Q2 2020 Perspective

PLURIMI

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6 April 2020

Q1 2020 saw the beginning of what appears to be the most sudden halt in economic activity since WWII, possibly, ever. The prevention and social distancing measures relating to the COVID-19 virus have led to an extremely sharp hit to the global economy, but we expect it to be relatively short lived. The question of when the virus will be contained is an unknown. We also do not know if containment will be permanent or if it will flare up again? We expect markets will bottom before the economy does and it will be driven by policy and the direction of new cases and deaths. A large and rapid response from global central banks and governments has already taken place. If containment measures are effective, this may well be sufficient but more will be required if 'lockdowns' are needed beyond this quarter.

Global GDP growth will probably be negative for the first quarter, and the shutdown in economic activity from the virus will lead to a very negative growth figure in the second quarter. We expect a sharp global recession to be followed by a strong recovery once we get past the virus's implications on economic growth. We say 'once' because eventually through containment, herd immunity, a vaccine, or through a population that just deals with an endemic virus, economic growth will return. When we do get past the measures to contain the virus, the economy will benefit from a very significant monetary and fiscal thrust, as well as a recovery led by pent up demand on deferred expenditures. We expect policy will remain supportive for growth even after the economy begins its recovery. New treatments, and a vaccine are likely developments in the coming months and we remain optimistic that life, the economy and markets will recover from the current pandemic.

Based on our confidence in the long term rebound, near term opportunities are presenting themselves across asset classes. The Fed will be buying trillions of treasuries and investment grade bonds.

Q1 2020 Review

Covid-19 leads to bear market in equities, a blow out in credit spreads and the beginning of a global recession.

Asset Allocation Trades p.3

Bank bonds offer attractive spread. Japanese equities offer best value. China may already showing an economic recovery. Defensive equities with yield in safe haven currencies. Stay at home economy stocks.

Global Economy p.4

Global economy is in a sharp recession, and the question is when will it recover. We expect a second half recovery based on containment of the virus, and proactive fiscal and monetary policy.

Central Banks p.7

Rates lowered to zero everywhere and open ended QE, which includes corporate bonds.

Equities p.9

Equities are no longer expensive on most measures, but earnings still need to be downgraded more by lagging analysts. We prefer quality over cyclical for the moment, but a switch to value may be appropriate before Q3.

Fixed Income p.15

Investment grade credit has the support of central banks, and is already pricing a significant downturn. Bank commercial paper spreads provide attractive carry.

FX p.17

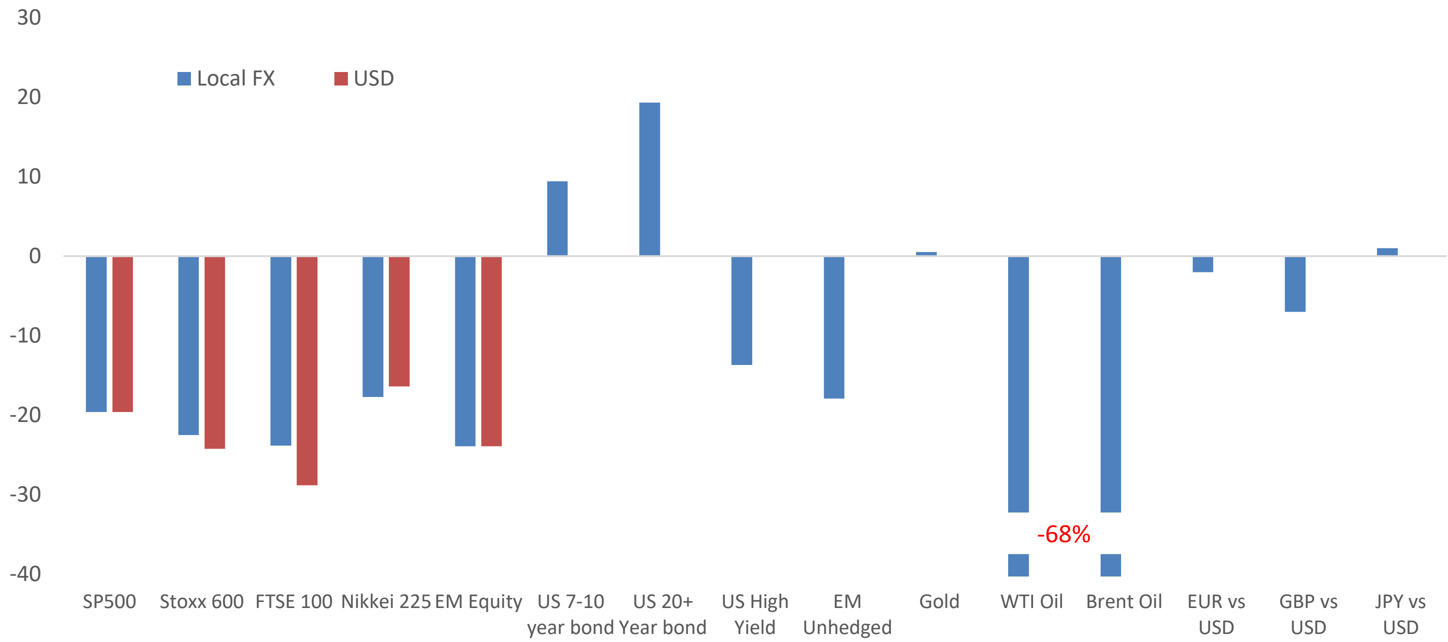
USD strength may continue on risk aversion, but we expect it will lag when the recovery begins. GBP is attractive when trading in lower range of our 1.2-1.3 USD range.

Commodities p.18

Gold prices should continue to be supported by dovish central bank policy, negative real yields, and talk of helicopter money. Oil prices will remain under pressure until a truce between Saudi and Russia is agreed.

Q1 2020

Performance by asset class (% USD)



Source: Bloomberg, PW

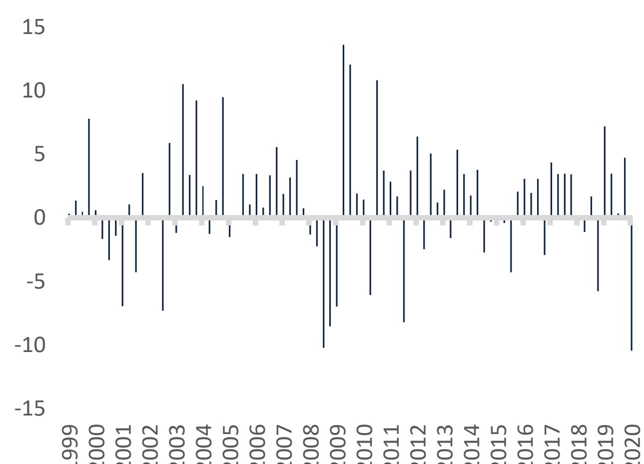
Last quarter it was clear that we were in the later stages of the economic cycle, now the focus is on how deep and long the global recession will be. Q2 2020 was as volatile a quarter as investors have seen in many years. Equities fell into a bear market, credit spreads widened markedly

Oil saw increased production and plummeting demand lead to prices falling by almost 70%. Government bond yields fell to record lows, as safe haven demand increased and central banks add aggressive purchases.

Japanese equities outperformed the developed word, and emerging market equities saw strong relative performance from China, offset by poor performance from commodity exporting countries. UK equities were the laggard, hurt by an already uncertain economic backdrop and a large weighting to the underperforming energy and banking sectors. Government bonds were the stars of the quarter, with yields falling to record lows. Gold was up marginally in USD terms, and Yen also proved to be a reasonable safe haven. A balanced portfolio split between global equities and the global aggregate bond index would have fallen by more than 10%, which is the worse than any quarter in 2008 or 2009.

Treasuries, gold & Yen delivered positive performance, while risk assets sold off dramatically.

