J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

CIO Update

Investment Committee Bank J. Safra Sarasin

11 June 2020

Editorial

Dear reader

As quickly and surprisingly as the global economy plunged into recession due to the corona lockdown and financial markets crashed, the recovery now seems to be taking place as quickly, too. The easing of pandemic measures led to a surprisingly fast recovery of various economic indicators and to sharply rising equity markets. The recent rally has now largely made up for the losses since the beginning of the year. Should investors jump on the bandwagon at this point or wait until the pace slows down a little? In our view, it might be worth becoming a bit more cautious now and waiting to see whether investors' hopes of a robust economic recovery in the second half of the year materialize or are disappointed.

Yours faithfully
Philipp E. Bärtschi, CFA
Chief Investment Officer

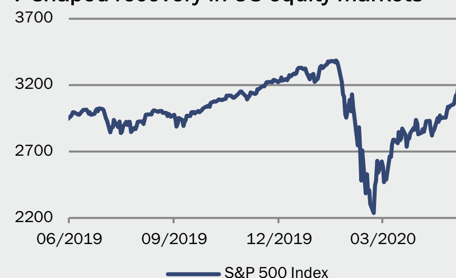
Focus

Turning a bit more cautious

Review: Markets in party mood

Equity markets have maintained their strong positive momentum in recent weeks against the backdrop of further fiscal and monetary policy measures and better than expected macro data. Confidence is high that the worst is behind us on a macroeconomic level. Hopes are rising that not only the equity markets but also the global economy will show a V-shaped recovery.

V-shaped recovery in US equity markets



Source: Refinitiv, J. Safra Sarasin, 09.06.2020

In addition to equity markets, corporate bonds also benefited from investors' rising risk appetite. Emerging market assets in particular increased strongly against the backdrop of a weaker US dollar.

Macro outlook: Hope is high

The consequences of the economic standstill in the labor market were devastating. Although in Europe they were in part more bearable for people than elsewhere due to established social security systems, the numbers are dramatic on a global scale and on an unprecedented magnitude. As recently as February, the unemployment rate in the US was at 3.5%, the lowest level in 50 years. In April it was already at 14.7%, the highest level in 80 years. From full employment to mass unemployment in record time. However, there was already a ray of hope in the April report: around 78% of respondents said that the job losses were only temporary. This was already confirmed in the May report when the unemployment rate fell again.

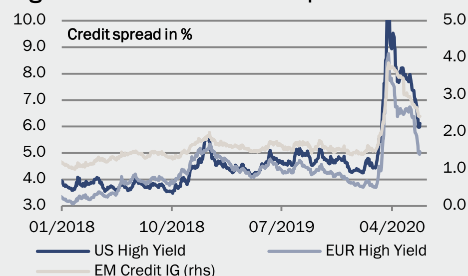
US: Turning point in the labour market?

Source: Refinitiv, J. Safra Sarasin, 09.06.2020

Thanks to additional easing measures, the unemployment rate is likely to fall further in the coming months. However, it will probably settle at more than twice the level compared to the beginning of the year. Central banks therefore remain in crisis management mode and have further expanded and eased their monetary policy measures. In addition, they have explicitly and repeatedly underlined their willingness to take further measures should this become necessary. There has also been progress on

the fiscal policy side. German Chancellor Angela Merkel and French Head of State Emmanuel Macron proposed a reconstruction fund with a volume of 500 billion euros, which would provide money from the EU budget for the economic sectors and regions most affected by the pandemic. For Europe, and Germany in particular, as a long-standing defender of austerity policy, this is an immense step, which was received correspondingly positively by the markets. The EU Commission went even further and, in addition to a regular multi-year financial framework of around one trillion euros, is proposing a recovery plan worth 750 billion euros. The medium-term outlook for Europe has improved significantly with these announcements, which is also reflected in a stronger euro. In the short term, however, the recovery could stall in the second half of the year, as is currently happening in China. After an initially strong recovery from the lockdown, the economic momentum has already flattened out again.

Significant decline in credit spreads



Source: Refinitiv, J. Safra Sarasin, 09.06.2020

Bonds: Strong primary market activity

Thanks to the backing of central banks across the entire rating spectrum, primary market activity is substantial. Credit risk premiums have recently tightened significantly and are still at attractive levels, especially in the investment grade range. This applies to both developed and emerging market bonds.

