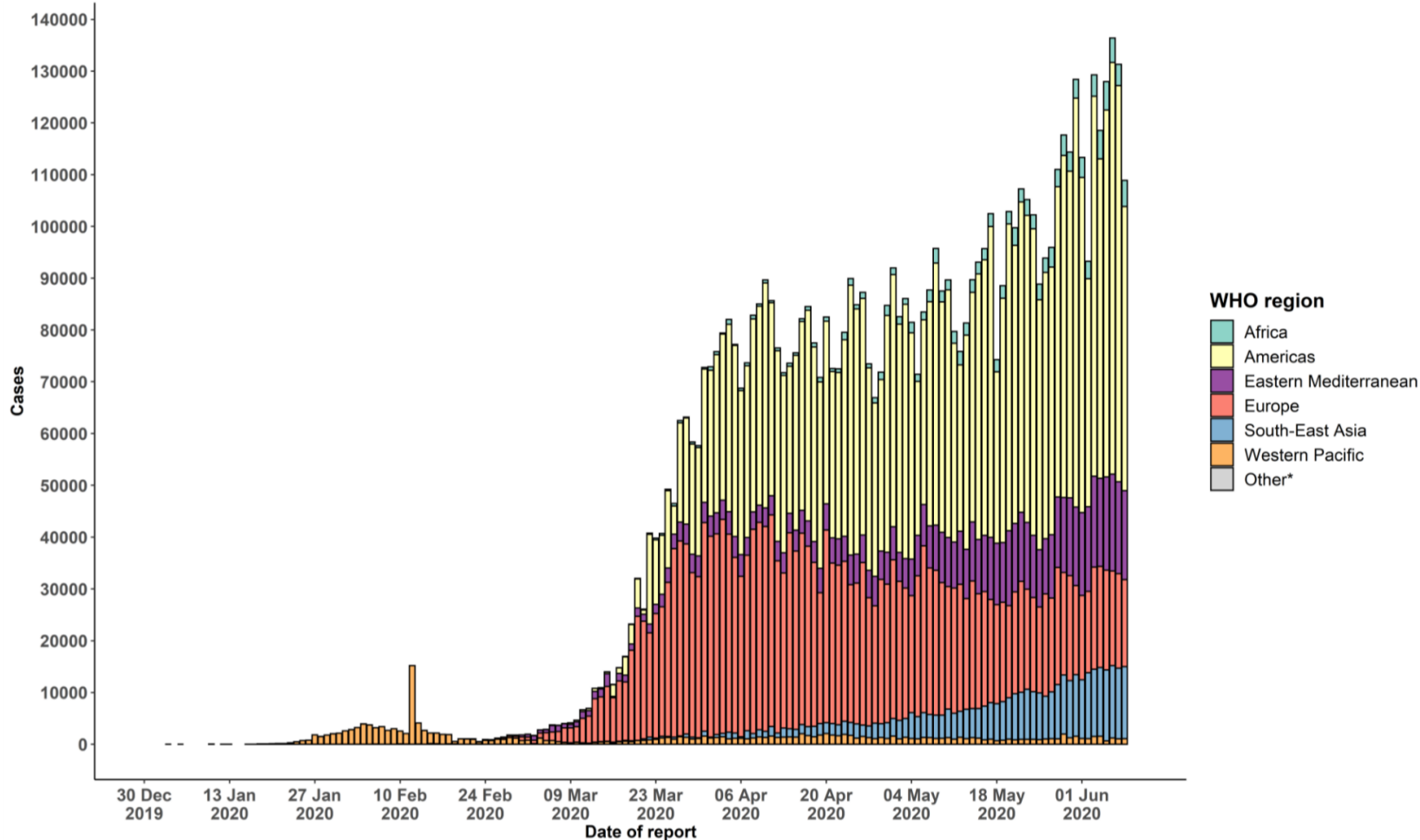
European infection rates are falling but globally they continue to climb led by the Americas...



Number of COVID-19 cases reported in last 7 days (WHO) – Note 12 US States have seen a pick up in infections this month

Surveillance

Figure 1. Number of confirmed COVID-19 cases, by date of report and WHO region, 30 December through 09 June**

