A new age for global markets?

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Outlook

Our central scenario has generally been playing out

- Material shock to growth but not a typical recession
- Policies of strict isolation seem to be working
- The liquidity shock led to valuations moving to discount a materially more negative outcome
- Market crash versus typical bear market – precedents in 1987, 1998, 2008 and 2011
- Massive Dollar 'margin call' but Central bank response timely and aggressive
- Fiscal response sufficient to contain damage to demand and productive capacity – 'the biggest bridging loan in history to the real economy'
- Markets are likely to track the rebound in industrial production
- Likely that support for the rally will be tested, but the extent of any set-back could disappoint

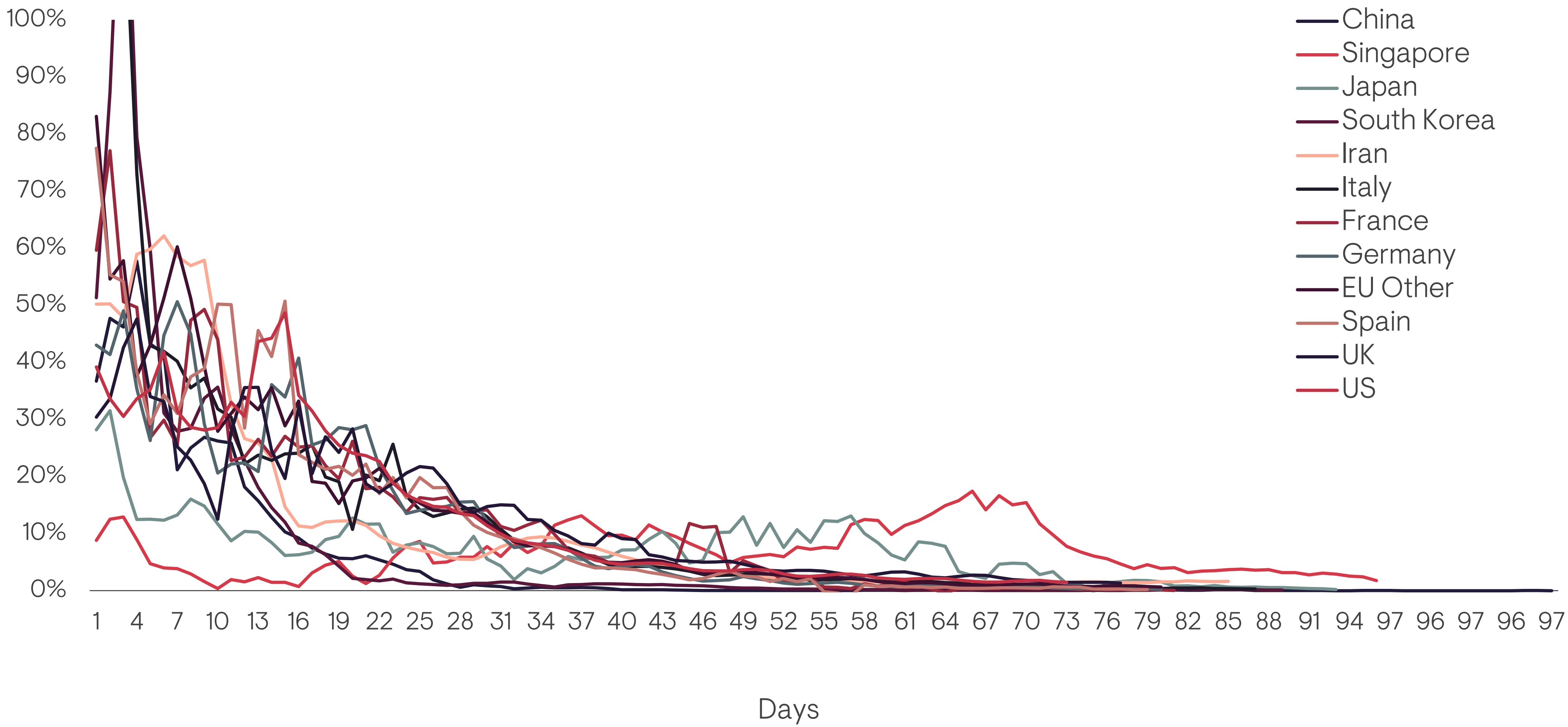
> Central scenario – growth recovers after a period of significant disruption and weakness and markets rally in anticipation

Forecasts are inherently limited and are not a reliable indicator of future results.
Opinions based on current market conditions; subject to change without notice and without any obligation to update.

The clear trend is down in most regions

COVID-19

Growth rates in confirmed COVID-19 cases across regions

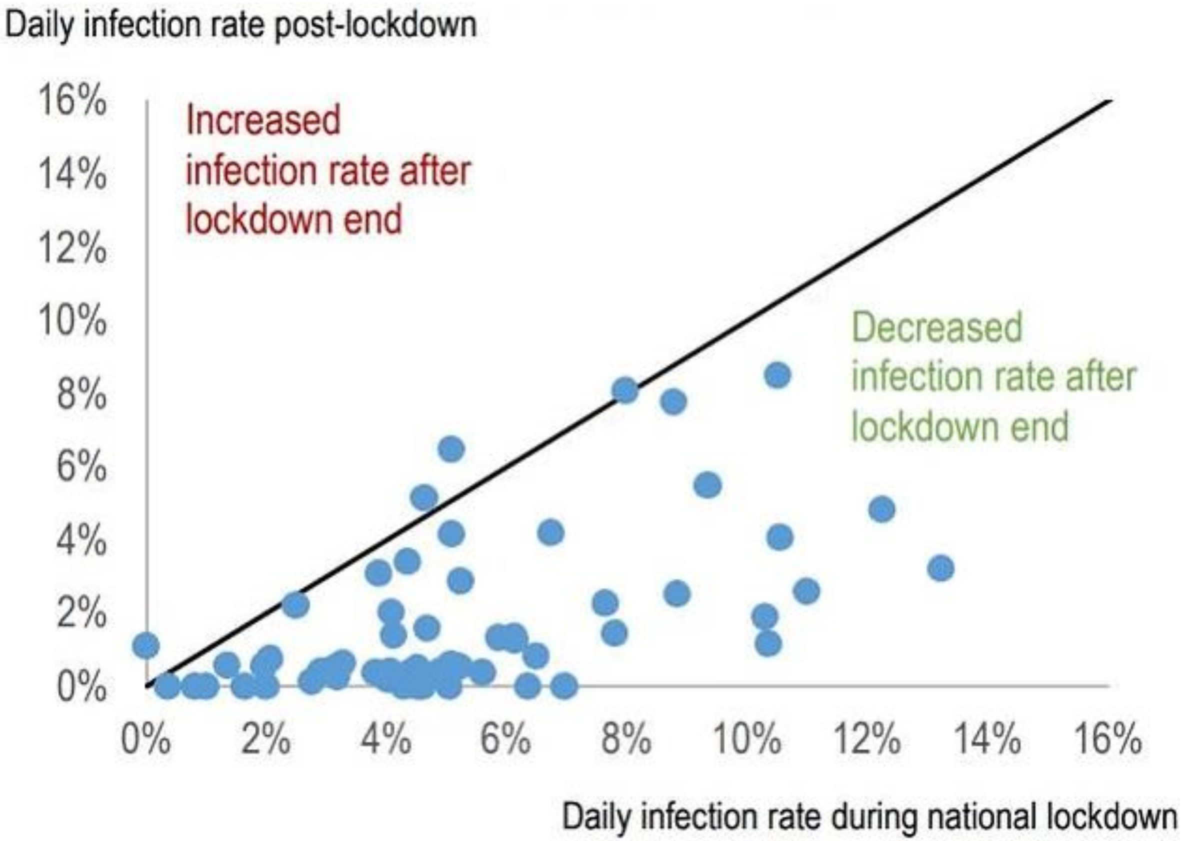


Forecasts are inherently limited and are not a reliable indicator of future results.
Source: Ninety One as at 18 May 2020. Growth rate based at 50 cases = 0

Getting the measure of COVID-19

Susceptibility may be lower due to prior antibodies. That means herd immunity threshold may be much lower than the 80% generally assumed

The vast majority of countries had decreased COVID-19 infection rates after national lockdowns were lifted



The most parsimonious explanation for falling infection rates everywhere may be lower susceptibility rates to the virus **rather than effective behavioural change everywhere at once**

Forecasts are inherently limited and are not a reliable indicator of future results.