Nevertheless, the impact of the coronavirus crisis on companies has been massive and the probability of default has risen meaningfully in some particularly badly affected sectors. However, as a result of the liquidity measures and asset purchase programmes of central banks, the decline in credit spreads since the end of March has been remarkably undifferentiated. As a result, selection and active management remain crucial for investment success.

Equities: The air is getting thinner

Equity markets around the world have proved to be very robust despite weak fundamentals and high uncertainty about future earnings expectations. The price-earnings ratio has risen significantly after the strong price gains in recent weeks and, based on earnings expectations for the coming 12 months, is currently trading significantly above the long-term average.

US equities: valuation up significantly

Source: Refinitiv, J. Safra Sarasin, 09.06.2020

The liquidity measures taken by the major central banks have supported the stock markets and there are high hopes of an economic recovery in the near future. The coming reporting season will show how companies have come through what is probably the shortest recession in history. In the short term, cyclical and small-cap stocks should benefit most from the hope of a strong economic recovery. In the medium term, however, growth and quality stocks seem better positioned to benefit from the renewed hunt for yield. We expect interest rates to remain low, which over time should lead to significantly higher valuations in equity markets. After the recent rally, however, the air has become thin. The upside potential in equity markets appears to be low and the disappointment and thus the potential for setbacks is high. An unfavorable combination for equity investors.

Asset Allocation: Reduce equity risks

We increased our underweight in equities in May and realized further gains. In recent weeks, markets have focused too much on monetary and fiscal policy measures and paid too little attention to the economic consequences of the lockdown. The air is becoming increasingly thin. After the recent rally, markets are pricing in an overly rapid recovery and valuations have been on the rich side for some time now. In addition, there are increasing geopolitical risks between the US and China.

From a risk management perspective, we therefore prefer to focus our risk budget on the credit space. The risk/return ratio is much more attractive here. In addition, investment grade corporate bonds are supported by central bank purchases. Due to the attractive valuation we remain overweight in high yield and emerging markets bonds. Alternative investments with a low correlation to equities remain interesting for portfolio diversification.

Contact
Philipp E. Bärtschi, CFA
Chief Investment Officer
+41 58 317 3572
Email: philipp.baertschi@jsafrasarasin.com

Attractiveness of individual investments

Asset class	Weighting	Relative attractiveness within the categories			
Equities	–	Industrial countries =	Emerging markets =	Large caps =	Small caps =
Bonds	=	Government bonds – –	Corporate bonds ++	High-yield bonds +	Emerging markets +
Alternative assets	+	Money market =/+	Convertible bonds =	Other alternatives +	Commodities/gold =/+

Disclaimer/Important Information

This document has been prepared by Bank J. Safra Sarasin Ltd (“Bank”) for information purposes only.

This document is not the result of financial research conducted, by the Bank’s research department nor of any other detailed due diligence. Therefore the “Directives on the Independence of Financial Research” of the Swiss Bankers Association do not apply to this document.

This document constitutes marketing material. If it refers to a financial instrument for which a prospectus and/or a key investor/information document exists, these are available free of charge from Bank J. Safra Sarasin Ltd, Elisabethenstrasse 62, P.O. Box, CH-4002 Basel, Switzerland.

This document is based on publicly available information and data (“the Information”) believed to be correct, accurate and complete. The Bank has not verified and is unable to guarantee the accuracy and completeness of the Information contained herein. Possible errors or incompleteness of the Information do not constitute legal grounds (contractual or tacit) for liability, either with regard to direct, indirect or consequential damages. In particular, neither the Bank nor its shareholders and employees shall be liable for the views contained in this document. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data provided and shall have no liability for any damages of any kind relating to such data.

The S&P 500 Index is a product of S&P Dow Jones Indices LLC or its affiliates (“SPDJI”) and has been licensed for use. Standard & Poor’s® and S&P® are registered trademarks of Standard & Poor’s Financial Services LLC (“S&P”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”)

Source ICE Data Indices, LLC (“ICE DATA”), is used with permission. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. neither ICE Data, its affiliates or their respective third party providers shall not be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an “as is” basis and your use is at your own risk. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend Bank J. Safra Sarasin Ltd, or any of its products or services.