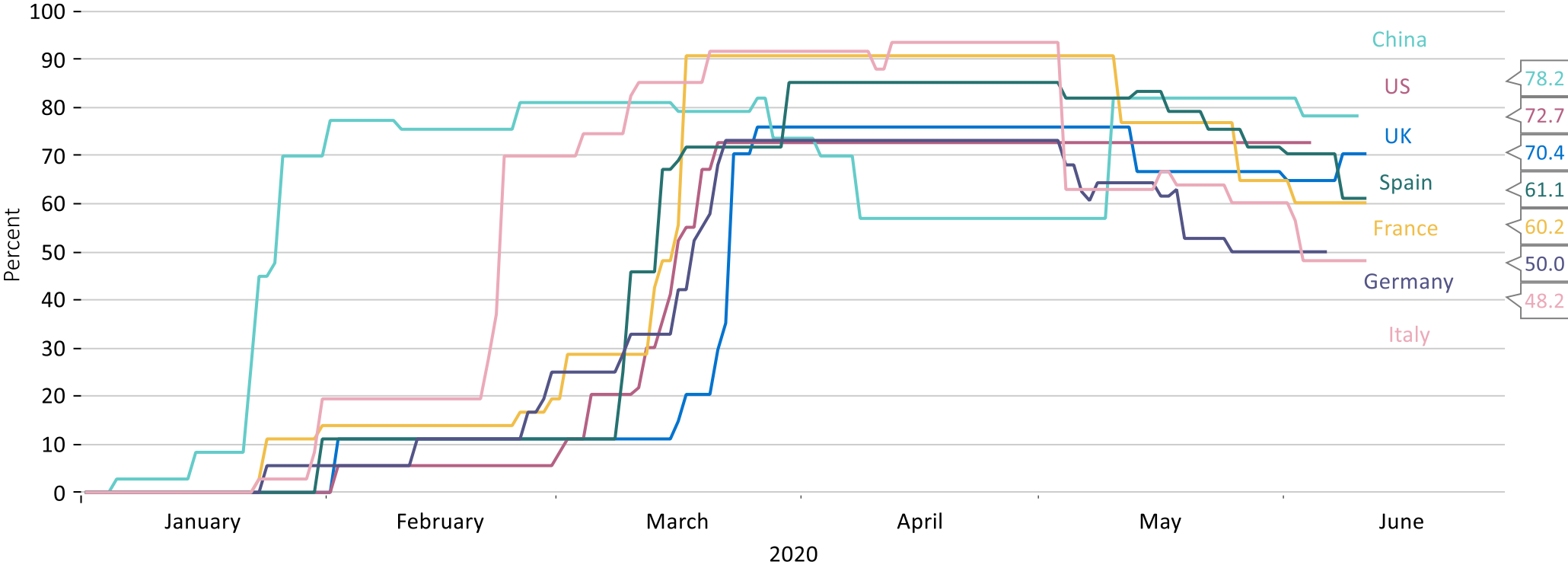


Total COVID19 cases by WHO region	
Global	7.2m
Africa	0.1 m
Americas	3.4 m
E.Med	0.7 m
Europe	2.3 m
SE Asia	0.4 m
W Pacific	0.2 m

WHO June 10 2020

Government restrictions are easing slowly...

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.



Dose of reality...economic projections from the Federal Reserve

Chair Jerome Powell

Key points from FOMC Meeting 9/10 June 2020

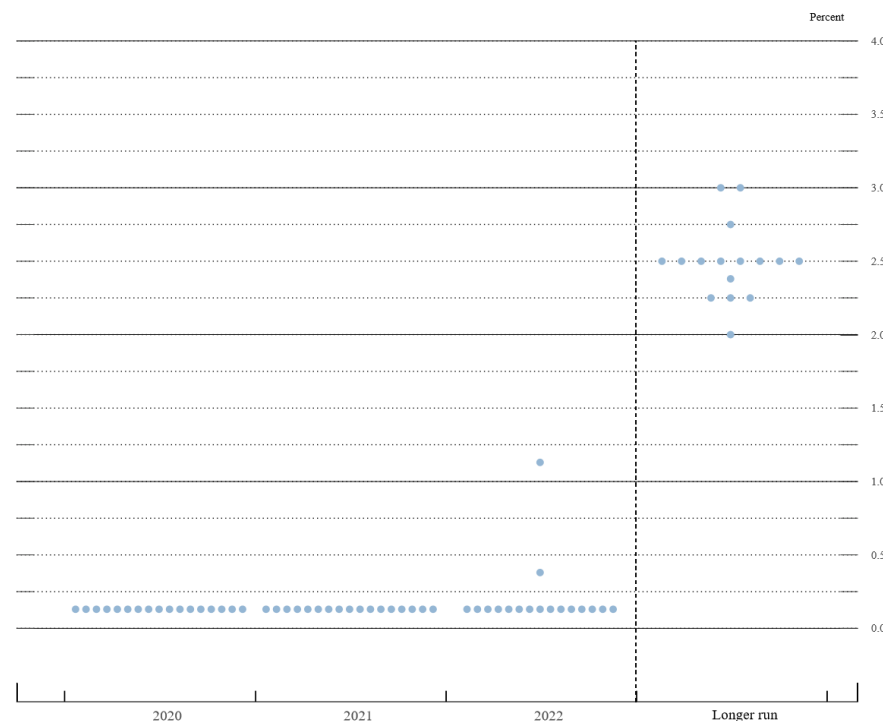
- 3 year recovery from Covid crisis
- Core inflation to remain weak
- Interest rates* effectively zero to 2022
- Fed will maintain QE at c\$120bn per month
- The FOMC discussed targeting rates along the yield curve (yield capping)
- The strong May labour report could have been flattered by 3% due to a misclassification error where temporarily unemployed were classified as employed but absent from work.