Source: J.P. Morgan Quantitative and Derivatives Strategy. Infection rate measured with a 7-day lay to allow to testing lags.

Getting the measure of COVID-19

"If what you are doing ain't working, change what you are doing"

– It is an inflammatory disease not an influenza
– C-19 causes a hyperactive immune system response in vulnerable patients (cytokine storm) which causes inflammation and blood clotting
– Anti inflammatory, anti coagulants and corticosteroids seem to be effective if administered at an early stage of hospitalisation
– WHO and CDC advised against the use of these treatments, but there has now been a paradigm shift among medical practitioners
– Susceptibility could be much lower than previously anticipated

A growing case for a more rapid lifting of lockdowns

Getting the measure of COVID-19

A remarkable number of treatments and vaccines under way

Current count of treatments and vaccines

223 Treatments in consideration

141 Vaccines in development

COVID-19 treatments and vaccines (combined)

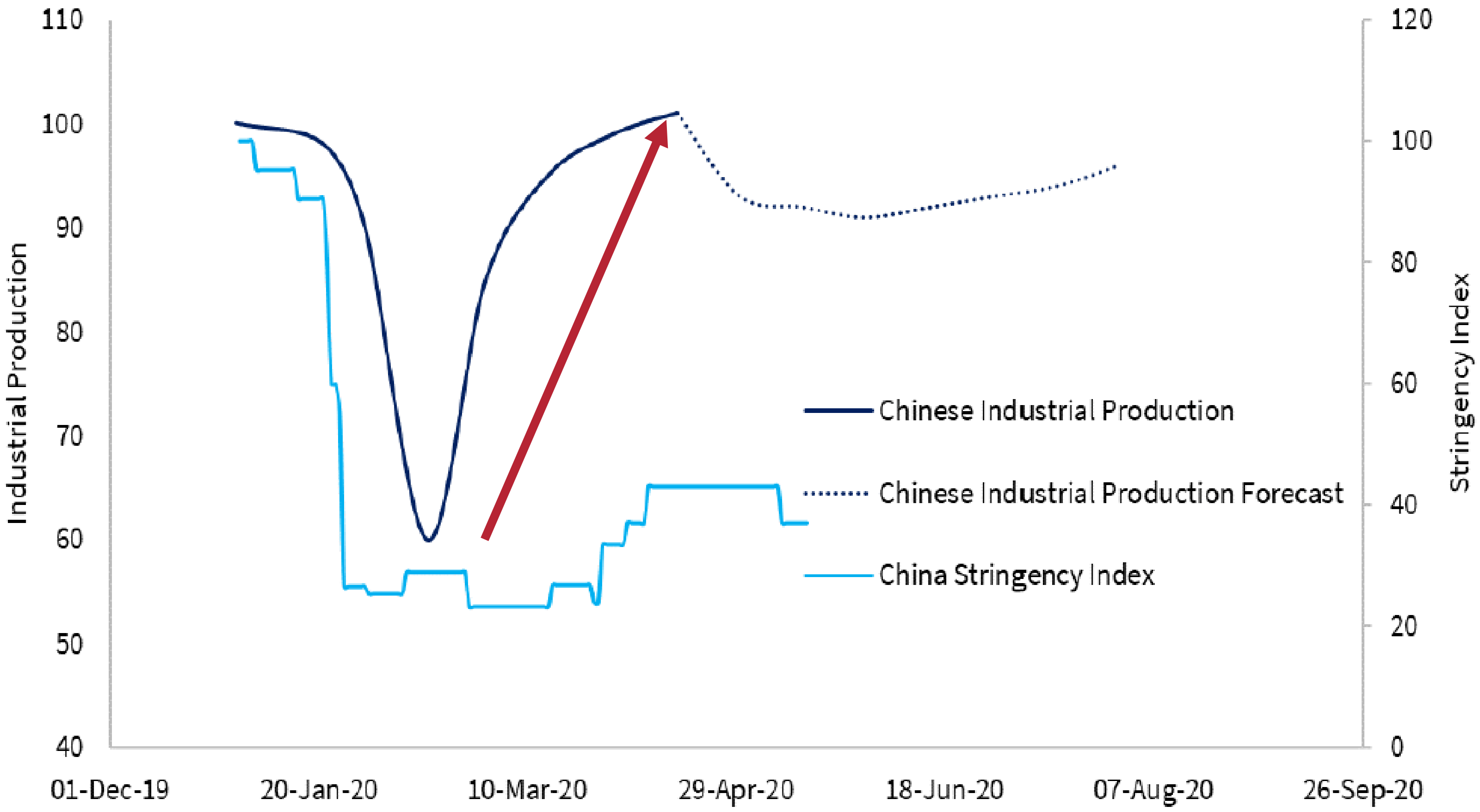
- Antibodies
- Antivirals
- Cell-Based Therapies
- RNA Based Treatments
- Dormant / Discontinued
- Scanning compounds to repurpose
- Devices
- Others
- Vaccines

Source: Bloomberg, Milken Institute, as at 13 May 2020.

Getting the measure of COVID-19

Chinese industrial production was rebounding well ahead of the easing of lockdowns

Chinese industrial production versus trend

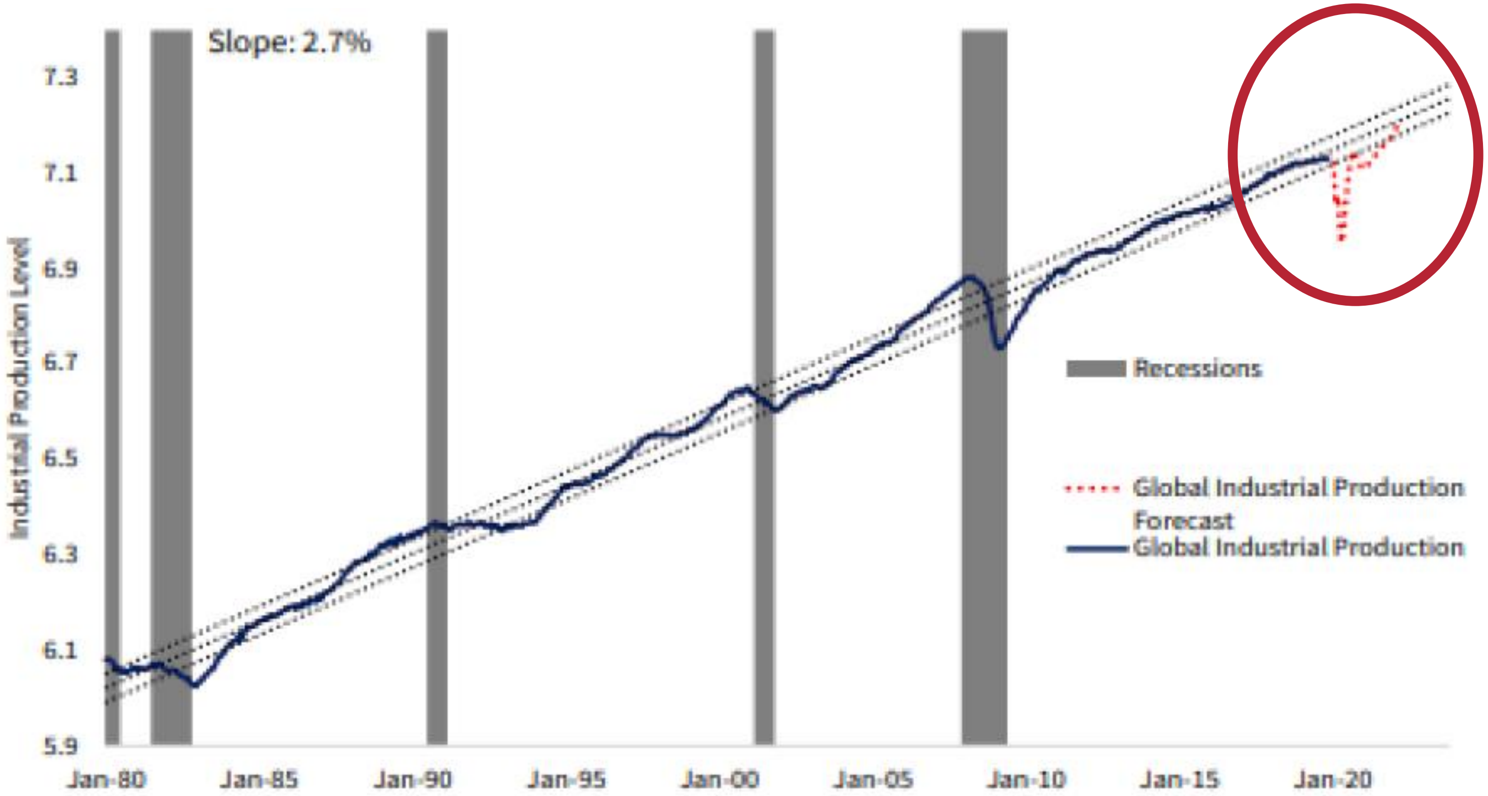


Forecasts are inherently limited and are not a reliable indicator of future results.
Source: Refinitiv.

