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# NEAR TERM OUTLOOK LOOKS UGLY - BUT THE SUN WILL RISE AGAIN

## MACRO & STRATEGY POSITION NOTE


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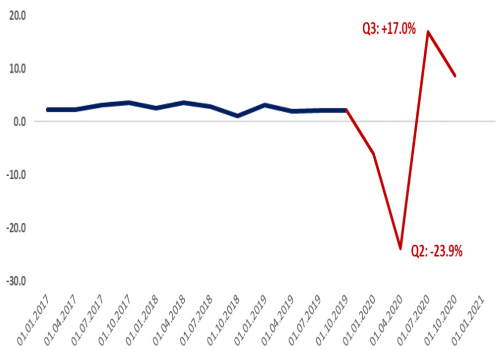
**We expect the current economic downturn to end this summer, with the trough occurring in the beginning of the second quarter 2020. Both the scale of fiscal and monetary policy interventions are unheard of, and will have longer term consequences. The economic costs of the crisis will be permanent.**

**We expect the current economic downturn to end this summer.** Current evidence from Asian data - including China and South Korea - suggest that following the outbreak of the Coronavirus, it takes around three months to form a bottom and start a recovery phase. Chinese activity data suggest that the economy has passed its trough. In industrialized countries, the lockdowns vary from about 35 business days (in the US) to 55 days in France. Thus, a three month period seems realistic. Risks to this scenario are tilted to the downside, as a second wave of infections would seriously undermine this scenario.

**The current downturn is characterized by the worst synchronized global economic slump**, coupled with the largest public interventions - both from fiscal and monetary authorities - ever. Looking at the global economic forecast, we expect global activity to slump by 3% (in real terms, PPP weighted) this year. This is much deeper than the Global Recession of 2009, when global output fell by a more moderate 0.1%. Once lockdown measures are eased in advanced economies, we expect activity to rebound, starting in the third quarter. The services sector is unlikely to return to 100% capacity immediately – but will lead the rebound in the third quarter. This will be helped by the stimulus measures from governments, both on the fiscal and monetary side. In the US, our baseline scenario foresees a rebound of 17% in the third quarter. So far, central banks have increased – at a global level – their balance sheets by more than USD 2.7 trillion since early March; roughly 2/3 of this liquidity injection come from the US. The current global liquidity injection contrasts with the rise of USD 2.5 trillion - over a full 12 month period - during the financial crisis more than 10 years ago.

**US Baseline Scenario: Deep Recession, Q3 Rebound**




Source: US Bureau of Economic Analysis and Mirabaud Asset Management. Based on US real GDP growth, quarter on quarter, %, seasonally adjusted annual rate in 2012 chained US Dollars.

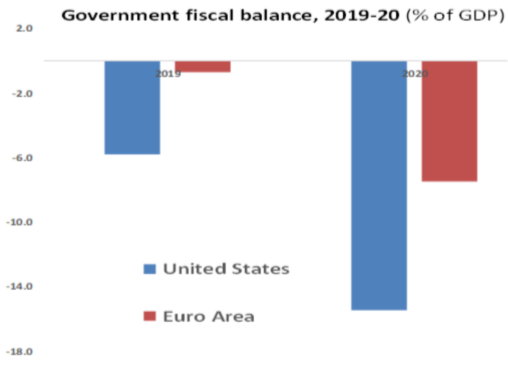
**What can change our baseline scenario?** Both the speed of the recovery as well as the depth of the recession depend on the exit strategy from the lockdown. Here, efficient testing as well as a vaccine for Covid-19 is paramount, though the latter is unlikely to be usable before June 2021.

**Over the longer term, losses in economic output will be permanent.** The economic consequences will be important. For one, the aggregate total output net loss is nearly 9 trillion USD, or roughly 11% of world output. Global growth will remain subdued, even after 2021, when the main crisis effects are likely to have vanished. Furthermore, two elements will remain the dominant theme in the current environment. Central banks' balance sheets in major economies have never increased by similar amounts.

This complicates a possible exit strategy - recent experience has shown the difficulties for monetary authorities of pulling back the punchbowl. Second, the rise in public sector deficits and debt levels is significant - and likely to remain high in years to come.

Savings - including precautionary savings – will be on the rise. From a practical point of view, the transformation towards a digital society - with many people working from home - will accelerate.

## Huge Fiscal Spending Will Lead To Higher Deficits




Source: International Monetary Fund, April 2020.

**IMPORTANT INFORMATION**