Balanced global equity & bond (% quarterly growth)



50% Barclays Global Aggregate and MSCI World (USD)
Source: Bloomberg, PIM

Asset Allocation

Overall	--	-	N	+	++
Equities			■		
Fixed Income			■		
Cash	■	←			
Commodities	→	■			
Alternatives					■

Regional Equities	--	-	N	+	++
Euro Area		■			
Hong Kong			■		
Japan					■
Switzerland			■		
U.K.			■		
U.S.	→	■			
Emerging Markets				■	
Commodity Exporters		■	←		
Commodity Importers				■	

Global Equity Sectors	--	-	N	+	++
Consumer Discretionary		■			
Consumer Staples				■	
Energy	■				
Financials		■			
Health Care					■
Industrials		■			
Information Technology				→	■
Materials		■	←		
Real Estate			■		
Telecom Services			■		
Utilities		→	■		

Commodities	--	-	N	+	++
Gold					■
Oil		■			

Fixed Income	--	-	N	+	++
Duration		■			
Government Bonds		■			
Yield Curve				■	
Inflation Protection				■	
Investment-Grade				→	■
High-Yield		■			
EM Sovereign USD		■			
EM Sovereign Local		■			

Government Bonds	--	-	N	+	++
Australia				■	
Canada				■	
Euro Area		■			
Germany	■				
Japan			■		
Switzerland			■		
U.K.		■			
U.S.		■			

Currencies vs USD	--	-	N	+	++
Australia		■			
Canada		■			
Euro Area			■		
Japan				■	←
Switzerland			■		
U.K.			→	■	
Emerging Markets			■		

Alternatives & Structured Opps	--	-	N	+	++
Divs EuroStoxx 2024-2026				→	■
Short Puts LQD				→	■
Dispersion MSCI W				■	
RC Global Equity				■	

→ Increase from previous quarter

← Decrease from previous quarter

Source: PW

Global economic dashboard

Indicator	Derivative 1st	Derivative 2nd	Interpretation & outlook
Growth			
Global leading economic indicator	-	-	Sharp drop off on all leading and concurrent indicators.
ZEW/IFO	-	-	Negative everywhere
US ISM manufacturing new orders	-	-	Fallen to deeply contractionary level.
Consumer confidence	-	-	Still strong but below Q4'18 peak, risk of rolling over.
Business confidence	-	-	Falling in Feb, and March will get worse.
Global PMI	-	-	Fallen off a cliff , especially services
G7 employment	-	-	Record unemployment clams
Global trade volume	-	-	Global trade has fallen sharply on economic crash and closed borders.
Oil prices	+	+	Oil prices moving lower are positive for spending, but impact employment in many countries
Policy			
Real policy rate	+	+	Global policy has been loosened sharply
Nominal GDP-bond yield gap	-	+	Positive gap is reflationary, but nominal growth has probably fallen by more than bond yields.
G7 credit growth	+	+	Credit demand is growing, but for safety rather than growth
Financial stress	-	-	Ted spread widening to decade highs and credit spreads widening dramatically.
Fiscal thrust	+	+	Significant debt and deficits in response to virus and unemployment. MMT next?
Inflation			
Core CPI	-	-	Demand shock and falling commodity prices > than supply disruption
Wage growth	**0**	**0**	Wage growth almost irrelevant with employment backdrop.

All growth indicators are red, but policy response has been quicker and sharper than ever before.

Source: Bloomberg, PW.

Global Economy

World in a steep recession, but a second half rebound is in the cards

Our global economic dashboard shows an economy which shuddered to a sudden stop. Policy rates and fiscal stimulus are the positives which are the primary contributors keeping the economy from falling into a steeper recession. We expect a sharp global recession to be followed by a strong recovery once we get past the virus' implications on economic growth. We say 'once' because eventually through containment, herd immunity, a vaccine, or through a population that just deals with an endemic virus, economic growth will return. When we do get past the measures to contain the virus, the economy will benefit from significant monetary and fiscal thrust, as well as a recovery led by pent up demand on differed expenditures. We expect policy will remain supportive for growth even after the economy begins its recovery.

We expect Q2 GDP will fall 5% quarter over quarter.

While we are sure the economy has fallen into a recession the coronavirus outbreak has rendered precise forecasting impossible. No one knows how far the virus will spread and whether it will have seasonality. A summer slow down may allow for time to develop treatments, improve facilities and make progress towards a vaccine. This would allow for a less significant economic hit in a winter flare up. Restrictions on movement across the world will last several months at least. We assume a massive disruption to Global economy through the second quarter at least, with both European and US GDP falling by 6-9% (not annualised). We look a partial rebound in Q3, with growth bouncing by 3-6%. We expect the massive fiscal and monetary thrust put in place across the world will succeed in limiting a potential credit crisis which would add further economic downside.

A sustained economic expansion will be difficult unless trade improves

Global Economy

Q1 2020 saw the beginning of what looks to be the most sudden economic collapse in activity since WWII, and possibly, ever. The prevention and social distancing measures relating to the COVID-19 virus have led to an extremely sharp hit to the global economy, but we expect it to be relatively short lived.

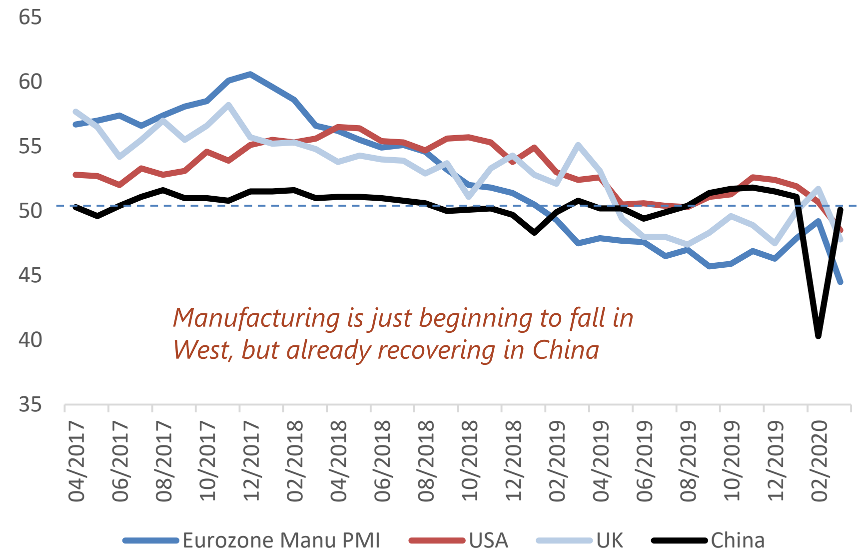
Leading indicators have been appalling, but probably still under estimate the size of the global contraction in the developed world. Western manufacturing PMI's have fallen below the contractionary threshold of 50, and likely have further to fall in April. China which seems to have contained the virus, while the West is still seeing exponential growth in new cases, has seen a rebound in its manufacturing sector. This could be a positive indicator of the rebound to come, or a data point which is not to be trusted. The index does only measure change from the previous period, and a bounce from a record low in February was inevitable as workers returned to factories after an unprecedented shutdown.

The euro-area economy is in a slump of unmatched scale, and the contraction may deepen even further as lockdowns to contain the coronavirus are extended. The eurozone's services PMI which includes hotels and restaurants, fell to 26 and Italy's has fallen to 17. Job losses are also mounting across Europe. While initial data on the impact are uneven, they provide early glimpses of the devastation in store.

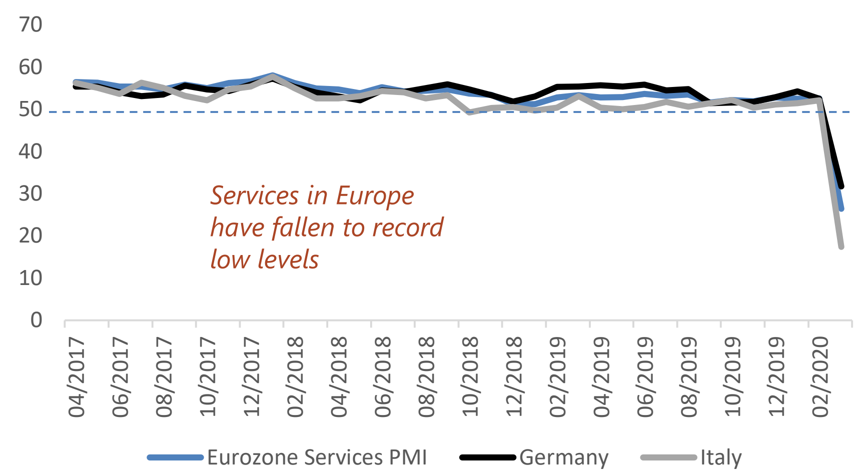
The number of Americans applying for unemployment benefits surged to a record 6.65 million people in the week ended March 28 and reached about 10 million over the last two weeks.