The recovery in global industrial production is likely to be dynamic

Growth assets are likely to be heavily influenced by the behaviour of industrial production

Global industrial production versus trend



Forecasts are inherently limited and are not a reliable indicator of future results.
Source: Refinitiv.

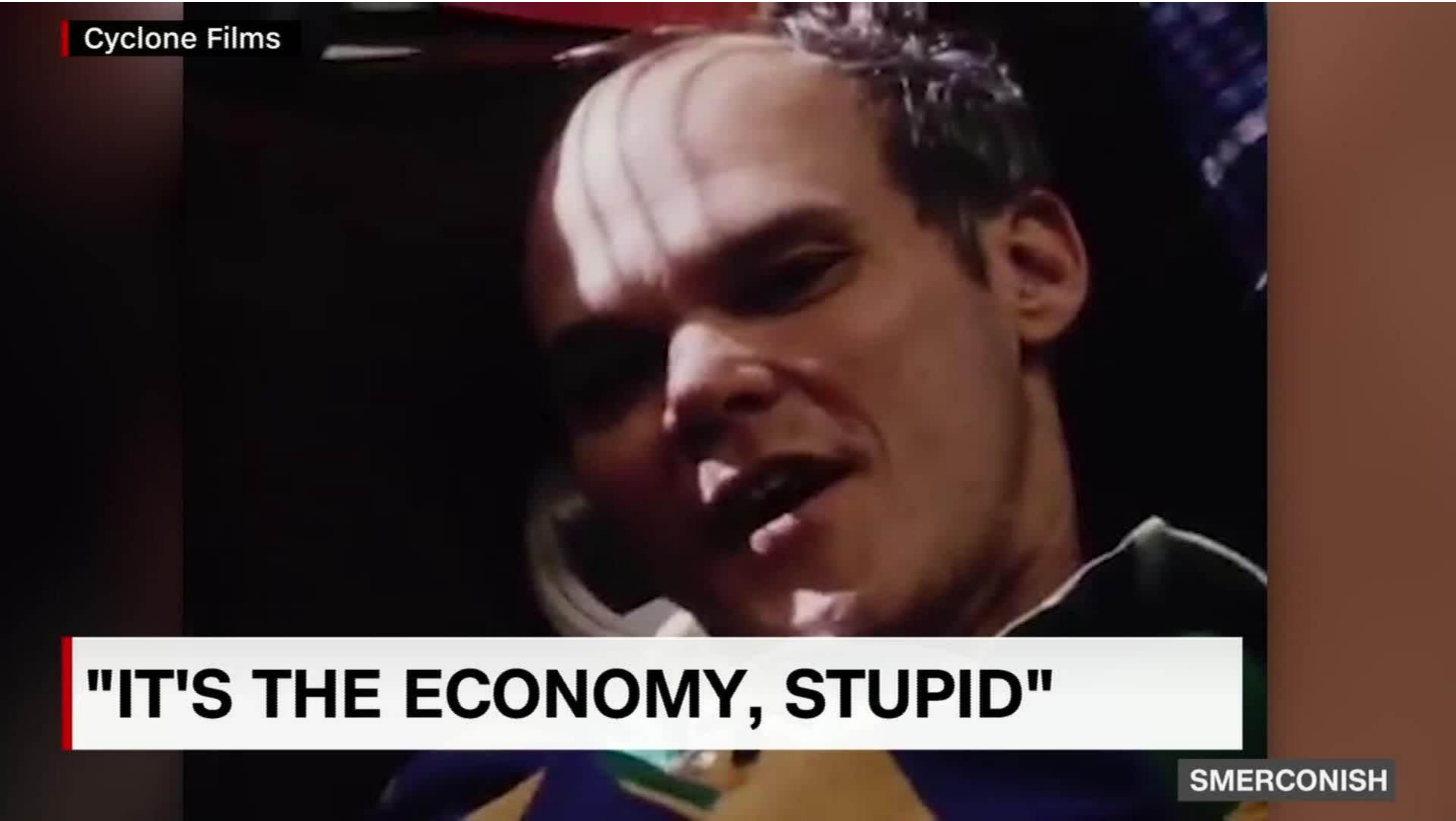
Global equities – a bear market or another 'panic attack'?

MSCI World Index (as at 12 June 2020)

Source: Bloomberg, MSCI World index as at 12 June 2020.

'It's the economy, stupid'

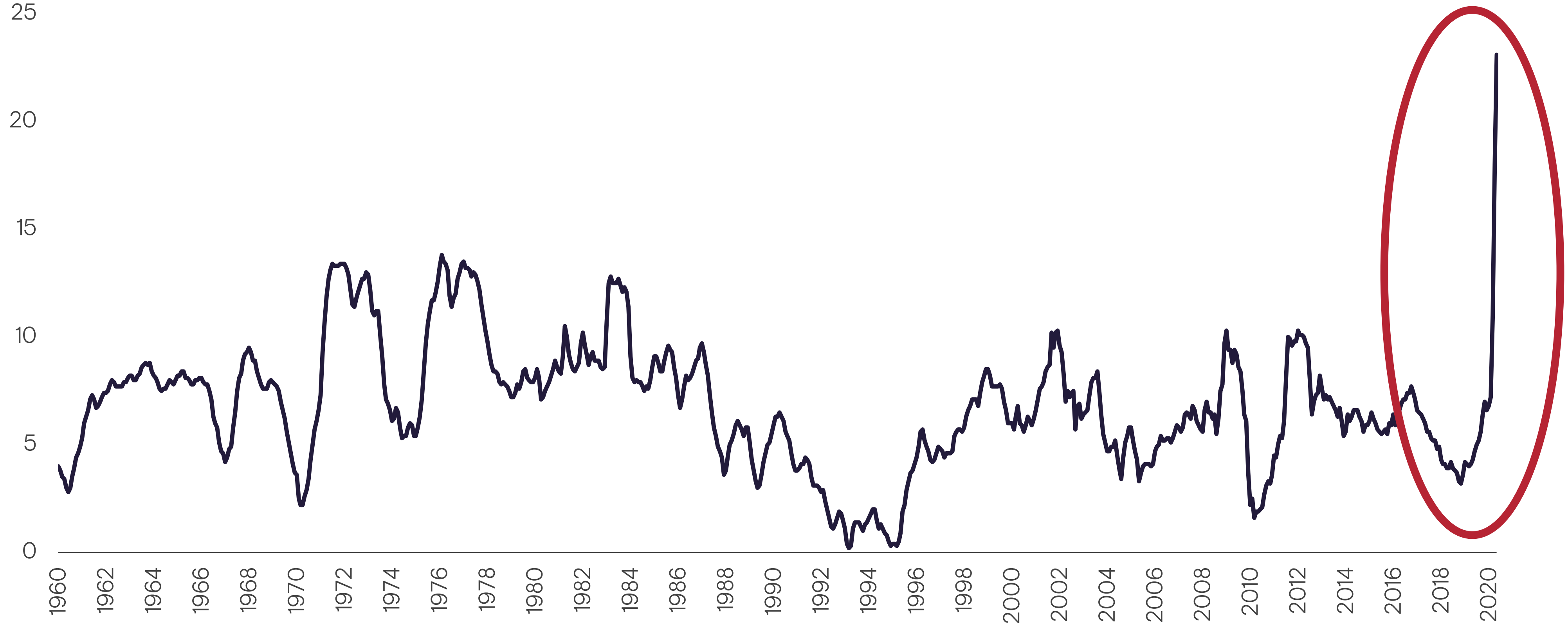
James Carville, political consultant and campaign manager for Bill Clinton



