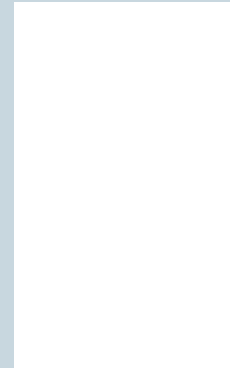
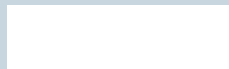
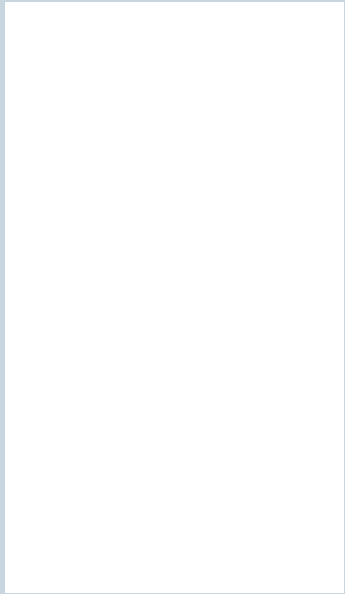


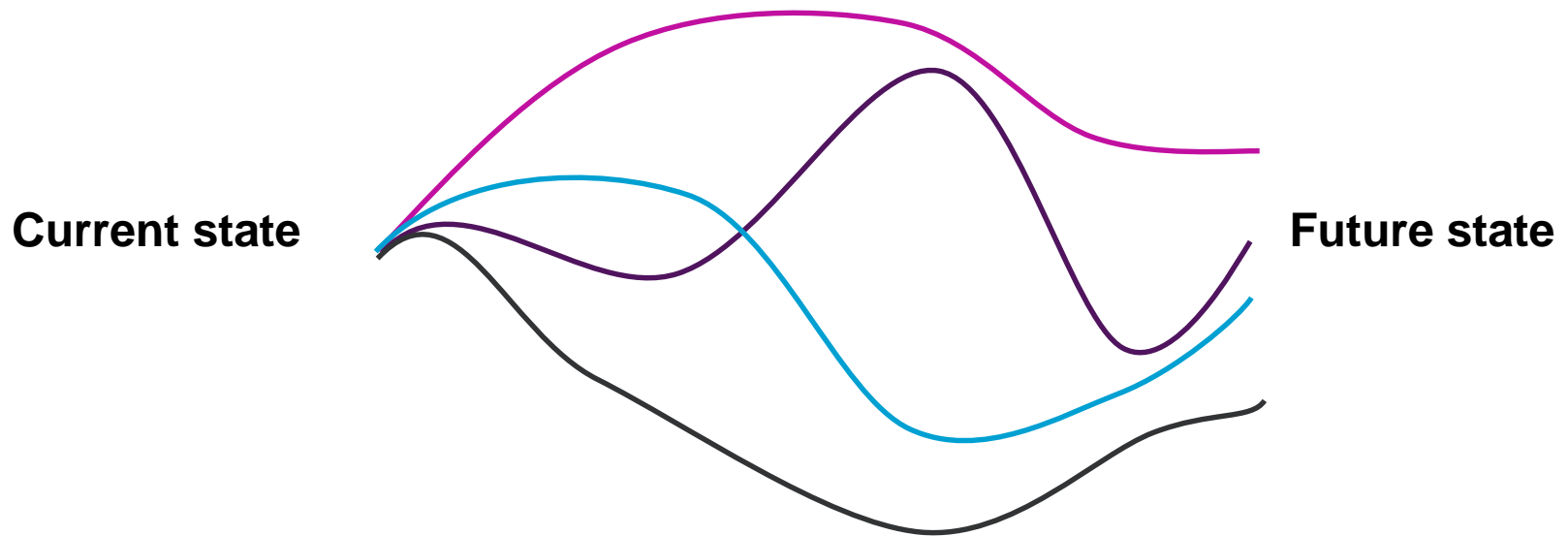
# Our scenarios

15 July 2020



# What will the future look like?

Our goal is to understand potential future states and the paths that may lead us there



# Unpredictability and uncertainty are key factors in gauging the outlook

It is important to understand what we don't know

## COVID-19 Trackers

- We are tracking the things we know are important on the medical side, e.g., time to implement social distancing, the number and rate of change of cases and deaths, test count per million people, utilisation of hospital capacity, etc
- We are also tracking key short-term economic and financial indicators – travel reduction, claims for unemployment, spending on durable goods, recovery speeds in countries such as China and Taiwan, and market liquidity