* Fed Funds Rate 0.1% projected to 2022



Federal Reserve 'Dot Plot'

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: Federal Reserve June 10 2020

UK GDP – Economic contraction of 20.4% in April from March (monthly)



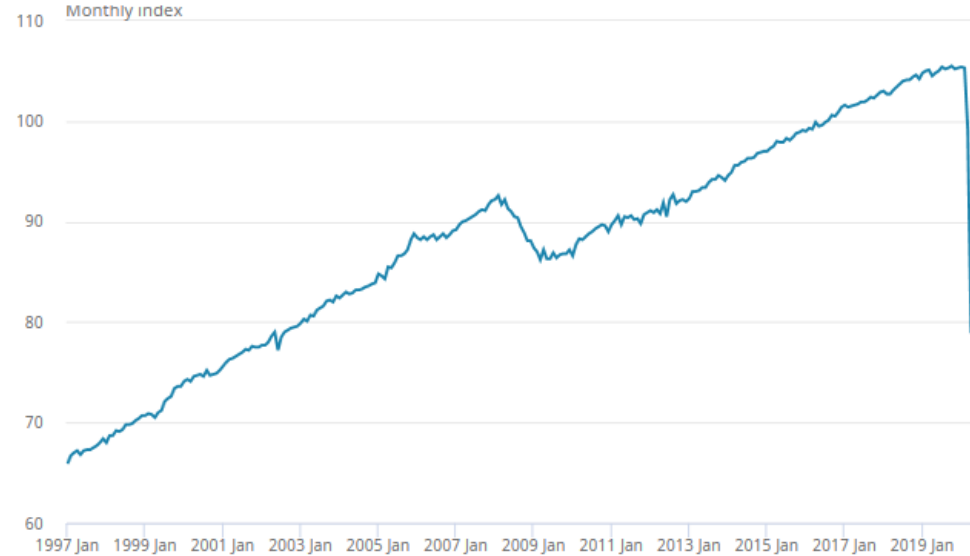
Unprecedented correction in UK GDP



Likely 10% fall in GDP for fully year 2020

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

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

	February 2020	March 2020	April 2020	Change in GDP (February 2020 to April 2020)	Rolling three-month growth (February to April 2020)
GDP	-0.2%	-5.8%	-20.4%	-25.1%	-10.4%
Index of Services	0.0%	-6.2%	-19.0%	-24.0%	-9.9%
Index of Production	-0.1%	-4.2%	-20.3%	-23.7%	-9.5%
Manufacturing	0.3%	-4.6%	-24.3%	-27.8%	-10.5%
Construction	-2.1%	-5.9%	-40.1%	-43.6%	-18.2%
Agriculture	-0.1%	-0.2%	-5.5%	-5.6%	-2.1%

Source: Office for National Statistics

Global equity rally from March low stalls this week...