This document does not constitute a request or offer, solicitation or recommendation to buy or sell investments or other specific financial instruments, products or services. It should not be considered as a substitute for individual advice and risk disclosure by a qualified financial, legal or tax advisor. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Past performance is no indication of current or future performance. Investments in foreign currencies are subject to exchange rate fluctuations. Exchange rate risk will apply if the investor’s reference currency is not the same as the investment currency. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance. In particular, neither the Bank nor its shareholders and employees shall be liable for the views contained in this document. The views and opinions contained in this document, along with the quoted figures, data and forecasts, may be subject to change without notice. There is no obligation on the part of Bank or any other person to update the content of this document. The Bank does not accept any liability whatsoever for losses arising from the use of the Information (or parts thereof) contained in this document.

Neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. This information is not directed to any person in any jurisdiction where (by reason of that person’s nationality, residence or otherwise) such distribution is prohibited and may only be distributed in countries where its distribution is legally permitted.

The Bahamas: This publication is circulated to private clients of Bank J. Safra Sarasin (Bahamas) Ltd, and is not intended for circulation to nationals or citizens of The Bahamas or a person deemed ‘resident’ in The Bahamas for the purposes of exchange control by the Central Bank of The Bahamas.

Dubai International Financial Centre (DIFC): This material is intended to be distributed by Bank J. Safra Sarasin Asset Management (Middle East) Ltd [“BJSSAM”] in DIFC to professional clients as defined by the Dubai Financial Services Authority (DFSA). BJSSAM is duly authorised and regulated by DFSA. If you do not understand the contents of this document, you should consult an authorised financial adviser.

This material may also include Funds which are not subject to any form of regulation or approval by the Dubai Financial Services Authority (“DFSA”). The DFSA has no responsibility for reviewing or verifying any Issuing Document or other documents in connection with these Funds. Accordingly, the DFSA has not approved the Issuing Document or any other associated documents nor taken any steps to verify the information set out in the Issuing Document, and has no responsibility for it. The Units to which the Issuing Document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units.

Germany: This marketing publication/information is being distributed in Germany by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main, for information purposes only and does not lodge claim to completeness of product characteristics. Insofar as information on investment funds is contained in this publication, any product documents, are available on request free of charge from J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main in English and German language.To the extent that indicative investment options or portfolio structures are included, the following applies: The indicative investment options or portfolio structures presented in these documents and the underlying model calculations are based on the information and data provided to us in the context of the asset advisory discussion, and we have not checked them for accuracy or completeness. The indicative investment option/portfolio structure described here is thus intended as a guide and does not make any claim to comprehensive suitability but aims to inform you about the general possibilities that an investment entails. In order to provide you with a final investment recommendation that is tailored to your specific situation, we need further information, in particular on your investment goals, risk tolerance, experience and knowledge of financial services and products and your financial situation. This publication is intended to be distributed by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311