By the end of April we expect all of the 22 million jobs created since 2009 will have been lost. In the UK reports showing almost one million Britons applying for welfare payments in the space of two weeks, a record jobless-claims surge in Spain, and Austria's highest post-war unemployment rate, are among the worst examples so far. We expect unemployment rates to move well into double digits in the second quarter throughout the US and Europe.

Global Manufacturing PMI

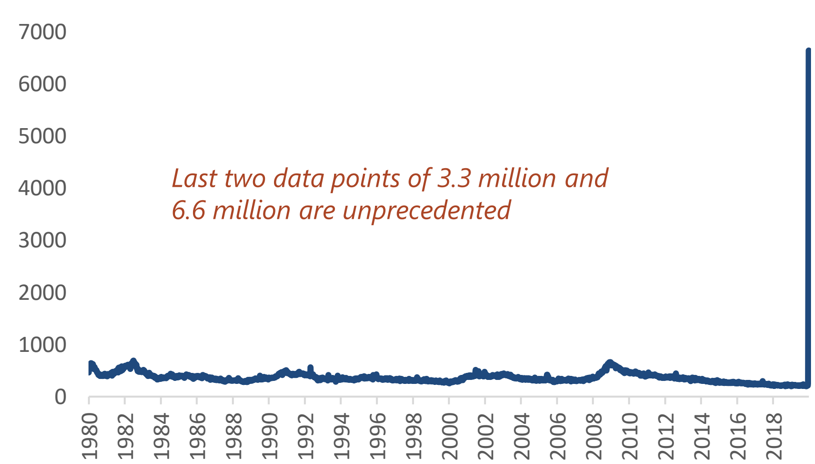


European Services PMI



Source: Bloomberg, PW

US jobless claims (000's)



Source: Bloomberg, PW

Forecasting global growth with any precision is impossible given the unprecedented nature of the imposed contraction due to distancing measures. No one knows when the virus will be contained. We also do not know if containment will be permanent or if it will flare up again? We expect markets will bottom before the economy does and it will be driven by policy and the direction of new cases and deaths. A large and rapid response from global central banks and governments has already taken place. If containment measures are effective, this may well be sufficient but more will be needed if 'lockdowns' are needed beyond this quarter.

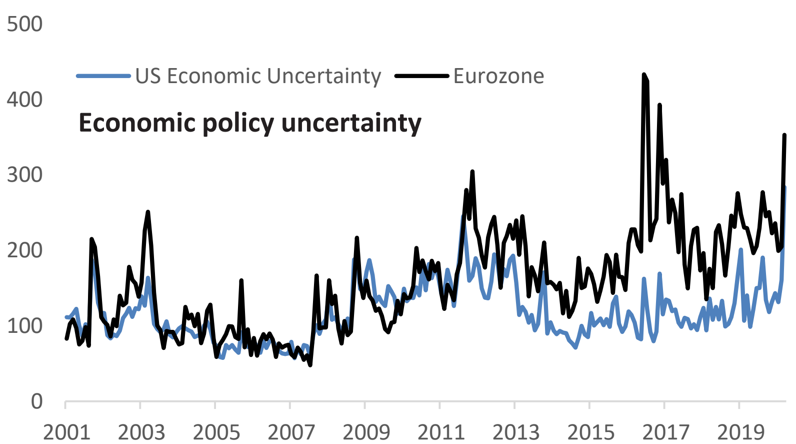
We have a rough idea of how sharp the slow down will be, and use past economic shocks and recoveries to guide our expectations of a recovery. We expect a sharp global recession to be followed by a strong recovery once we get past the virus's implications on economic growth. We say 'once' because eventually through containment, herd immunity, a vaccine, or through a population that just deals with an endemic virus, economic growth will return. When we do get past the measures to contain the virus, the economy will benefit from a very significant monetary and fiscal thrust, as well as a recovery led by pent up demand on deferred expenditures. We expect policy will remain supportive for growth even after the economy begins its recovery. New treatments, and a vaccine are likely developments in the coming months and we remain optimistic that life, the economy and markets will recover from the current pandemic.

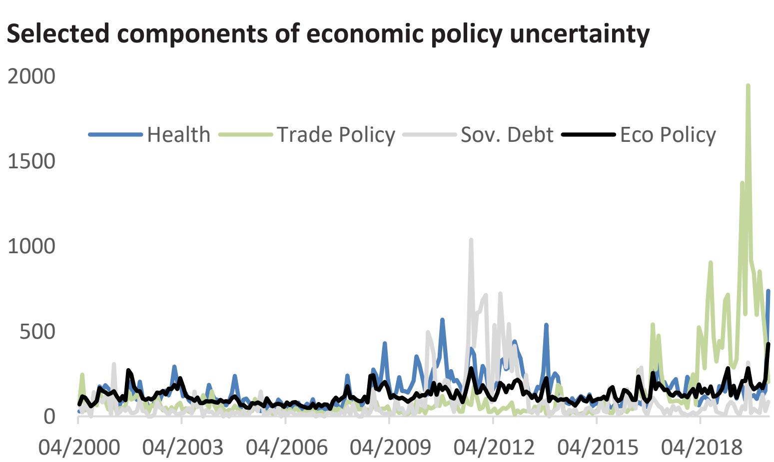
Global GDP Growth

	2018	2019	2020e	2021e
World	3.7	3.1	-2.0	6.0
Developed	2.3	2.0	-5.0	5.5
Emerging	5.1	4.3	1.0	6.5
US	2.9	2.2	-8.0	7.0
Euro	1.9	0.9	-10.0	8.0
China	6.6	6.0	2.5	8.5
India	7.5	5.6	2.5	6.5

Source: Bloomberg, OECD, PW

The global economy's sudden stop will eventually turn into a significant recovery. We expect this to begin during Q3 2020 and last throughout 2021.





Source: Bloomberg, PW

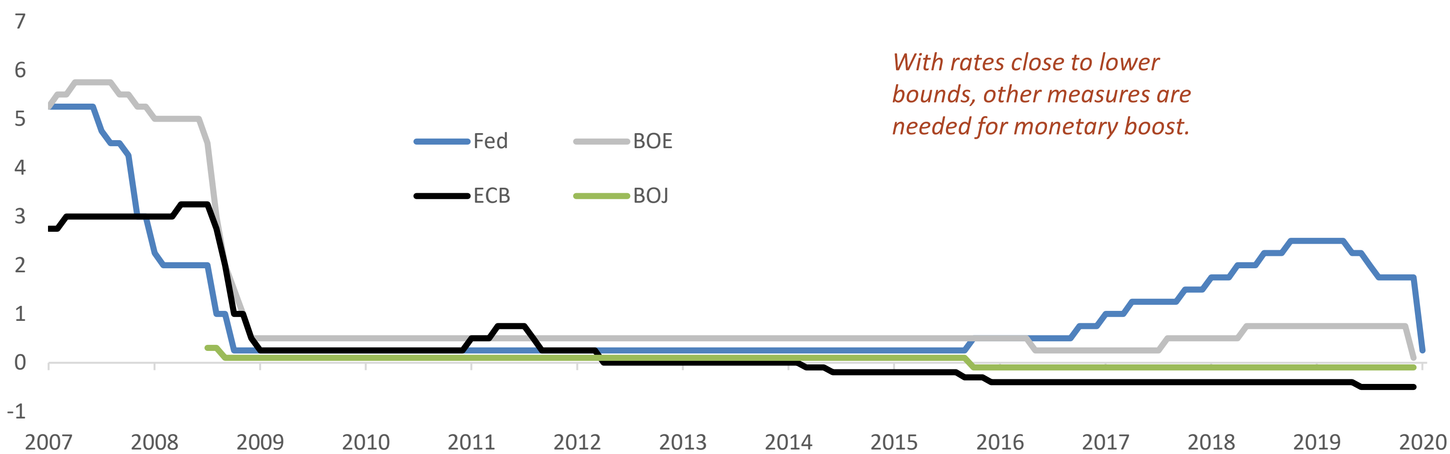
In our January Perspective we pointed out how the US/China trade truce should reduce economic policy uncertainty and create the potential for a significant uplift in global trade and manufacturing. While the outlook for trade has improved, other uncertainty surrounding the virus have pushed this measure significantly higher this quarter. Health policy, and economic policy uncertainty has risen sharply. At some point we expect the deficits and debt incurred will also see sovereign debt uncertainty get back to 2011 levels.