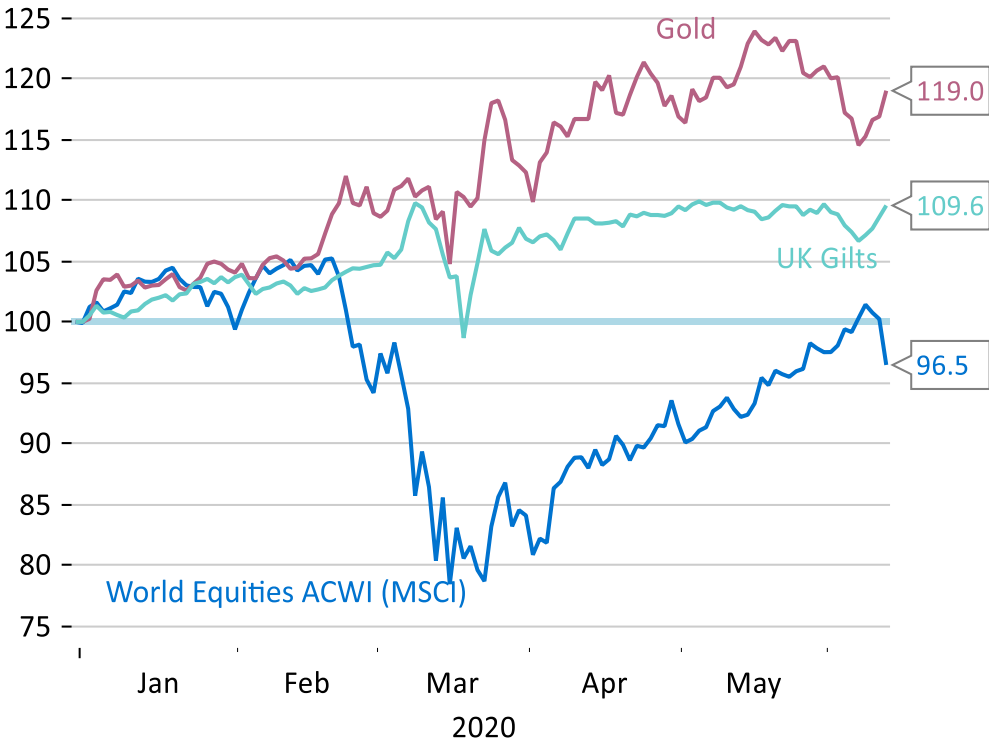


The 2020 US Bear market lasted just 34 days



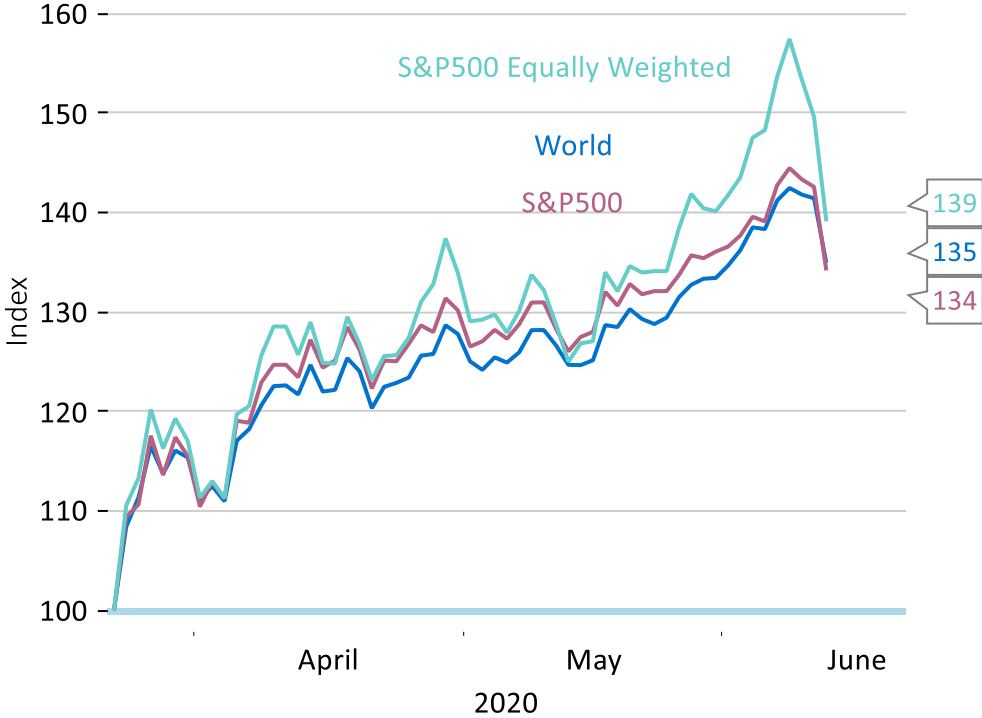
Extraordinary rally...a correction to be expected

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



Source: Macrobond

Global Equity returns from
market low 23/3/20



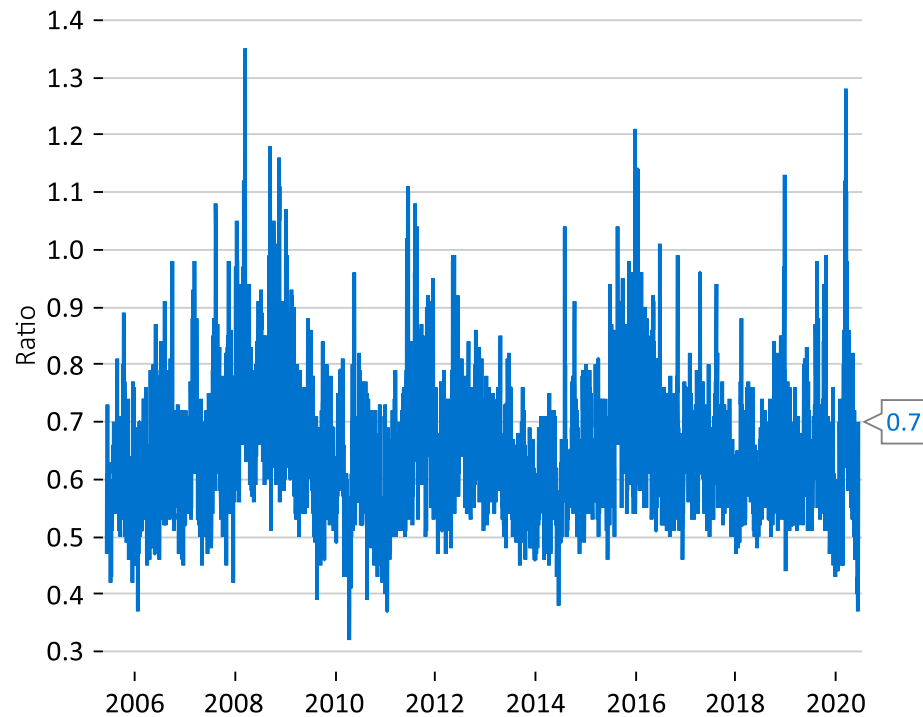
Source: Macrobond

Sentiment suggested a market correction...