Frankfurt am Main to clients domiciled or having their registered office in Germany and is directed exclusively at institutional clients who intend to conclude investment business exclusively as entrepreneurs for commercial purposes. This clientele is limited to credit and financial services institutions, capital management companies and insurance companies, provided that they have the necessary permission for the business operation and are subject to supervision, as well as medium and large corporations within the meaning of the German Commercial Code (section 267 (2) and (3) HGB).
Gibraltar: This marketing document is distributed by Bank J. Safra Sarasin (Gibraltar) Ltd whose place of business is First Floor, Neptune House, Marina Bay, PO Box 556, Gibraltar as a marketing communication for the purposes of the Financial Services (Markets in Financial Instruments) Act 2018, to its clients and prospects. Bank J. Safra Sarasin (Gibraltar) Ltd offers wealth and investment management products and services to its clients and prospects. The Bank whose registered office is 57-63 Line Wall Road, Gibraltar is authorised by the Gibraltar Financial Services. Telephone calls may be recorded and your personal data will be handled in accordance with our Privacy Statement a copy of which can be provided upon request. Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. This material does not constitute a request or offer, solicitation or recommendation to buy or sell investments or other specific financial instruments, products or services nor does it constitute a personal recommendation. It should not be considered as a substitute for individual advice and risk disclosure by a qualified financial, legal or tax advisor. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.
Hong Kong: This document is disseminated by Bank J. Safra Sarasin Ltd., Hong Kong Branch in Hong Kong. Bank J. Safra Sarasin Ltd, Hong Kong Branch is a licensed bank under the Hong Kong Banking Ordinance (Cap. 155 of the laws of Hong Kong) and a registered institution under the Securities and Futures Ordinance (cap. 571 of the laws of Hong Kong).
Luxemburg: This publication is distributed in Luxembourg by Banque J. Safra Sarasin (Luxembourg) SA (the “Luxembourg Bank”), having its registered office at 17-21, Boulevard Joseph II, L-1840 Luxembourg, and being subject to the supervision of the Commission de Surveillance du Secteur financier – CSSF. The Luxembourg Bank merely agrees to make this document available to its clients in Luxembourg and is not the author of this document. This document shall not be construed as a personal recommendation as regards the financial instruments or products or the investment strategies mentioned therein, nor shall it be construed as and does not constitute an invitation to enter into a portfolio management agreement with the Luxembourg Bank or an offer to subscribe for or purchase any of the products or instruments mentioned therein. The information provided in this document is not intended to provide a basis on which to make an investment decision. Nothing in this document constitutes an investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances. Each client shall make its own appraisal. The liability of the Luxembourg Bank may not be engaged with regards to any investment, divestment or retention decision taken by the client on the basis of the information contained in the present document. The client shall bear all risks of losses potentially incurred as a result of such decision. In particular, neither the Luxembourg Bank nor their shareholders or employees shall be liable for the opinions, estimations and strategies contained in this document.
Monaco: In Monaco this document is distributed by Banque J.Safra Sarasin (Monaco) SA, a bank registered in “Principauté de Monaco” and regulated by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR) and Monegasque Government and Commission de Contrôle des Activités Financières («CCAF»).
Panama: This publication is distributed, based solely on public information openly available to the general public, by J. Safra Sarasin Asset Management S.A., Panama, regulated by the Securities Commission of Panama.
Qatar Financial Centre (QFC): This material is intended to be distributed by Bank J. Safra Sarasin (QFC) LLC, Qatar [“BJSSQ”] from QFC to Business Customers as defined by the Qatar Financial Centre Regulatory Authority (QFCRA) Rules. Bank J. Safra Sarasin (QFC) LLC is authorised by QFCRA.
This material may also include collective investment scheme/s (Fund/s) that are not registered in the QFC or regulated by the Regulatory Authority. Any issuing document / prospectus for the Fund, and any related documents, have not been reviewed or approved by the Regulatory Authority. Investors in the Fund may not have the same access to information about the Fund that they would have to information of a fund registered in the QFC; and recourse against the Fund, and those involved with it, may be limited or difficult and may have to be pursued in a jurisdiction outside the QFC.
Singapore: This document is disseminated by Bank J. Safra Sarasin Ltd., Singapore Branch in Singapore. Bank J. Safra Sarasin, Singapore Branch is an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110), a wholesale bank licensed under the Singapore Banking Act (Cap. 19) and regulated by the Monetary Authority of Singapore.”
United Kingdom: This marketing document is distributed from the UK by Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch, 47 Berkeley Square, London, W1J 5AU, United Kingdom to its clients and prospects. Bank J. Safra Sarasin (Gibraltar) Ltd whose Registered office is 57 – 63 Line Wall Road, Gibraltar, offers wealth and investment management products and services to its clients and prospects through Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch. Registered as a foreign company in the UK number FC027699. Authorised by the Gibraltar Financial Services Commission and subject to limited regulation in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority. Registration number 466838. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. Telephone calls may be recorded. Your personal data will be handled in accordance with our Privacy Statement. Where this publication is provided to you by Bank J. Safra Sarasin (Gibraltar) Limited, London Branch: This document is approved as a financial promotion for the purposes of s.21 of the Financial Services and Markets Act 2000; Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden; You are reminded to read all relevant documentation before making any investment, including risk warnings,

and to seek any specialist financial or tax advice that you need; You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Bank J. Safra Sarasin Ltd
General Guisan-Quai 26
P.O. Box
CH-8022 Zürich
T: +41 (0)58 317 33 33
F: +41 (0)58 317 33 00
www.jsafrasarasin.com

© Copyright Bank J. Safra Sarasin Ltd. All rights reserved.