Uncertainty around trade has turned into uncertainty around healthcare and economic policy… we expect that Sovereign debt uncertainty may be next

Central Banks — To zero and beyond

Central banks have limited firepower compared to previous recessions. The U.S. Federal Reserve, Bank of England, Bank of Japan and European Central Bank have already cut interest rates to their likely lower bounds. Central banks have begun to rapidly increase the size of their balance sheets in response to the virus induced economic slow down. The US Fed's balance sheets has ballooned to $5.5 trillion and will likely surpass $8 trillion in the coming months.

Central Bank rates

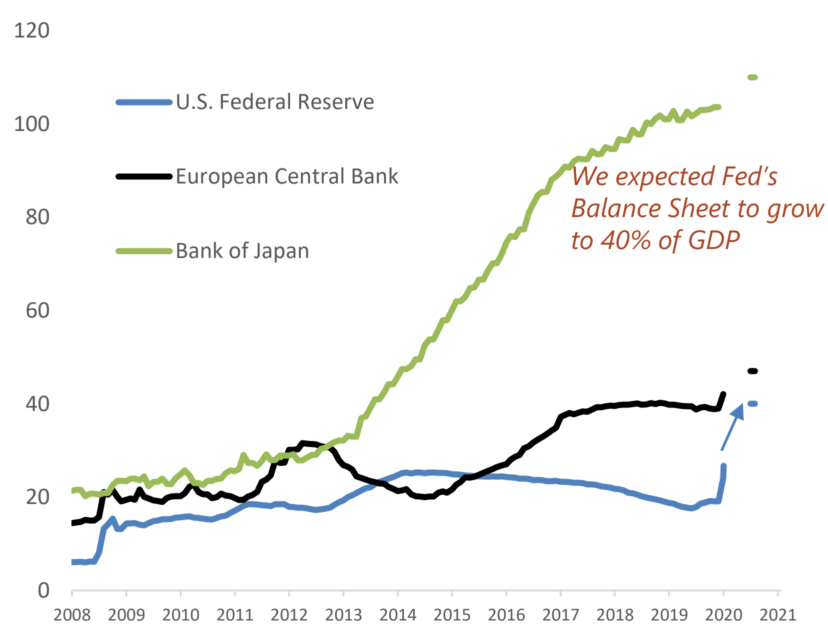


Source: Bloomberg

Central banks have unleashed a dizzying number of unconventional steps in the past month to cushion the economy from the impact of the coronavirus. The Fed is rapidly expanding its balance sheet through open ended quantitative easing. We expect purchases of corporate bonds as well as mortgage backed securities and treasuries will continue throughout the summer. The ECB is aggressively buying sovereign and corporate bonds as well. ECB's TLTRO III targeted at SMEs and its Eur750bn of Pandemic Emergency Purchase Plan (PEPP) in addition to Eur150bn APP are designed to act as a backstop to prevent another Eurozone debt crisis. The BOJ continue to buy bonds and equity. The proactive policy response will not be sufficient to keep the economy form falling into a recession but it may be able to stop a credit crisis from compounding the economic slow down.

Central banks have already added more liquidity to the financial system in 3 weeks, than they did throughout all of 2008.

Major CB balance sheet (% GDP)



Source: Bloomberg

Thematic **Covid crash triggers possible regime change**

The scale of the economic downturn and size of policy response to the pandemic likely triggers an investment regime change.

Globalisation and disinflation turn to protectionism and stagflation. Since the late 1980's the world has moved from a highly inflationary and regionally isolated world towards a world with globalised supply chains which improved productivity, reduced costs and created a secular disinflationary backdrop to the global economy. Global exports have grown to 35% of GDP and Treasury yields have fallen from the high teens to less than 1% over that period.

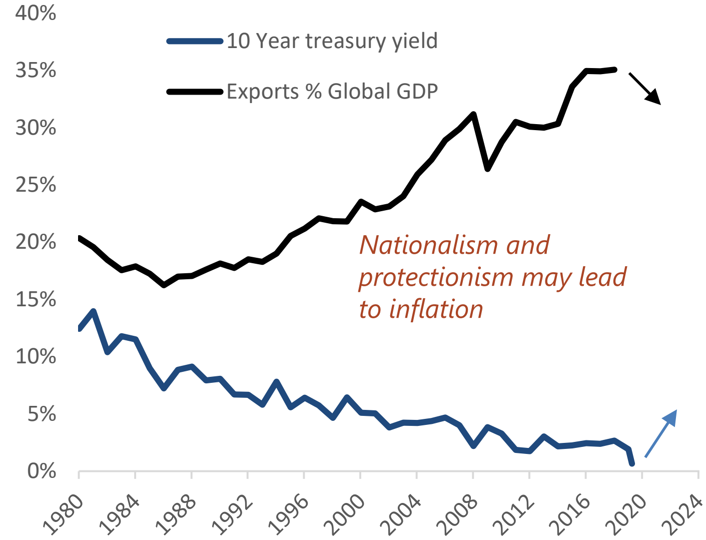
New regime: Nationalism wins out over globalism. Countries protect supply chains from foreign threats and gain security over price. *Implications are stagflationary, own real assets that are not cyclical.*

Monetary passes baton to ever increasing fiscal: Monetary policy has been dominant driver of policy over fiscal policy. Since the Fed initiated QE1, central bank policy has muted economic cycles and been the driver of asset class performance. With central bank policy approaching its limits a new investment regime will emerge. Fiscal thrust has now arrived. Populism has already been a successful political strategy, and helicopter money is as populist as you can get. *Implications: Massive build up of sovereign debt. Initially deflationary, but monetisation of government spending and debt eventually lead to rapid inflation.*

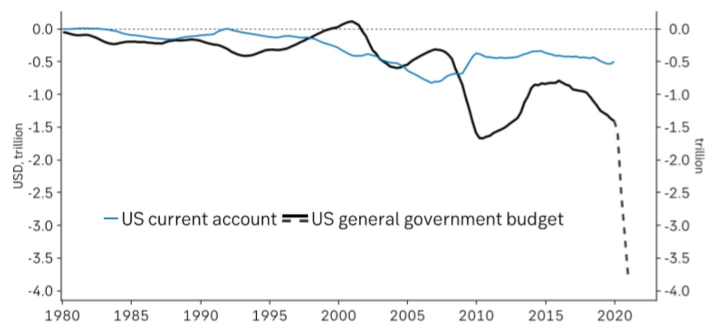
Return of the cycle: We have become used to living in a world with low macro volatility low earnings volatility, and equity volatility. The VIX was often below 12 for much of the past seven years. We are entering a new regime where we do not know if the policy response has been enough, or if more is needed. We are seeing a massive contraction in GDP and we expect a significant expansion to follow. *Implications: Big swings in growth and policies that cannot be fine tuned because of uncertainty should mean more volatility and higher risk premiums required on cyclical assets.*

The West becomes German: We expect a significant rebound in economic activity one we get past the pandemic Another scenario is a jump in savings and very muted consumption bounce. Many individuals may have woken up to their limited financial safety net as a result of the Pandemic. A more cautious consumer, that avoids unnecessary debt is a very possible outcome. *Implications: Debt driven consumerism dies*

Regime of increasing trade and falling interest rates over?



Deficits and debt will be greater than predicted.



Source: Bloomberg, SocGen, PW

Equities World (Neutral)

MSCI WORLD	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	15.61	12	20.94	19.51
BEst P/E Ratio	14.97	33	15.84	15.76
Long Term Price Earnings Ratio	18.70	29	22.09	21.77
Price to Book Ratio	1.90	17	2.38	2.34
Price/EBITDA	7.68	57	7.67	7.30
Price to Sales Ratio	1.33	52	1.31	1.31
Enterprise Value/EBITDA	10.02	31	10.64	10.59
Profit Margin	8.36	85	6.20	6.55
Operating Margin	11.48	71	10.45	10.47
Dividend Yield	3.02	96	2.26	2.31
10Y Yield	0.60	0	3.88	3.87

Source: Bloomberg. Jan 1995 to April 2020

Following the significant sell off in Q1, global equities have fallen from expensive on most measures towards long term average multiples. Some of these multiples rely on consensus estimates which are too optimistic for the reality of the economic slow down. Equity volatility has also moved toward record highs, as the market tries to determine the path of the economy and equity earnings. Equities are risker investments while the uncertainty of the recovery looms over the short term, but the global equity risk premium over government bonds is now near the all-time highs. Over the past 12 months, the equity risk premium has gone up substantially. However, much of the rise has been driven by a massive fall in the government bond yield. Consensus earnings estimates remain too high, but the risk premium is already pricing this in. For investors with a long term investment horizon we believe the current market is providing an attractive entry point.