Put/Call Ratio close to 10

US Equity Put/Call Ratio (CBOE)

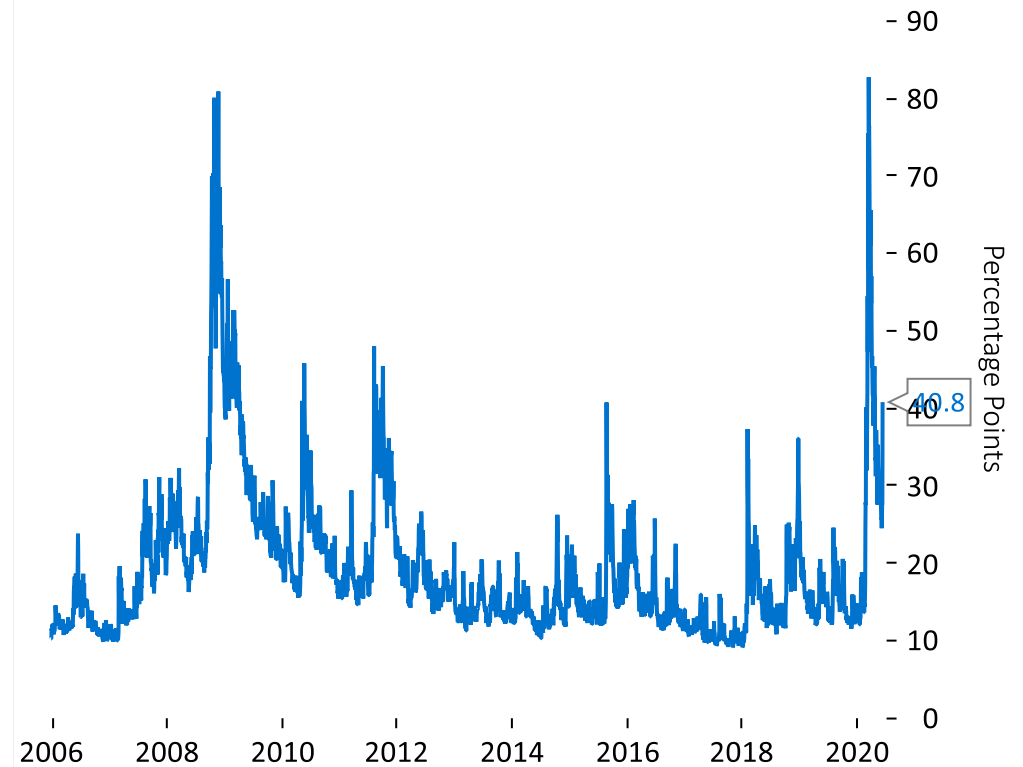


Source: Macrobond



Volatility spikes are the norm...