‘It’s the liquidity, stupid’

Explosive US money supply growth

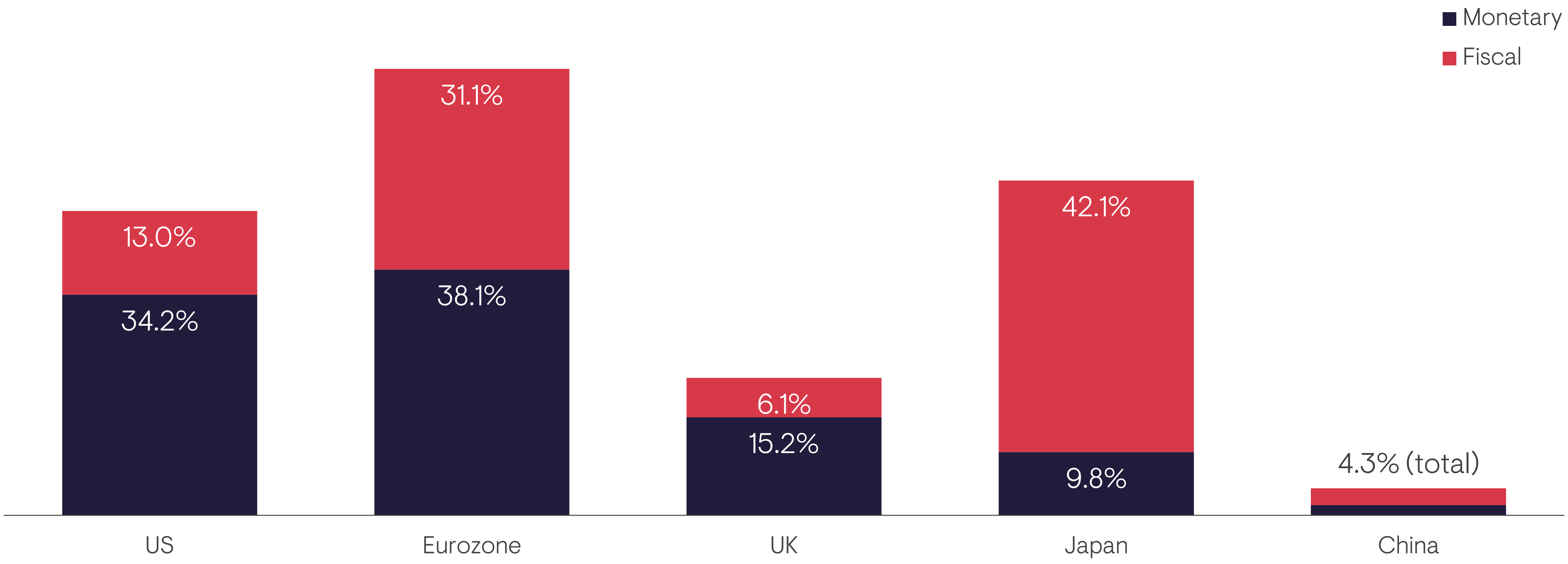
US Federal reserve M2 money supply YoY % change



Source: Bloomberg as at 31 May 2020

Is the quantum of stimulus announced sufficient?

Summary of key stimulus measures to date (% of GDP)

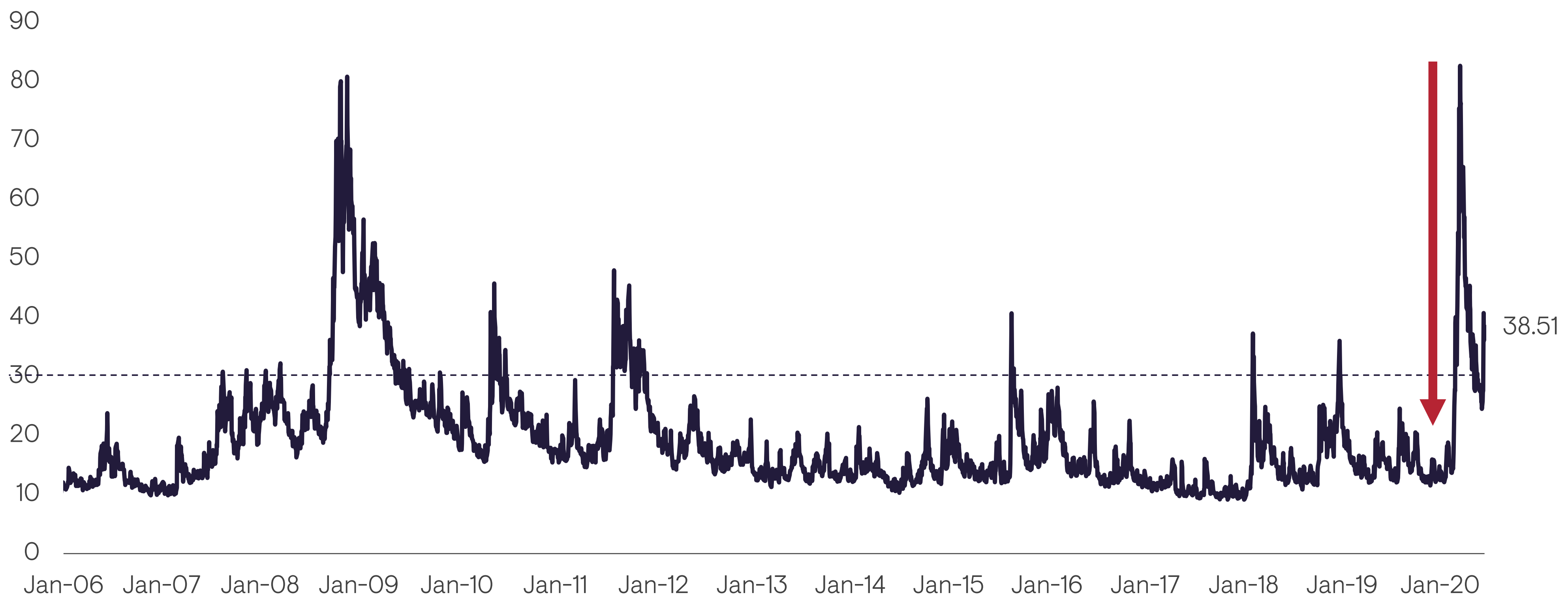


Source: Bloomberg. UBS, Federal Reserve websites and press releases, ECB website and press releases, BoE website and press releases, BoJ website and press releases, UK Office for Budget Responsibility, Unicredit, JPM as at 4 June 2020