## Our outlook allowing for uncertainty

- The steady recovery in China economic activity that began in March will likely continue
- The US and Europe experienced a major recession in Q1 and April; GDP growth in advanced economies has started to pick-up in May and June; the shape of recovery in advanced economies in Q3/Q4 2020 and beyond remains uncertain – we expect large divergences between countries given large differences in the number of virus cases and the size of fiscal and monetary policy responses
- Small and midsize companies in advanced economies will likely be more negatively impacted. Less developed economies will suffer more than advanced economies in the nearer term. Not all sectors are affected equally in this scenario, e.g., service sectors, including aviation, travel, and tourism, are likely to be hardest hit – it could take several years for all parts of economies to fully normalise

# Recent market moves have been severe

## Regular actions investors can undertake

### Portfolio implications

- From a five-year investment standpoint, given the acute changes in bond, credit, and equity pricing, we forecast that we have moved to a higher return and higher risk regime, from a low return/low-to-medium risk regime
- We will always face systemic risks, whether they are economic, societal (such as COVID-19) or environmental. Thinking carefully about the following actions will provide more resilient and, ultimately, more successful portfolios over time:
  1. The level of risk one can tolerate;
  2. Maximising the amount of diversity;
  3. Removing unrewarded risks;
  4. Carefully thinking through and managing liquidity needs.

# Our scenarios – a way of understanding possible outcomes

## Outline and indicative likelihood

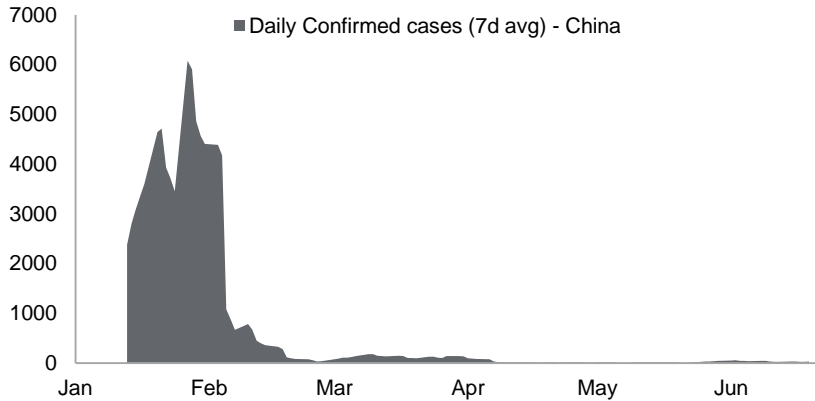
	1. Gradual recovery from economic lows	2. Extended economic weakness	3. Systemic financial crisis
Epidemiology	<ul style="list-style-type: none"> <li>Public health policy measures are highly effective – virus spread controlled by mid-Q2</li> <li>Shelter-at-home and other stringent measures eased</li> </ul>	<ul style="list-style-type: none"> <li>Problem transmissions occur up to Q3; public health policy is less effective in controlling the virus</li> <li>New cluster cases in localised areas; shelter-at-home and other stringent measures re-implemented at a local level</li> </ul>	<ul style="list-style-type: none"> <li>Problem transmissions occur up to Q4; public health policy is less effective</li> <li>New cluster cases continue in localised waves through northern hemisphere winter; larger scale regional shelter-at-home measures required</li> </ul>
China	<ul style="list-style-type: none"> <li>Recovery in factory output is largely complete by early-to-mid Q2; Consumer confidence recovers in Q3</li> </ul>	<ul style="list-style-type: none"> <li>Self-reinforcing recovery in factory output is delayed until Q3; consumer confidence recovers only in Q4</li> </ul>	<ul style="list-style-type: none"> <li>Self-reinforcing recovery in factory output is delayed until Q3; consumer confidence recovers only in Q4</li> <li>Slower recovery in export sectors</li> </ul>
US and Europe	<ul style="list-style-type: none"> <li>US and Europe have an acute contraction in Q1 / April</li> <li>Highly effective government credit support for households / businesses supports a gradual recovery</li> <li>SMEs are most negatively affected; service sectors (aviation, travel, tourism) will be significantly affected</li> <li><b>Shape of recovery:</b> US and Europe return to Q4/19 GDP levels in Q1/21 and Q3/21</li> </ul>	<ul style="list-style-type: none"> <li>US and Europe have an acute contraction in Q1 / April</li> <li>After a bounce in activity in May / June, growth recovery is weak due to high unemployment, high SME bankruptcies, and weak earnings</li> <li>Consumer confidence does not recover until Q4</li> <li>Government credit support for business / households only partially effective</li> <li><b>Shape of recovery:</b> US and Europe return to Q4/19 GDP levels in Q1/22 and Q1/23</li> </ul>	<ul style="list-style-type: none"> <li>After an initial bounce in activity US and Europe contract through to Q1 2021</li> <li>Political, geopolitical, or debt related shocks to employment, incomes, and global trade drives private sector deleveraging given high debt levels</li> <li>Policy is insufficient or ineffective;</li> <li>Company funding and credit conditions are acutely affected leading to system-wide defaults</li> <li><b>Shape of recovery:</b> US and Europe return to Q4/19 GDP levels in Q3/23 and Q4/24</li> </ul>