VIX US Equity Volatility



Source: Macrobond

1. Equity volatility historically declines on Central Bank stimulus...

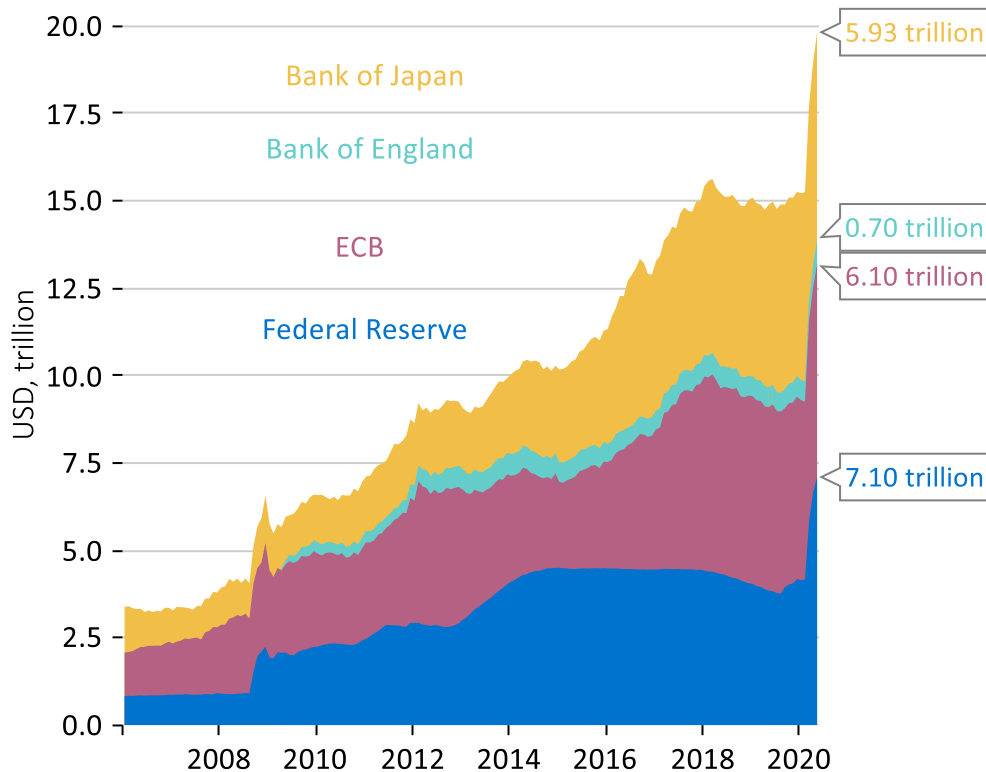


Growth of Central Bank balance sheets faster than in 2008/9



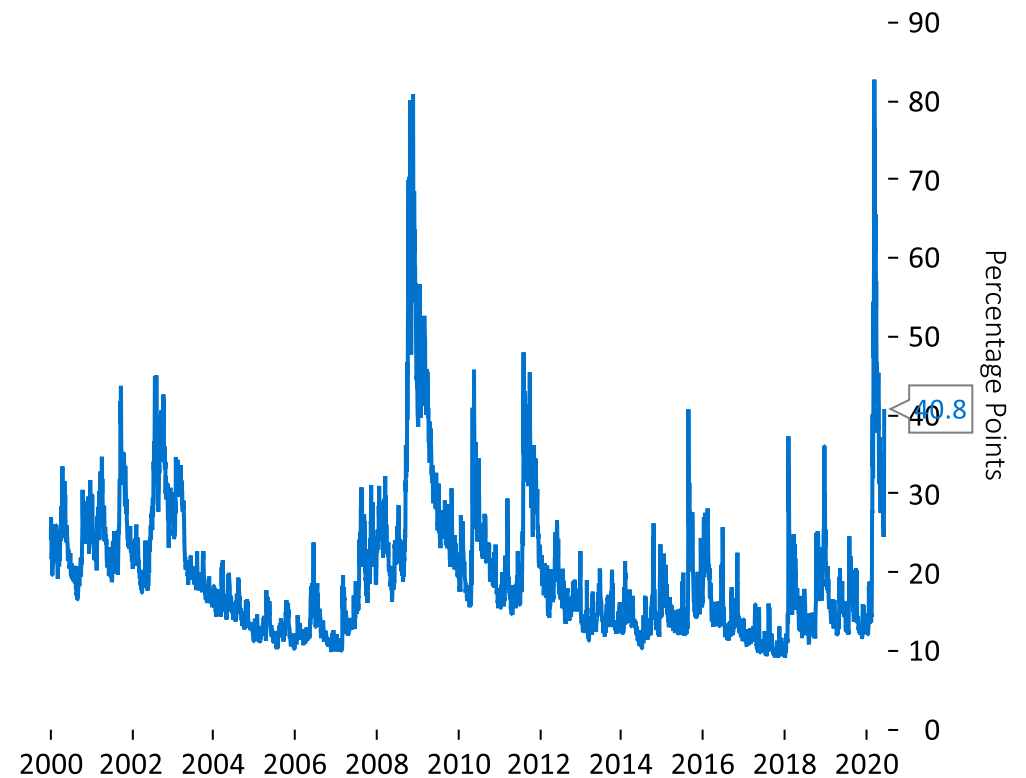
But volatility spikes can still occur...

Central bank balance sheets (USD)



