SAPPHIRE HILL GLOBAL

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APRIL 3, 2020

Spring 2020 Macroeconomic Outlook

COVID-19
DISRUPTION & OPPORTUNITY

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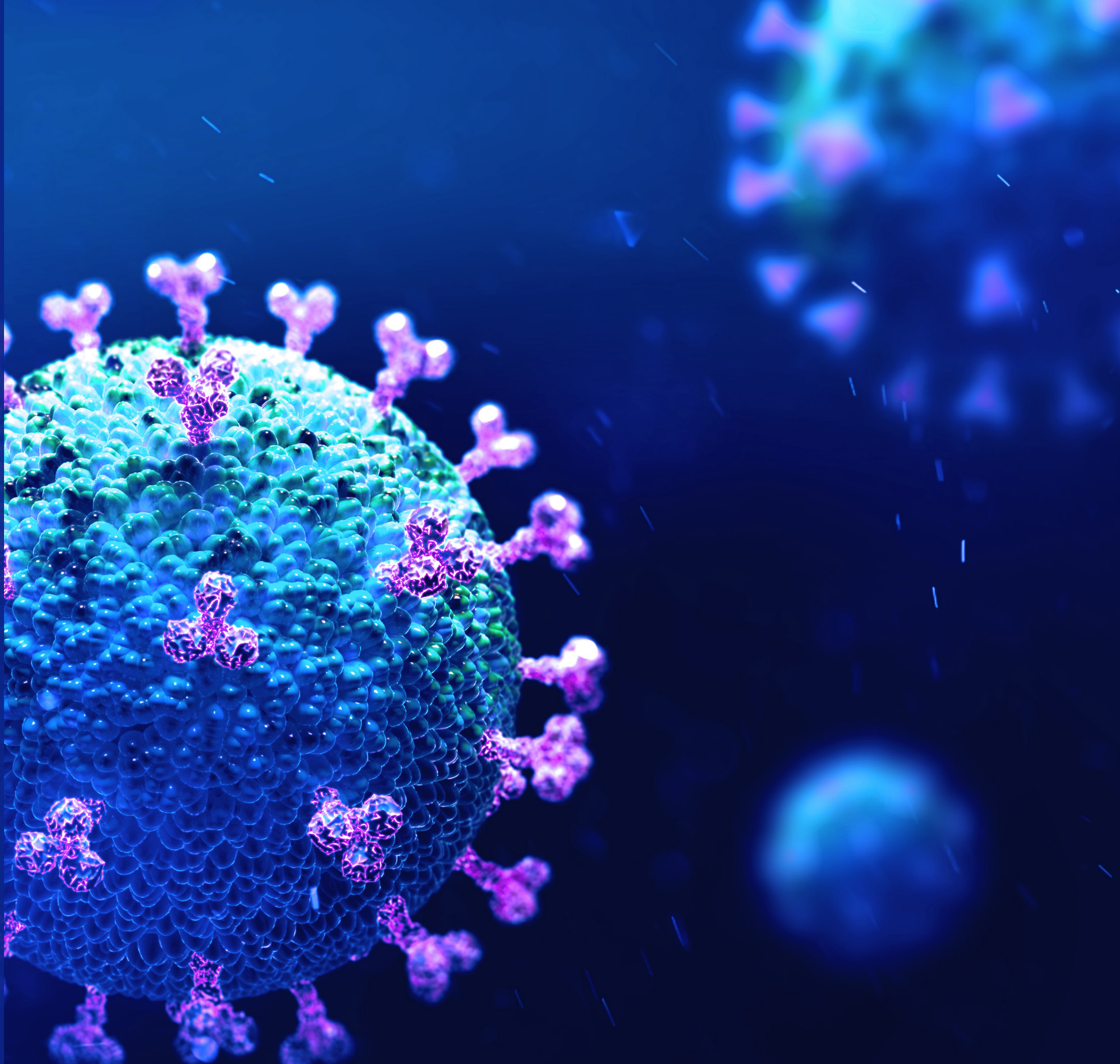
The Coronavirus has created

yet another unprecedented environment and much economic fallout, but we are becoming increasingly constructive.

We are seeing evidence that we are able to chart the cycle of COVID-19 and the window of peak contraction appears to be 3-5 months.

At minimum, the global monetary and fiscal response will ultimately slow the pace of COVID-19's economic destruction.