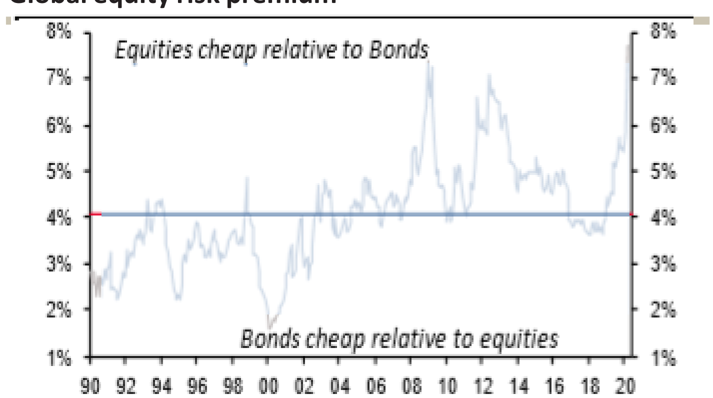
Factors favouring equities

- We believe a steep recession is priced into the market. Shocking job loss numbers are not moving markets lower. Good news is unexpected, but will be market moving.
- Stimulus measures have been coordinated across countries and combine a significant monetary and fiscal impetus for the economy.
- In absolute terms and especially relative to bonds equities are now cheap enough that outsized returns will be achieved for long term investors.
- China activity has already begun a nascent recovery, providing a path on how things may look once the impact of virus mitigation efforts begins to wane.
- Pharmaceutical companies remain focused on developing vaccines and treatments for the virus. Betting against equities is betting against human ingenuity

Key inputs for Global ERP

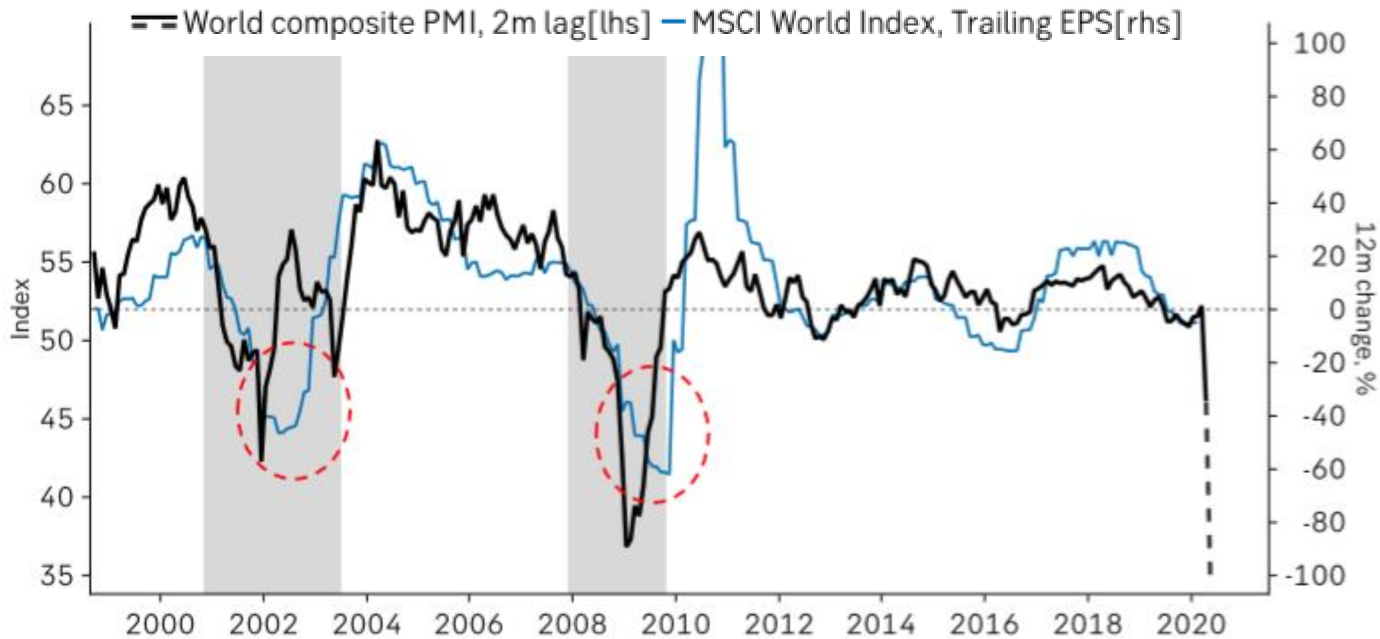
Risk premium	7.7%	Consensus growth '20	5.4%
Normal	4.0%	Consensus growth '21	10.0%
Min	1.5%	Medium-term growth	4.4%
Max	7.7%	Long-term growth	3.8%
10 year bond	1.1%	Payout ratio	40%
IRR	8.8%		

Global equity risk premium



Source: Bloomberg, SocGen, PW

Equities | **World (Neutral)**



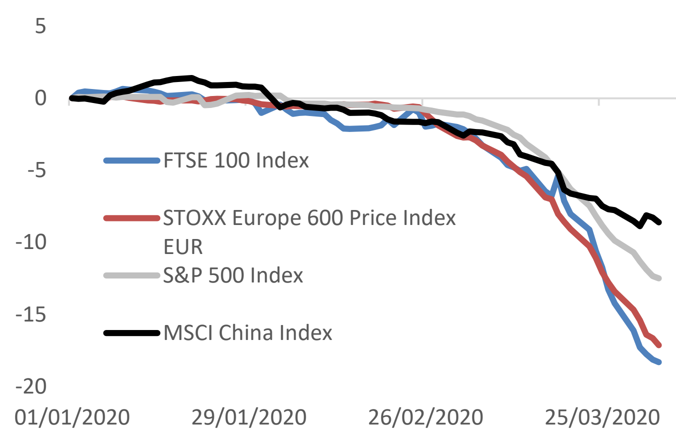
Analysts have cut earnings estimates sharply, but with 13% downgrades, they are still forecasting earnings growth for 2020. We think the chance for this to be achieved is between slim and none. Global PMI has fallen into a steep contraction and will almost certainly get worse before it gets better. Composite PMI has been a strong predictor of equity earnings, and we do not expect a different outcome in 2020.

Factors working against equities

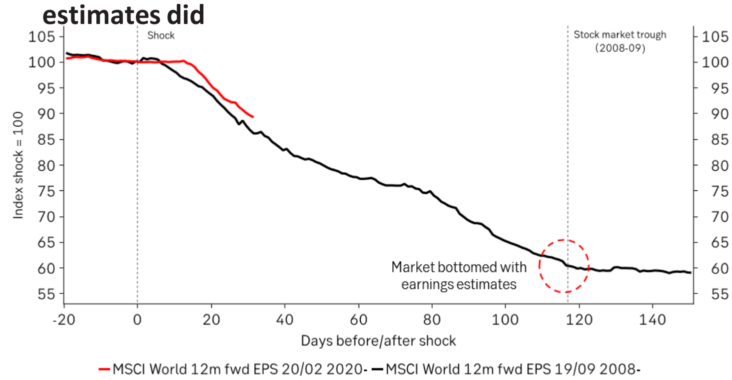
- Significant earnings downgrades to come.
- Unemployment will move much higher in coming weeks
- Share buybacks are done this year, dividends are cut.
- The sharp recession we predict actually turns into a depression. Unemployment and slowing demand leads to a wave of personal and small business bankruptcies. Confidence falls and stops business working on credit.

Our view is factors working against equities may dominate in the near term, but for investors with a 12 month or longer view, the lower prices already reflect the risks.