Volatility…

… on a declining trend

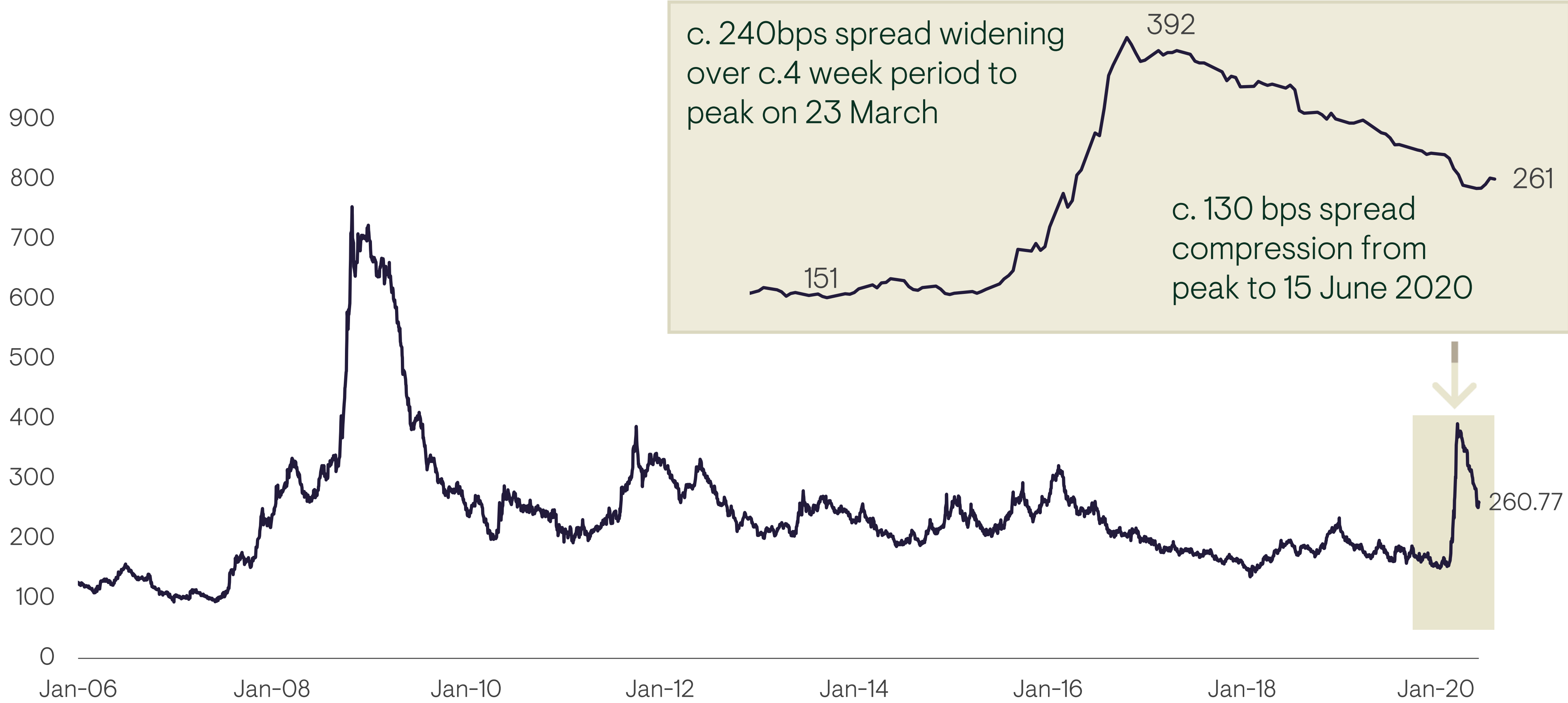
Volatility index (VIX) from January 2006 to June 2020



Source: CBOE VIX Index, Bloomberg as at 15 June 2020

The recovery has broadened across asset classes

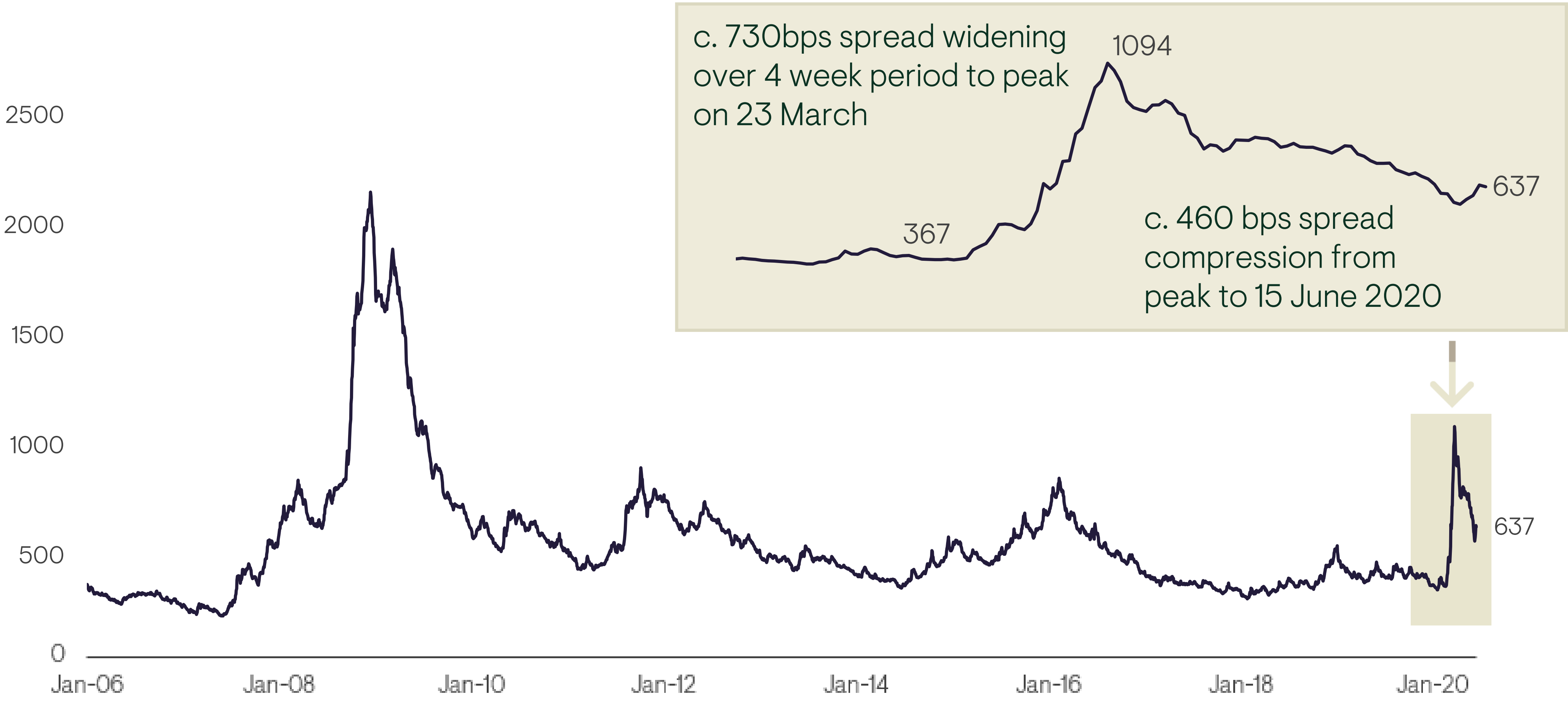
EM IG has staged a sharp catch up as equity markets consolidated their recent gains