Spring 2020 Macro Outlook Summary

The Coronavirus has created yet another unprecedented environment and much economic fallout, but we are becoming increasingly constructive.

Prior to the COVID-19 pandemic we saw evidence that equity markets were reaching a plateau and interest rates, namely US Treasuries, were also approaching a ceiling.

A lead indicator was the global dip in home purchases and housing demand in the second half of 2019.
For us that signaled that consumer budgets were tapped despite the strong US equity markets and fairly easy monetary conditions.

Much of the drop in housing demand and spending related to the trade wars between the US and China; and the US and Europe.

In our opinion COVID-19 has only catalyzed the fact that we expected to see a drop in interest rates.

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Spring 2020 Macro Outlook Summary

With a sharp increase in unemployment and the drop in manufacturing activity across the globe, we believe there is no doubt a US and global recession is underway.

We are seeing increasing evidence, however, that we are able to chart the cycle of COVID-19 and it appears the window of peak contraction is 3-5 months.

China, where COVID-19 started, is increasingly returning to normal capacity.

Italy was an outlier but it now appears to have turned the corner.

We agree with some economists that this is an “artificial shock”, although with very real consequence, so we expect the recession to be short in duration followed by a sharp initial rebound particularly in the equity markets.

The rebound in equities will be a relief rally, but its sustainability will largely be related to how conclusively we are able to contain and eradicate COVID-19.

COVID-19

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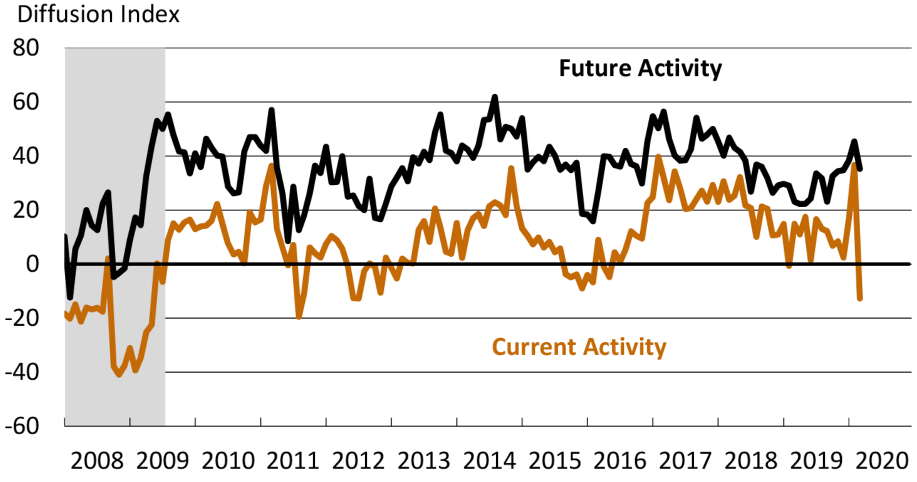
Indicators like the Philly Fed Manufacturing Survey point to the lowest manufacturing activity in the US and Europe since World War II.

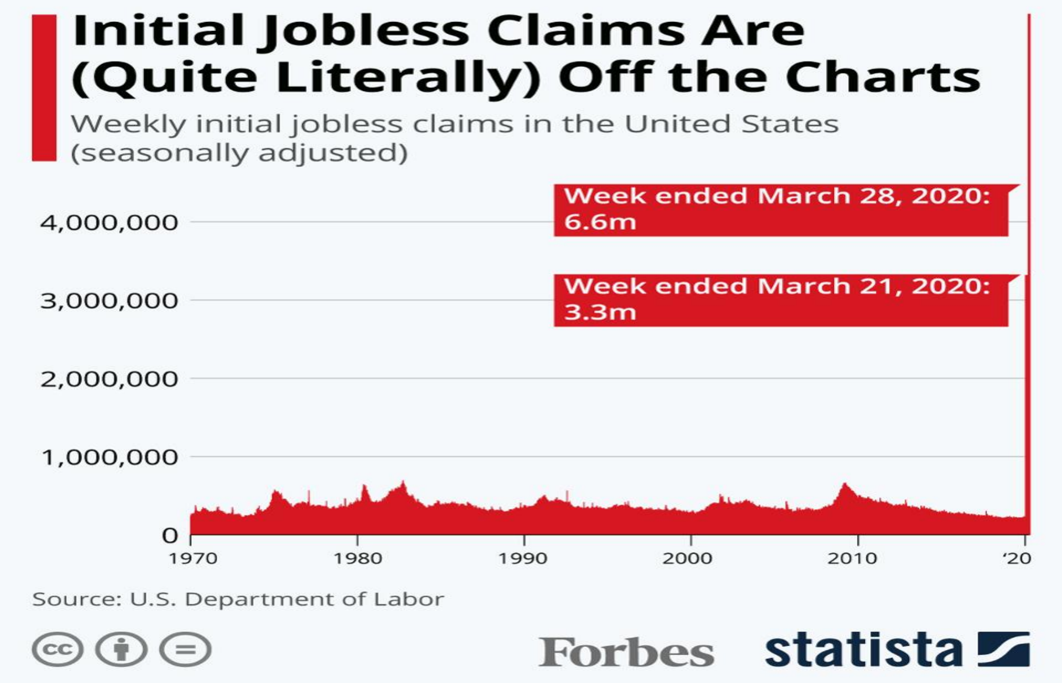
Chart 1. Current and Future General Activity Indexes
January 2008 to March 2020