Regional Earnings revisions YTD



In 2008 the market did not bottom until earnings estimates did



Source: Bloomberg, PW

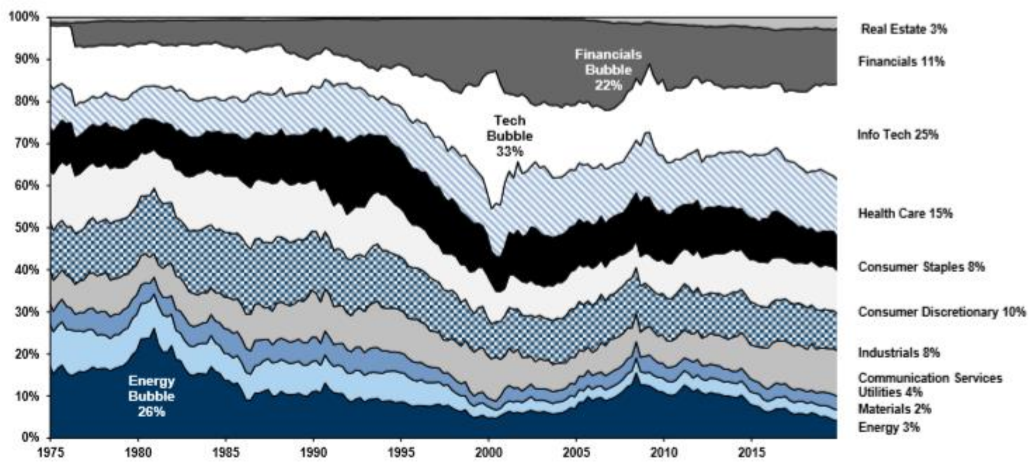
Equities — US (Underweight)

S&P 500	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	16.37	20	19.62	18.76
BEst P/E Ratio	16.30	46	16.98	16.49
Long Term Price Earnings Ratio	21.54	52	22.35	21.41
Price to Book Ratio	2.73	45	2.88	2.79
Price/EBITDA	8.96	72	7.81	7.46
Price to Sales Ratio	1.78	74	1.50	1.51
Enterprise Value/EBITDA	10.93	52	10.62	10.76
Profit Margin	10.17	97	6.78	7.26
Operating Margin	13.44	92	11.68	12.26
Dividend Yield	2.43	79	2.09	1.97
10Y Yield	0.60	0	4.44	4.39

Source: Bloomberg. Jan 1995 to September 2019

US equities trade at elevated multiples vs. the rest of the world, and it remains expensive vs. its own history. Offsetting valuation is the weighting towards world leading companies in sectors which are most likely to outperform in the recessionary environments; Technology, Heathcare, Communication services, and Staples which make up more than half of the S&P 500. Energy, materials and industrials make up a little over 10%.

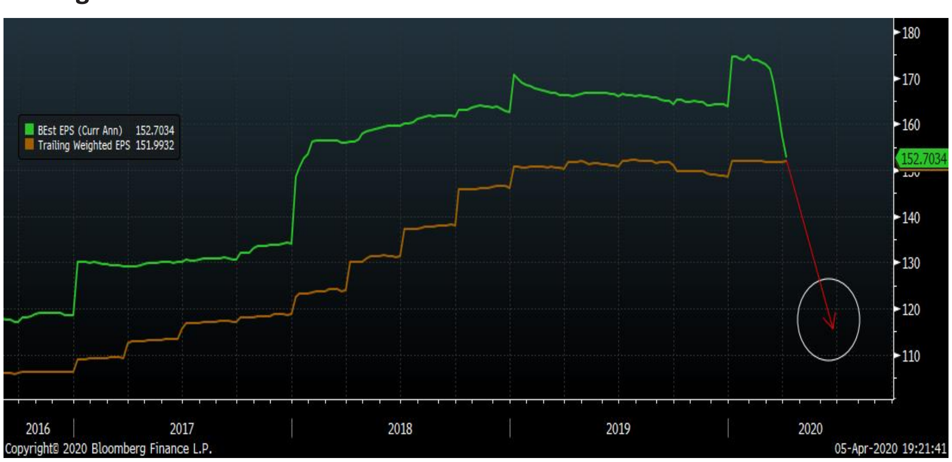
Rolling sector exposure



Source: Goldman Sachs

Analysts have begun reducing earnings estimates to no growth in 2020, but we expect eps will be down by 20-35% this year. If our economic base case is correct we should see a similar rebound in next years earnings, back towards $150 per share. We recommend owning quality companies, with strong balance sheets and non-cyclical earnings. We short highly indebted companies with cyclical earnings, and business models impaired by the pandemic.

Trailing and forecast S&P 500 EPS



We own: *Apple, Alphabet, Facebook, Barrick, Berkshire, Biogen, Abbvie, Mastercard, Mondelez, Visa, Lulu Lemon, Best Buy, Corteva.*

We short: *Boeing, Simon Properties, Dupont, Delta, Carnival Cruise, General Motors, Occidental, Valero*

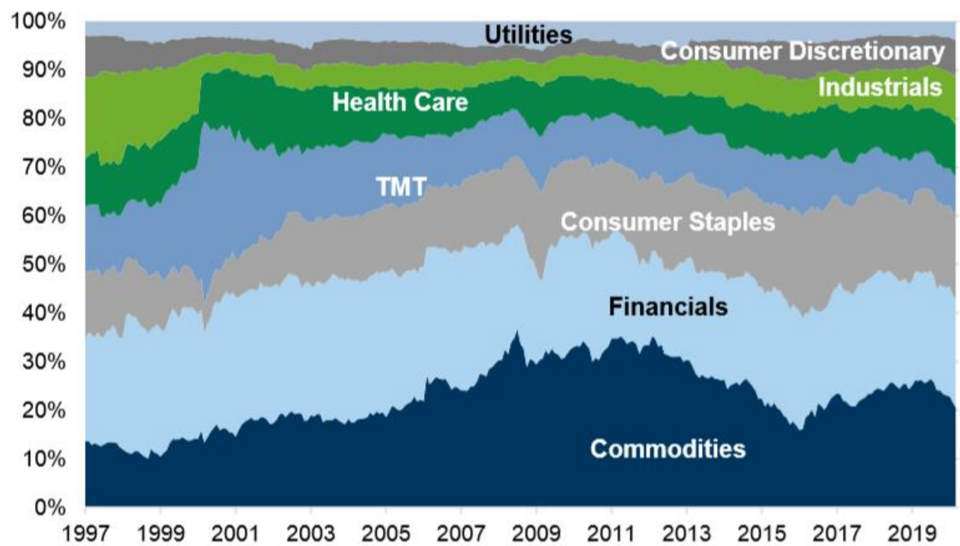
Equities UK (Underweight)

FTSE 100	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	15.47	31	24.74	17.42
BEst P/E Ratio	11.85	34	12.74	12.63
Long Term Price Earnings Ratio	12.10	19	16.25	14.89
Price to Book Ratio	1.34	0	1.94	1.88
Price/EBITDA	5.32	3	7.32	7.21
Price to Sales Ratio	0.80	1	1.17	1.17
Enterprise Value/EBITDA	7.51	11	8.99	8.83
Profit Margin	5.34	33	6.89	7.15
Operating Margin	8.78	28	10.57	10.24
Dividend Yield	5.92	100	3.84	3.80
10Y Yield	0.31	0	3.03	3.08

Source: Bloomberg. Jan 1995 to April 2020

UK equities are as cheap as they have ever been. On Book value they have never traded so low, and are near record lows on p/ebitda and p/sales. Offsetting this is sector exposure which is weighted towards sectors that have been hit the hardest during the pandemic; Energy, Banks and materials, which make up almost 40%. We underweight the region, but it will be an area to allocate towards when positioning for a recovery. Within the UK we prefer healthcare, and technology.