Source: Bloomberg CEMBI IG spreads, as at 15 June 2020

… and risk premia have reduced dramatically

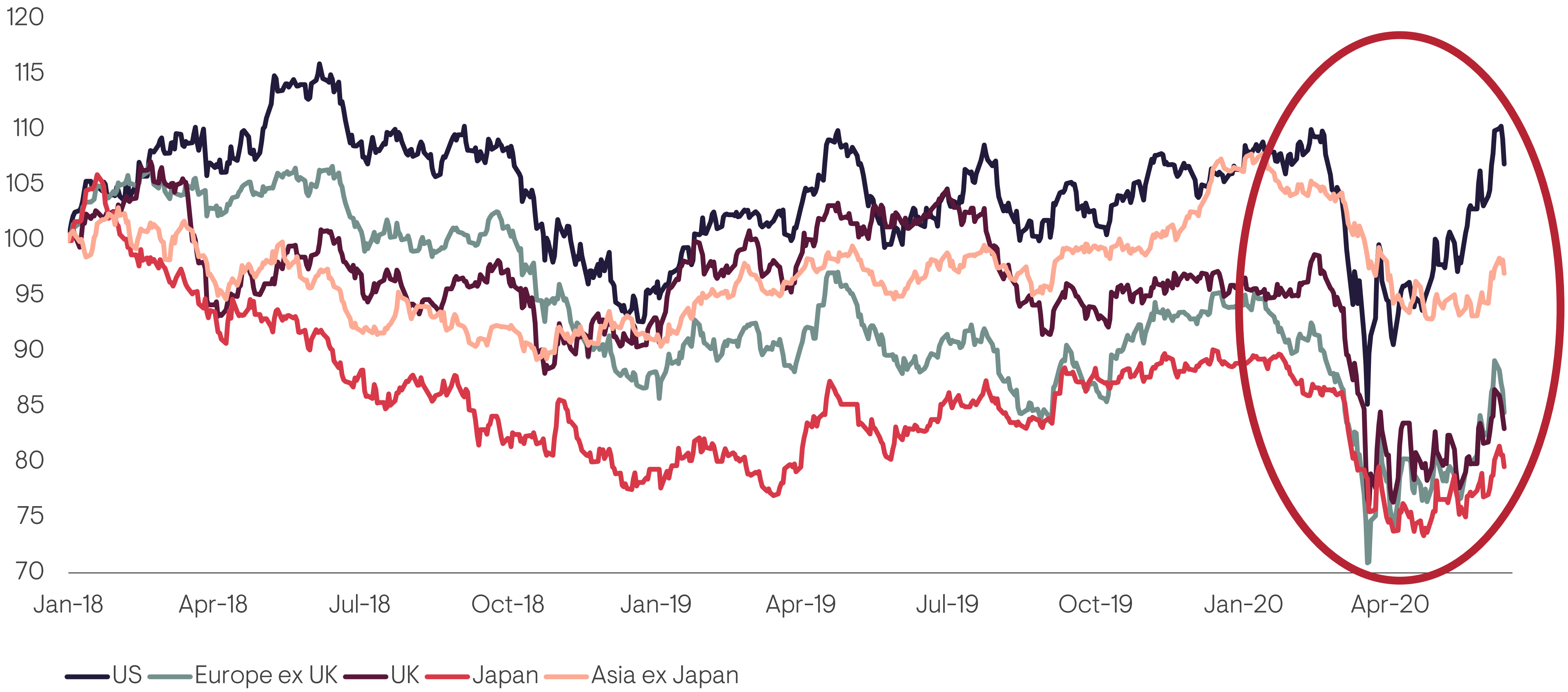
Moves in high yield debt spreads



Source: Bloomberg B of A ML spreads, as at 15 June 2020

… equity market leadership finally beginning to broaden

Cyclicals vs Defensives (2 years)

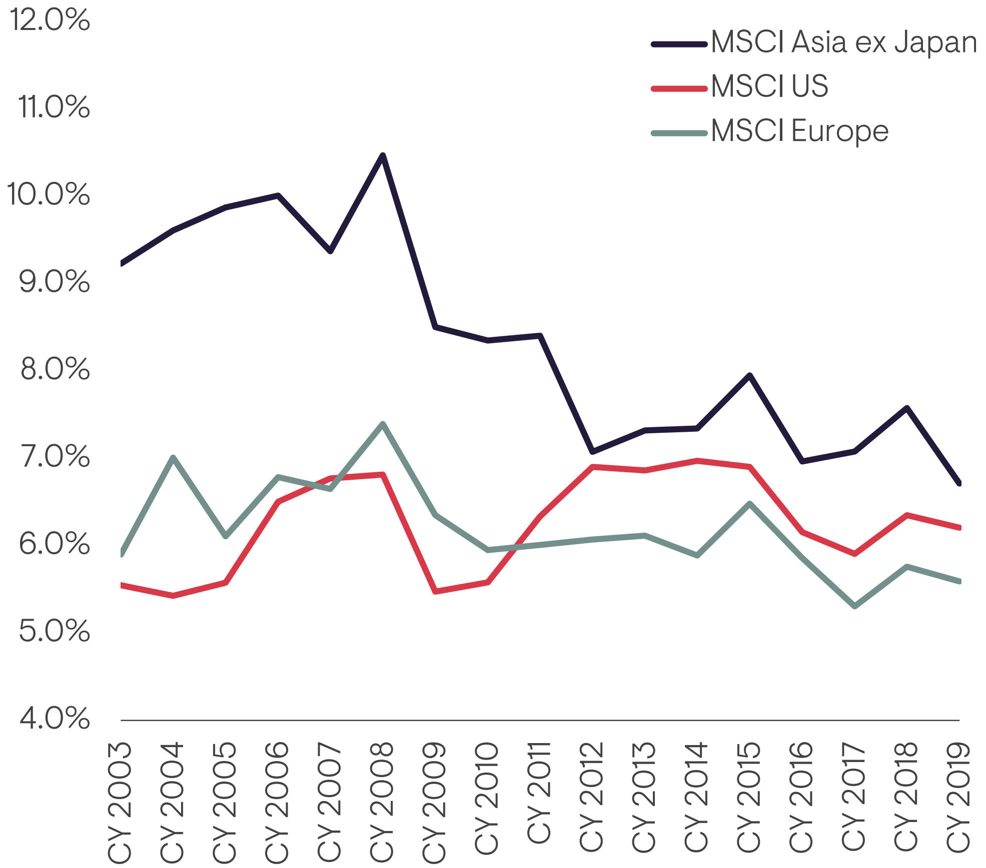


Source: Bloomberg as at 15 June 2020

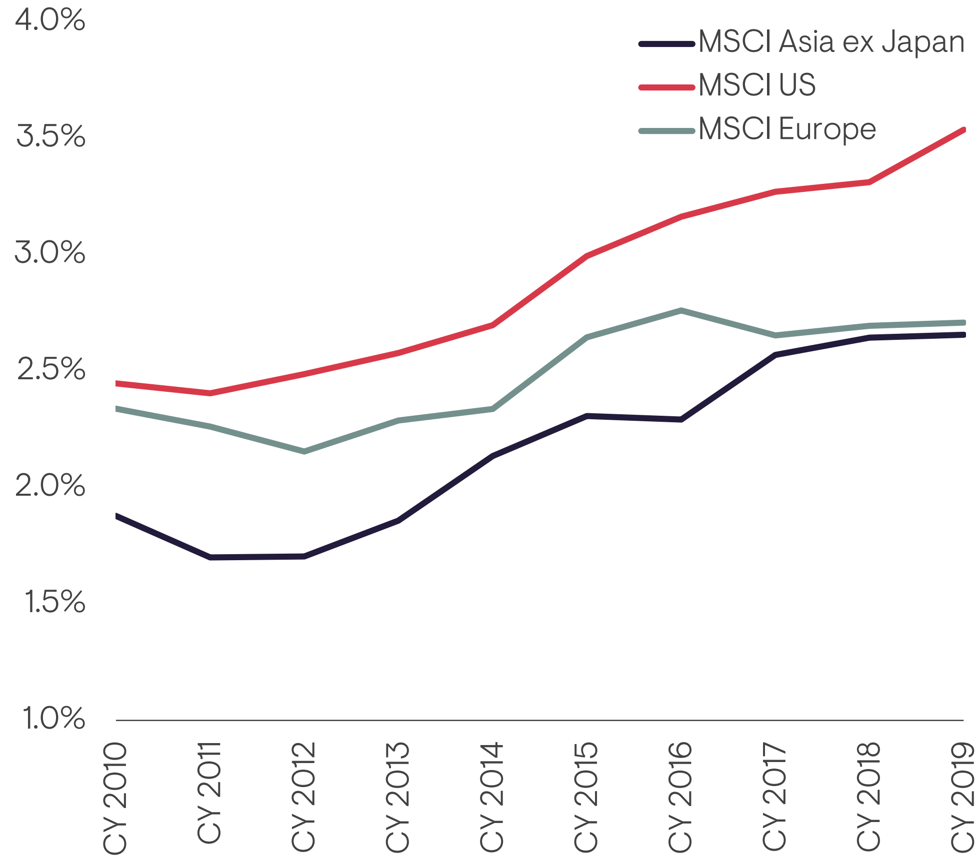
Asia / China continues to move up the value chain

Growth at attractive prices

Capex vs. sales



R&D spend vs. sales



Source: Ninety One, Bloomberg – as at 30 April 2020.