Source: Macrobond

VIX US Equity Volatility



Source: Macrobond

2. Dollar weakness has helped ease financial conditions globally...

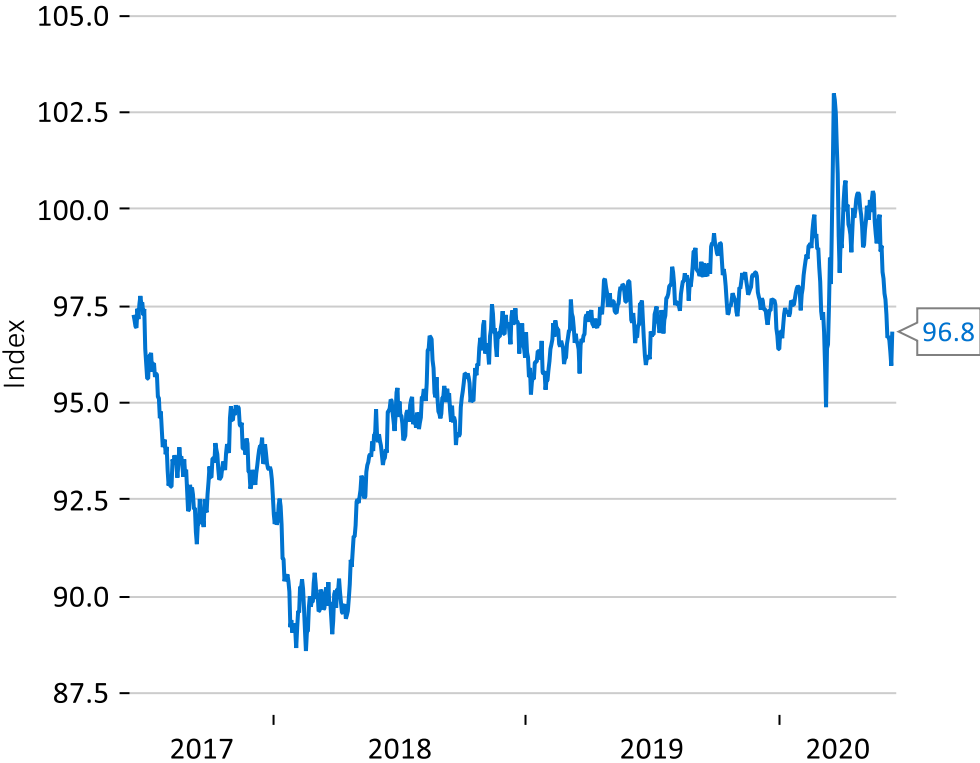


Dollar Index corrects sharply over recent weeks



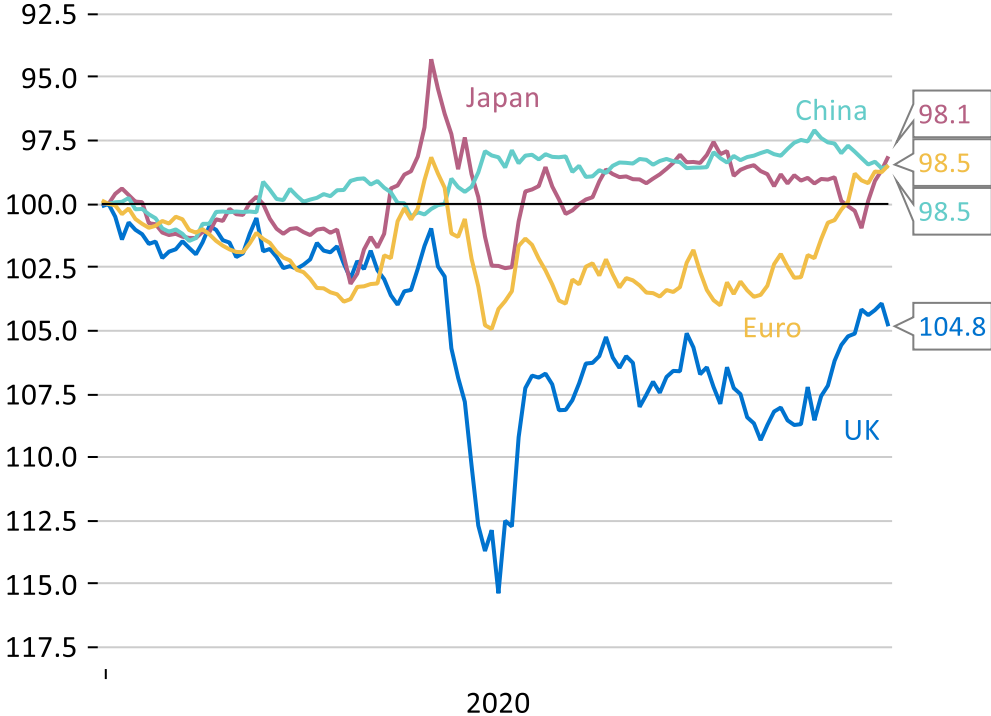
Major global currencies

U.S. Dollar Index (DXY)



Source: Macrobond

Currencies per US Dollar
100=31.12.2020



Source: Macrobond

3. Oil: OPEC-Plus implements 92% of agreed cuts and extends cuts to end July

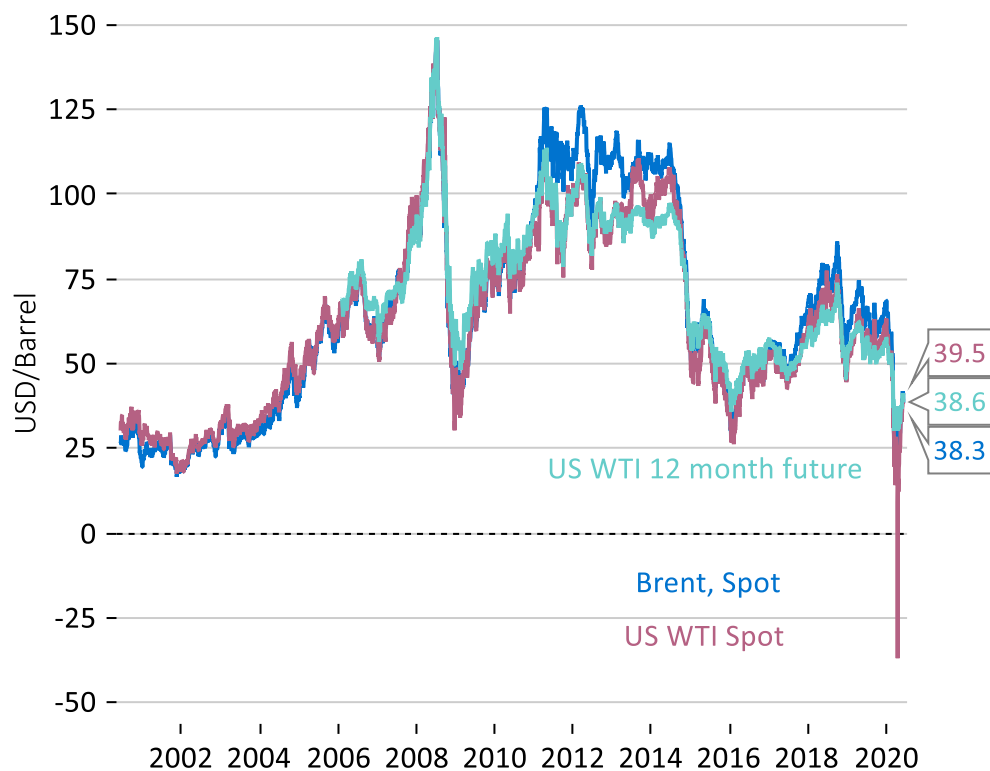


Oil price recovery continues



Unprecedented oil price volatility

Crude Oil Prices, USD



Source: Macrobond

US Crude Oil ETF Volatility Index (OVX), Close



Source: Macrobond

Our key indicators gradually normalise...