Rolling sector exposure



Source: Goldman Sachs

***We own:** AstraZeneca, Avast, Plus500, RD Shell.*

***We short:** Rolls Royce, Royal Bank of Scotland.*

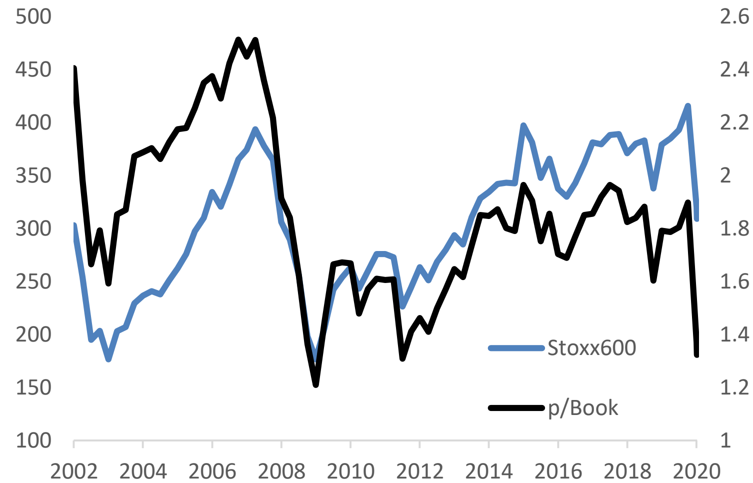
Equities | Europe (Neutral)

Stoxx 600	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	14.70	26	22.35	19.03
BEst P/E Ratio	13.46	50	13.46	13.44
Long Term Price Earnings Ratio	15.48	32	17.67	17.66
Price to Book Ratio	1.32	2	1.85	1.83
Price/EBITDA	5.46	19	6.54	6.32
Price to Sales Ratio	0.92	20	1.08	1.11
Enterprise Value/EBITDA	7.45	7	9.13	9.27
Profit Margin	6.69	58	6.19	6.36
Operating Margin	9.83	52	10.13	9.76
Dividend Yield	4.46	97	3.40	3.42
10Y Yield	-0.44	2	2.31	2.66

Source: Bloomberg. Jan 1995 to April 2020

European equities have fallen towards 1.2 book value, which has acted as support in the past. The market moved higher in 2009 and 2011 after the p/book fell below 1.3. The driver for a rebound in European equities will be the path of the virus. Spain and Italy have both reported the lowest number of new coronavirus cases in more than two weeks, which is a sign that Europe's biggest outbreak is slowing. Europe will do well vs other regions when value starts to outperform growth, but we do not think investors should aggressively position for that until there are signs of an economic recovery taking place. Analysts have cut estimates sharply this year, but we expect more to come.

Stoxx 600 Price and Price/Book



Source: Bloomberg, pw

Earnings revisions by year

Source: Goldman Sachs

We own: *Cap Gemini, Deutsche Wohnen, UCB, Novo Nordisk, Neste, Roche, Vestas.*

We short: *Continental, Daimler, ABN Amro, Telefonica, Renault*

Equities — Japan and Asia (Overweight)

Topix	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	12.59	0	57.97	21.72
BEst P/E Ratio	11.29	0	20.13	15.69
Long Term Price Earnings Ratio	16.40	6	27.91	23.90
Price to Book Ratio	0.93	4	1.57	1.49
Price/EBITDA	5.18	23	7.02	6.19
Price to Sales Ratio	0.60	28	0.70	0.69
Enterprise Value/EBITDA	7.27	1	10.59	9.67
Profit Margin	4.83	89	2.29	2.48
Operating Margin	6.98	63	5.33	5.60
Dividend Yield	2.86	99	1.44	1.15
10Y Yield	-0.02	7	1.41	1.32

Asia ex-Japan	Current	Percentile	Average	Median
Price Earnings Ratio (P/E)	13.58	72	12.33	12.08
BEst P/E Ratio	13.02	74	12.01	11.78
Long Term Price Earnings Ratio	15.89	45	16.54	16.07
Price to Book Ratio	1.46	28	1.62	1.57
Price/EBITDA	8.08	86	6.56	6.19
Price to Sales Ratio	1.66	73	1.49	1.47
Enterprise Value/EBITDA	9.54	87	7.73	7.29
Profit Margin	12.75	47	12.62	12.78
Operating Margin	15.08	56	14.90	14.95
Dividend Yield	2.47	29	2.75	2.62
10Y Yield	0.60	0	2.47	2.41

Japan announced a record economic stimulus package as the country braces for a surge in coronavirus infections. The package of economic measures, set to be Japan's biggest ever, surpassed the 60 trillion yen ($550 billion) recommended by Abe's ruling party. Japanese equities have never been much cheaper than they are currently. A dividend yield of 2.9% is above its historic average and much higher than 10 year bond yields. This should support high dividend paying companies in Japan. Japanese companies with a domestic focus should provide a currency benefit during any period of risk aversion, while global factors are far more of a risk to the broader Japanese market. Japanese equities and Japanese Yen are both undervalued on most of the measures we look at. The currency is about 25% below its fair value on PPP, and the Topix has never traded at a significantly lower p/e multiple and the index trades below book value.

China has seen a partial rebound in economic activity in March. Its draconian measures to contain the virus seem to have worked, and it is the best perform region in Q1. We think companies such as Alibaba and Tencent offer tremendous growth and their business models are not dramatically impacted in rolling lock down scenarios.

We own: *Chugai, NTT, NTT Docomo, Nexon, Shin-Etsu, Kao, Keyence, Tokyo Electron.*

We short: *Nippon Steel, Nissan, Mitsubishi Heavy Industries*

We own: *Tencent, Alibaba, Enn energy*

Fixed Income

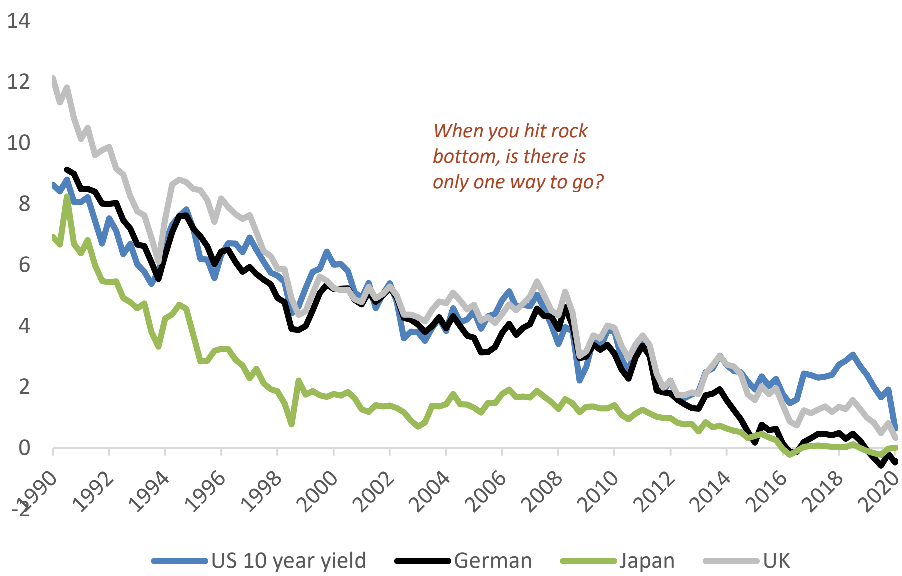
Long duration does not offer value and the insurance has already been paid

We are underweight G7 government bonds, based on the long term valuation. Bond yields have fallen to levels that reflect a deep recession, a future deflation shock and permanently distorted monetary policy. These macro outcomes are possible, but are not our base case. Anything better than this is a risk to bond prices. Governments a running massive deficits and debt is ballooning.

The overvaluation partially (possibly almost completely) reflects central bank policy distortions. Central banks have been the bond market's best friend. This is likely to persist and ensure that bond yields remain below our traditional "fair value" for some time. However, we think there is now risk that the US Treasury market has moved to yields so low that any pick up in growth or hint of inflation will see significant sell off. A return to 2% yields would see an almost 20% capital loss for these bonds. Inflation swaps have proved to be relatively sticky, despite falling bond yields. US inflation swaps dropped significantly, but rebounded once open ended QE was announced by the Fed, and the government put a $2 trillion stimulus package in place.

While government bonds offer negative real yields, corporate bond spreads have blown out to levels which historically have been very good entry points. With central banks effectively putting a backstop under investment grade debt, we think the risk premium ifs very attractive.