All bets on a Eurozone breakup are off (for now)

The EU has united around the need to reflate

The return of great power competition

The United States once viewed China as a competitor, it now sees it as an adversary

Bi-polar US politics

Until recently the Republicans were regarded as heavy favourites to retain control of the senate

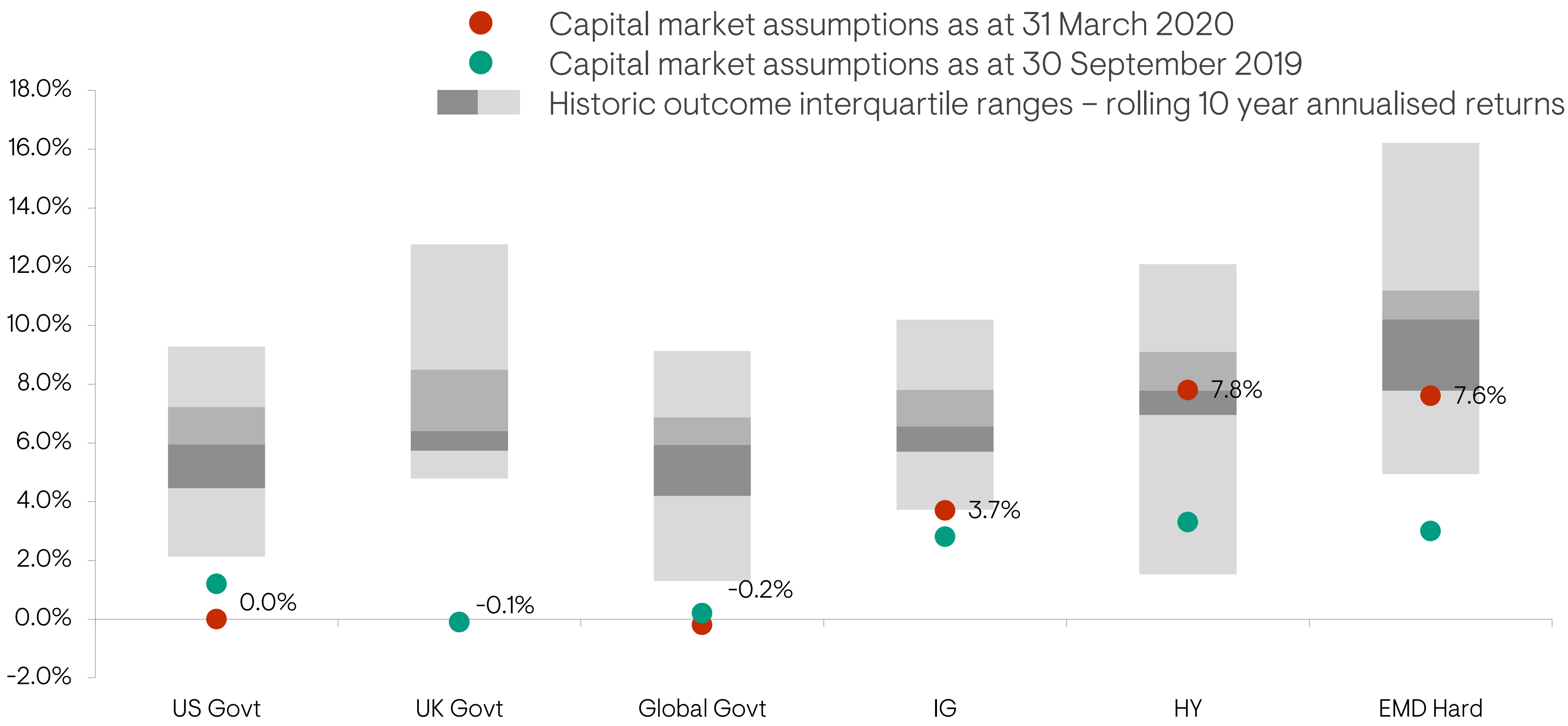
Dead heat in the senate

Source: Bloomberg as at May 2020

Beginning of the Great Rotation?

Capital market assumptions vs historic outcomes

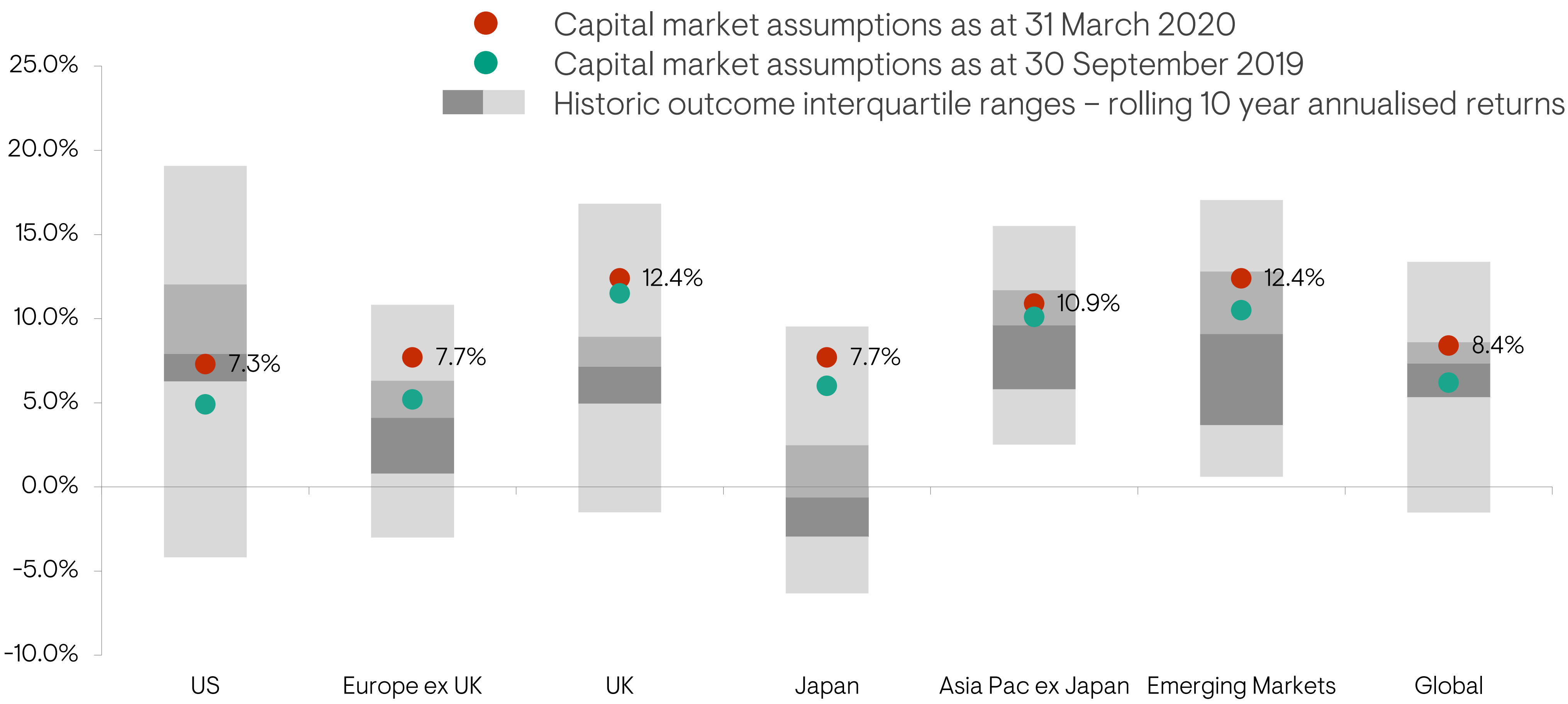
Global Fixed income



Source: Ninety One as at 31 March 2020. Historic rolling 10 year outcomes based on returns from 31 December 1987 for US govt, UK govt and global govt, US IG and US HY, 31 December 1993 for EMD Hard, Ninety One proprietary capital market assumptions as at 30 September 2019 and 31 March 2020. Estimates are in local currency, nominal, gross of fees and ignore alpha. Modelling involves risks, assumptions and uncertainties. These estimates reflect the view of Ninety One's multi-asset team, while the views of other teams across Ninety One may differ. Performance does not guarantee future results. Actual returns could be materially higher or lower than projected.