- For the purposes of decision making, we think it is most useful to track public health policy effectiveness and economic policy effectiveness, by country as it is likely important differences will emerge – different countries will experience different scenarios concurrently

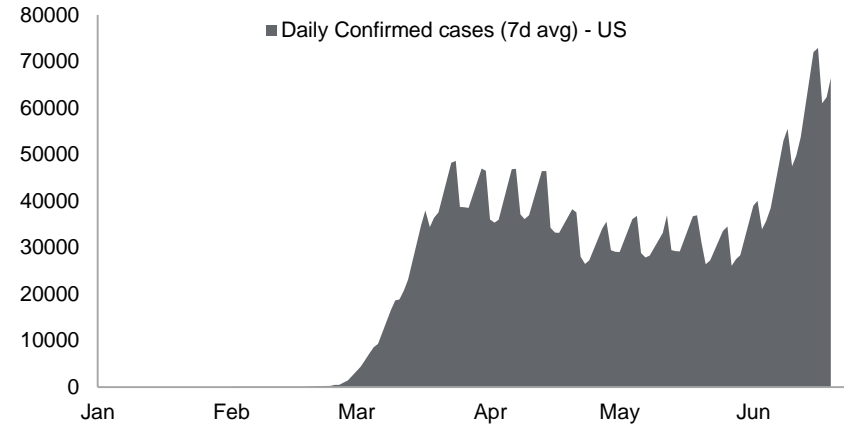
# COVID-19 case monitor

## Daily confirmed COVID-19 cases

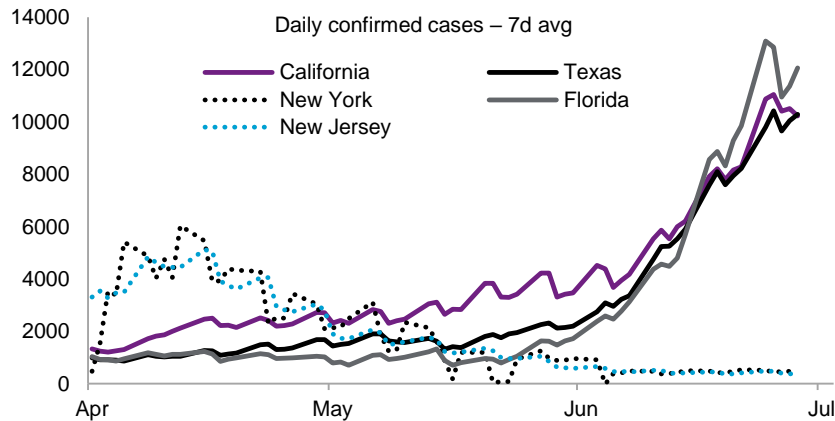
**China: consistently low number of new cases**



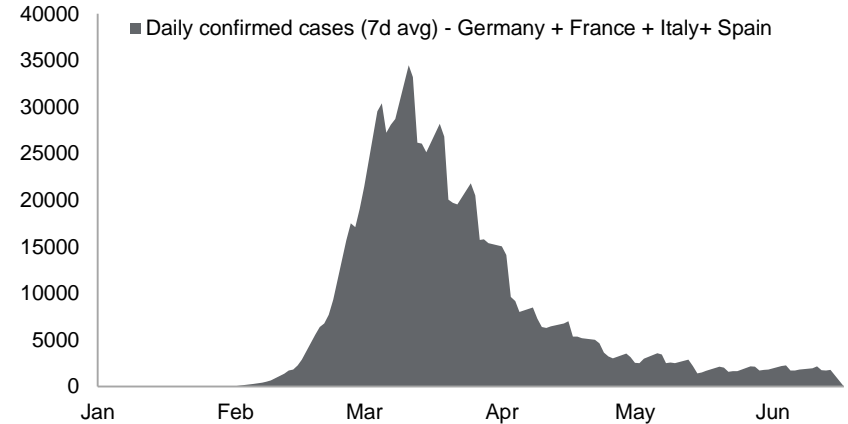
**United States: rising number of cases from a high level**