10 year sovereign bond yields



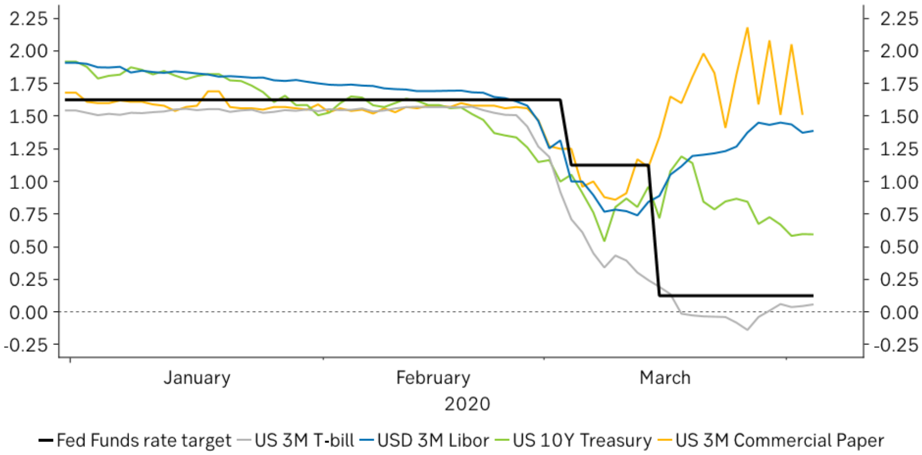
Source: PW Bloomberg

5 year 5 year forward inflation swaps

Source: PW Bloomberg

Credit markets sharply re-priced the deteriorated macro outlook. The combination of lower growth and falling oil prices have seen all credit spreads widen significantly. US IG spreads have risen from less than 1% to over 3% this month.

Credit Spreads



Source: SEB

Credit Spreads

	YE 2019	Current
USD Spreads		
IG	93	302
IG Fin	80	302
IG Non-Fin	99	305
High Yield	336	959
EUR Spreads		
IG	104	256
IG Fin	108	296
IG Non-Fin	101	234
High Yield	308	765

Source: Goldman

With central banks effectively putting a backstop under investment grade debt, we think the risk premium is very attractive.

Central banks have acted swiftly and aggressively to ensure a liquid bond market and a functioning financial system, however LIBOR spreads and bank commercial paper spreads remain wide. We view this as an opportunity to buy relatively safe short term paper, rather than a red flag to stay away. The Fed cannot created credit quality, but it will ensure liquidity in bank paper. The Fed is not just buying bank debt, but is expanding its QE to buy investment grade corporate bonds as well.

Fx

Favour USD and Yen

The US dollar, Japanese Yen and Swiss Franc were the best-performing G10 currencies over the past quarter.

Investors sought haven assets and clamoured for the American currency amid the market turmoil. We expect this trend to continue as all will benefit from risk aversion created by slowing growth. The USD and CHF are expensive on PPP measures, but the CHF benefits from a large current account surplus but has vulnerabilities associated with domestic housing and credit excesses. The euro has the weakest growth fundamentals, which offset attractive valuations. We recommend adding to GBP when it falls to the low end of its 1.20-1.30 range vs the USD, and selling it at the top.

We utilise a six factor model to assess foreign exchange movements: relative growth, interest rate differentials, capital flows, trade flows, valuation and technicals. Trade flows, relative growth and policy differentials lead to negative scores for AUS, CAD vs. the USD. Valuation and technicals favour the JPY. Structural improvements in the domestic Japanese economy and its attractive valuation also should lead Japanese Yen to drift higher. We expect it will deliver a major appreciation in the next global recession.

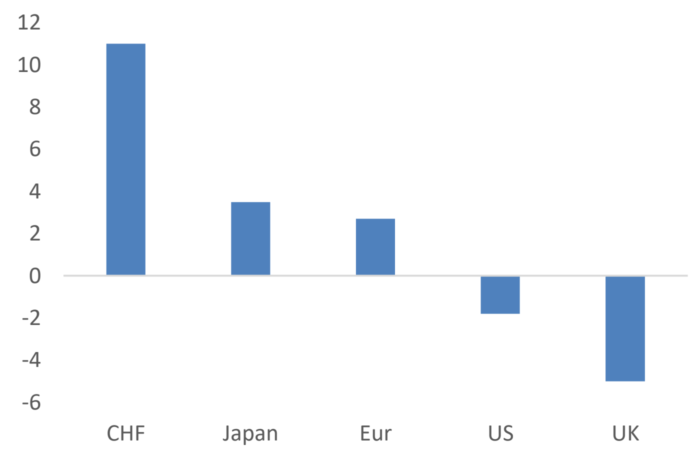
Major currency vs. USD on Purchasing Power Parity

	PPP Consumer	PPP Producer	BIG MAC
CHF	6.3	-11.0	18.2
GBP	-7.4	-30.5	-25.3
EUR	-6.4	-14.5	-17.2
JPY	-28.2	-28.5	-33.4

Source: Bloomberg. PIM

GBP is undervalued, but given so many political turns ahead, it will likely remain that way.

Current account (% GDP)



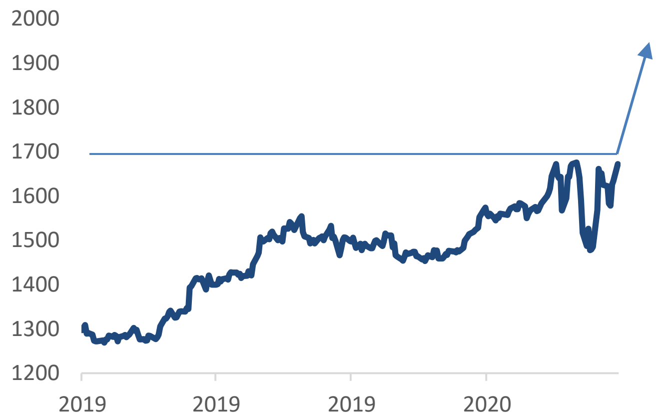
Source: Bloomberg. PIM

Commodities Gold shines, oil over supplied

The current macro and liquidity backdrop has parallels with Q4 2008 (a local low in the gold price). The gold price is primarily driven by real yields, and central bank liquidity. Real yields have fallen dramatically and should fall further as the Fed continues to pursue aggressive policy easing measures. US dollar weakness will also likely occur when global growth begins to reaccelerate. US deficits are moving ever wider and direct transfer to individuals may be the beginning of what turns out to be helicopter money. Gold is a real asset beneficiary of any debasement of currency strategy.

The oil market is massively over supplied. Until a deal can be made between Saudi and Russia, there are probably more than 20 million barrels of oil being produced, above what is being demanded every day. Oil demand has fallen from close to 100 million barrels a day, to something closer to 75 million barrels a day because of the sudden stop in the economy. Production has not fallen much despite oil prices falling by 68% during the quarter, as Russia and Saudi Arabia compete for market share. We expect Saudi Arabia, Russia and other OPEC+ nations will eventually negotiate a deal, but it may be insignificant vs. the size of the demand drop off. Oil storage is reaching capacity, which has caused spot prices to plummet. At quarter end the August WTI contract was trading 50% higher than the spot prices

Gold ($/oz)



Source: Bloomberg. PW

WTI oil futures strip

Source: Bloomberg. PW

Ideas **Rotate into higher risk in fixed income, quality in equities**

- Trillions in deficits, and new government debt will make monetisation of debt the possible end game. We continue view **gold** very favourably. We have recently added **Barrick Gold in discretionary portfolios**. Lower energy prices and falling currencies in regions they operate are tailwind for profitability.

- Stocks we like which are benefitting from stay at home economy: **Activision, Nexon, Tencent, Alibaba, Apple, Amazon.**

- **EuroStoxx dividend futures** as an inflation hedge, and very depressed entry point. Dividends rise with nominal economic growth. (Real growth and inflation). If central banks print money the long term dividend potential of companies will rise. Longer dated dividend futures benefit from natural selection as well : poorly performing companies fall out of the index, and replacements are better performing companies – usually with higher dividend potential. The pandemic will lead to cuts in 2020 dividends, but very unlikely to impact 2024 dividends. The policies put in place now may end up improving those dividends.

- Short dated subordinated debt from UK financial institutions such as **Lloyds** and **Barclays** yield 4%. That is in line with historic equity risk premium over zero cash rates

- Investment grade bonds are much more attractive than sovereign debt. Selling put options on investment grade ETFs is also attractive as implied volatility is 25% on the large ETFs. Don’t fight the Fed which is backing investment grade , and even buying investment grade ETFs.

- Own yielding equities in safe haven in Yen and CHF. **Roche, Chugai, NTT Docomo.** Stable companies whose business is not impacted by the pandemic.

- Highly indebted cyclical companies have seen their stocks fall the most. It is too early to rotate into cyclical value, look for quality companies with less debt.

PLURIMI

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