Capital market assumptions vs historic outcomes

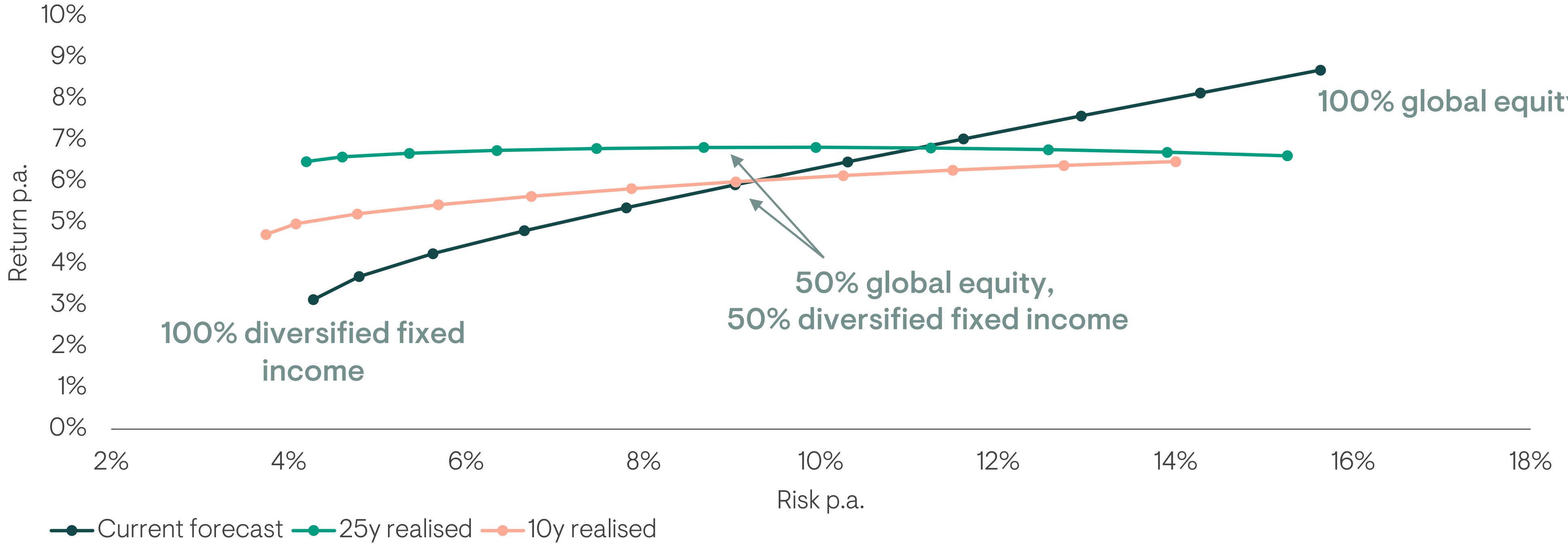
Global Equities



Source: Ninety One as at 31 March 2020. Historic rolling 10 year outcomes based on returns from 31 December 1987 for global equities, and US equities, 31 December 1998 for Europe and Emerging market equities, 31 December 2000 for Asia ex Japan equities. Ninety One proprietary capital market assumptions as at 30 September 2019 and 31 March 2020. Estimates are in local currency, nominal, gross of fees and ignore alpha. Modelling involves risks, assumptions and uncertainties. These estimates reflect the view of Ninety One's multi-asset team, while the views of other teams across Ninety One may differ. Performance does not guarantee future results. Actual returns could be materially higher or lower than projected.

Capital market assumptions

The bond windfall is behind us

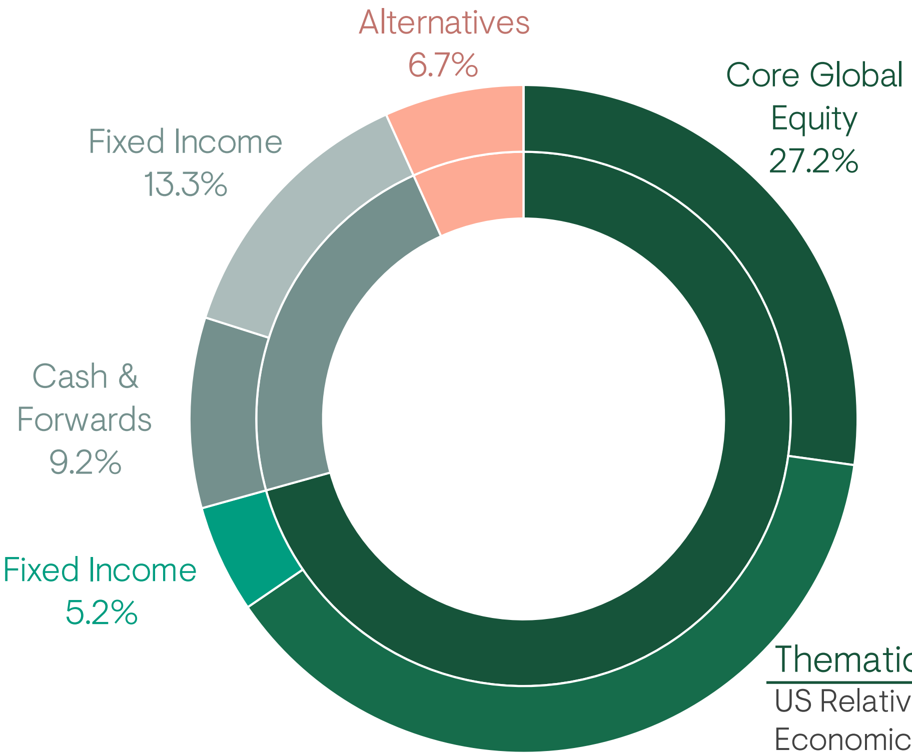


- The bond bull market over the last three decades has seen elevated risk-adjusted returns for fixed income portfolios, resulting in an almost flat portfolio risk/return line for all diversified portfolios
- More recently performance has been more usual, with bond risk reduction actually coming at the expense of returns
- Next few years are likely to see a return to a more normalized environment in terms of risk / reward pay-offs for diversified portfolios

Source: Ninety One proprietary capital market assumptions as at 31 March 2020. Estimates are nominal, gross of fees and ignore alpha. Modelling involves risks, assumptions and uncertainties. These estimates reflect the view of Ninety One's multi-asset team, while the views of other teams across Ninety One may differ. Performance does not guarantee future results. Actual returns could be materially higher or lower than projected. For information on our Capital Markets Assumptions methodology, please see Important Information.

Global Strategic Managed

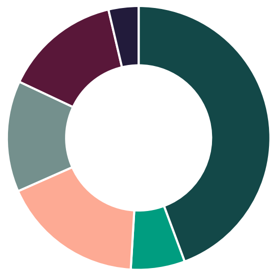
Current allocations



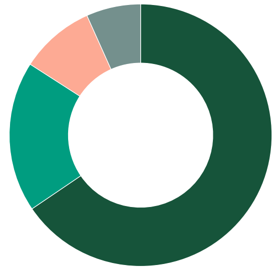
Thematic Equity	38.3%
US Relative Economic Strength	1.1%
China's Transition	12.5%
High Return on Invested Capital	20.7%
Japan Reflation	4.0%

Growth	Defensive	Uncorrelated
70.7%	22.6%	6.7%

Total currencies



Breakdown



Portfolio duration
1.1 years

High conviction thematic positions including active currencies and hedging

Source: Ninety One, 31 May 2020. This portfolio may change significantly over a short period of time.

A new age for global markets?

Our central scenario has generally been playing out:

– Market ‘crash’ moved asset valuations to **discount an excessively negative outcome** of the impact of C-19

– **Fed successfully addressed the problem of a local US and international liquidity shock** greatly reducing the chances of a more serious credit shock

– Combined fiscal /monetary steps **sufficient to mitigate long term impact of the growth shock**

– Better disease outcomes = faster normalisation

Investment implications:

– Global industrial production has already inflected leading to a ‘V’ shaped recovery – the broader recovery in **GDP growth could surprise** a cautious consensus

– Bond **windfall is behind us**

– Narrowness of the recovery in equity markets has given way to a **broader, more sustainable uptrend**

– **EM /Asia vs DM** – EM divergence accelerated (Asia weight in EM indices 80%). Lower for longer rates will support debt sustainability

Main risks to scenario:

– **Extended lock downs / starts do more permanent damage** to both supply and demand internationally leading to tighter credit conditions and deeper earnings recession

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Thank you

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