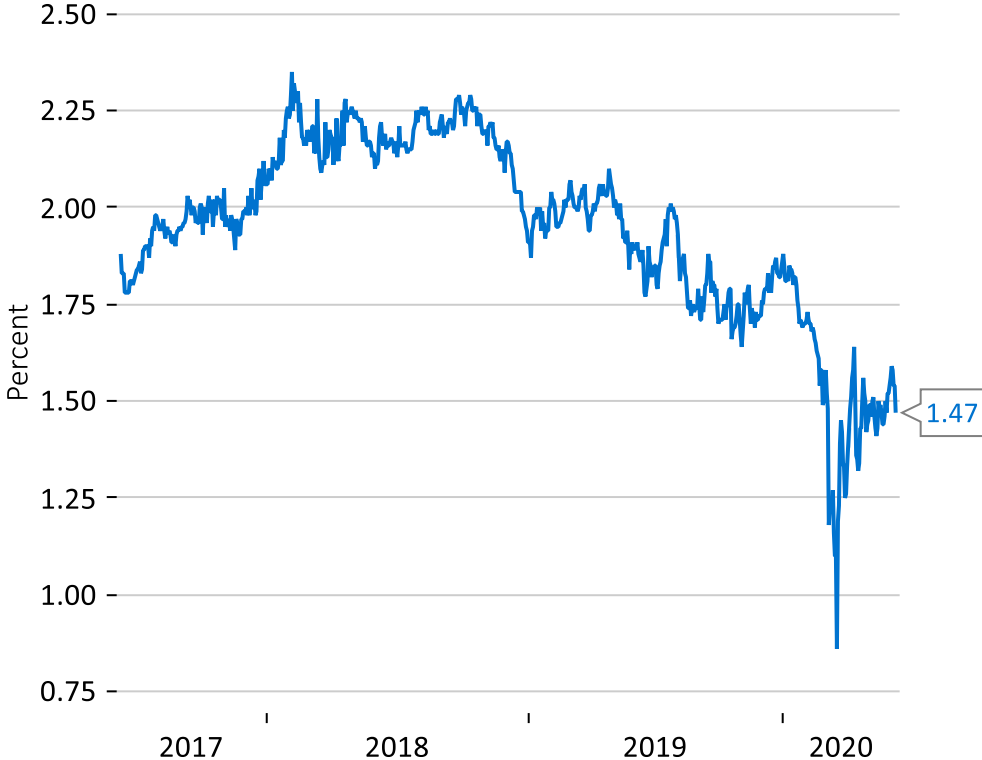


US inflation expectations appear stable



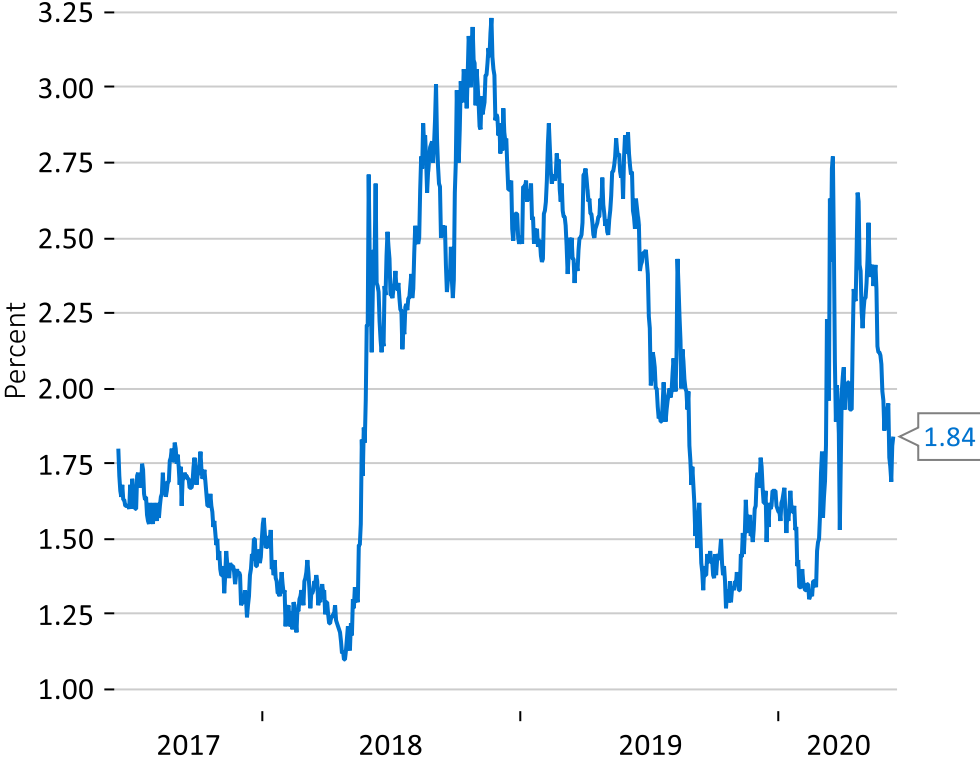
Euro break-up risk has lessened

US Inflation Expectation Rate, 5 Year 5 Year Forward



Source: Macrobond

Italy less Germany 10 Year Govt Bond Yield



Source: Macrobond

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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