**US States: rising number of cases in high GDP/employment States**



**Eurozone: slow decline in number of cases from a high level**



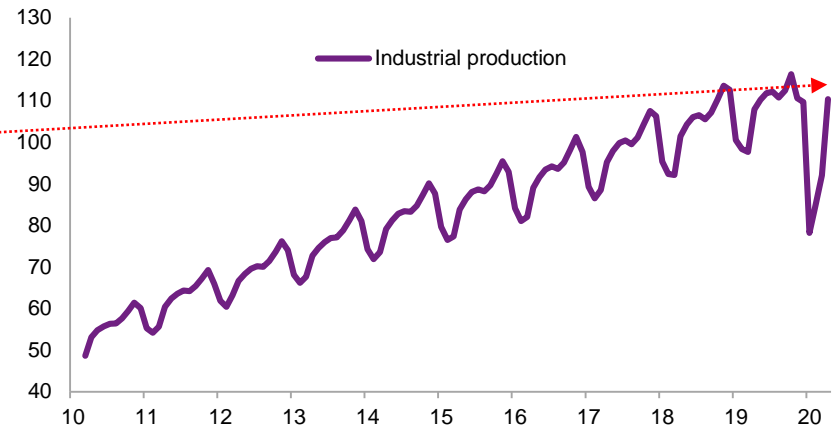
# Economic conditions monitor

Tracking economic activity in the major economies

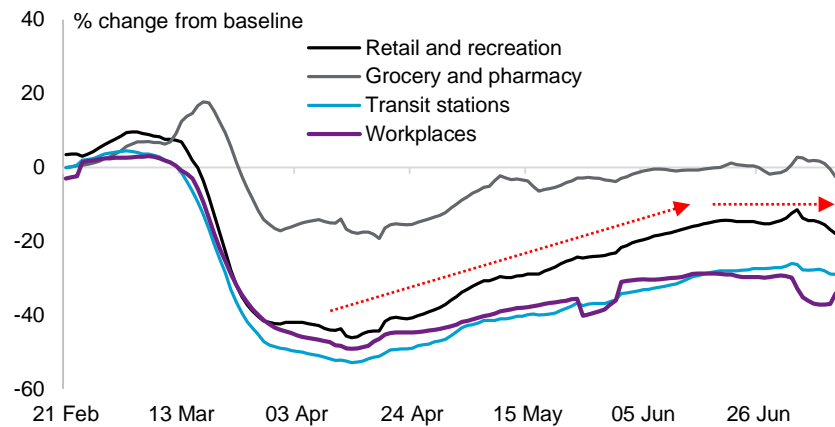
## Levels of real GDP relative to end-2019

	Peak-to-trough fall in real GDP	Date of real GDP low-point	Estimates of current fall in real GDP at 30-June
China	-25%	February	-2%
United States	-15%	April	-7%
Germany	-15%	April	-10%
France	-20%	April	-15%
Spain	-20%	April	-13%
Italy	-25%	April	-20%

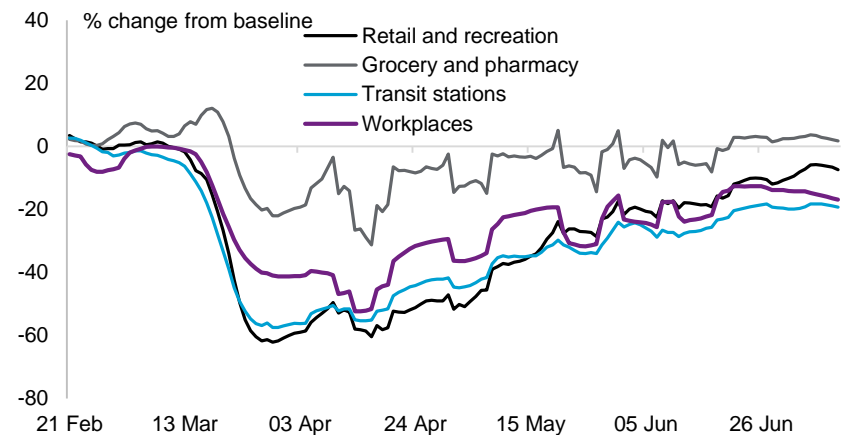
## China: manufacturing has fully recovered to previous levels



## US: mobility of people in various economic areas rose from April, supporting spending, but has slowed as virus cases have risen



## Germany: a steady increase in economic mobility (and likely spending) since April



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