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

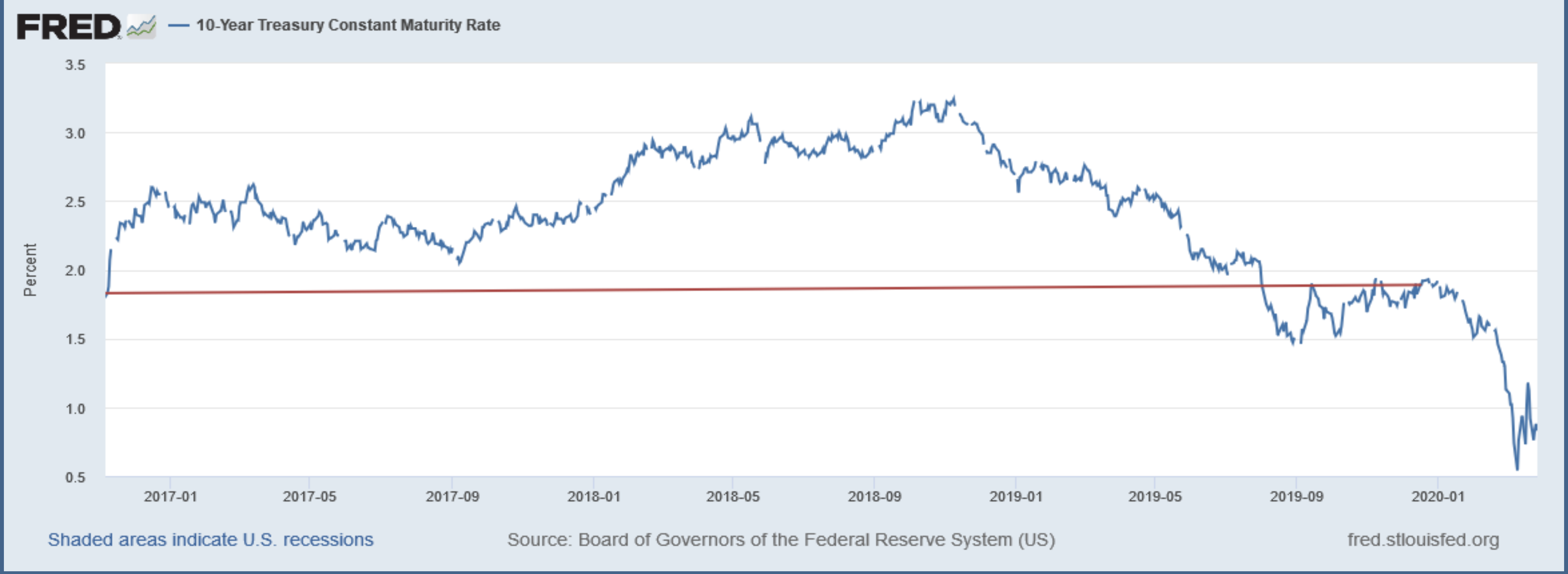
SOURCE: Philadelphia Fed

And, the global stoppage related to COVID-19 has induced a record breaking increase in unemployment with over 10 million initial unemployment claims in the US the past two weeks.



SOURCE: Forbes

However historically low interest rates and concerted global fiscal and monetary responses will kick-in and once the COVID-19 alarm abates we should see a strong response perhaps as soon as the 2H 2020.



SOURCE: St. Louis Fed

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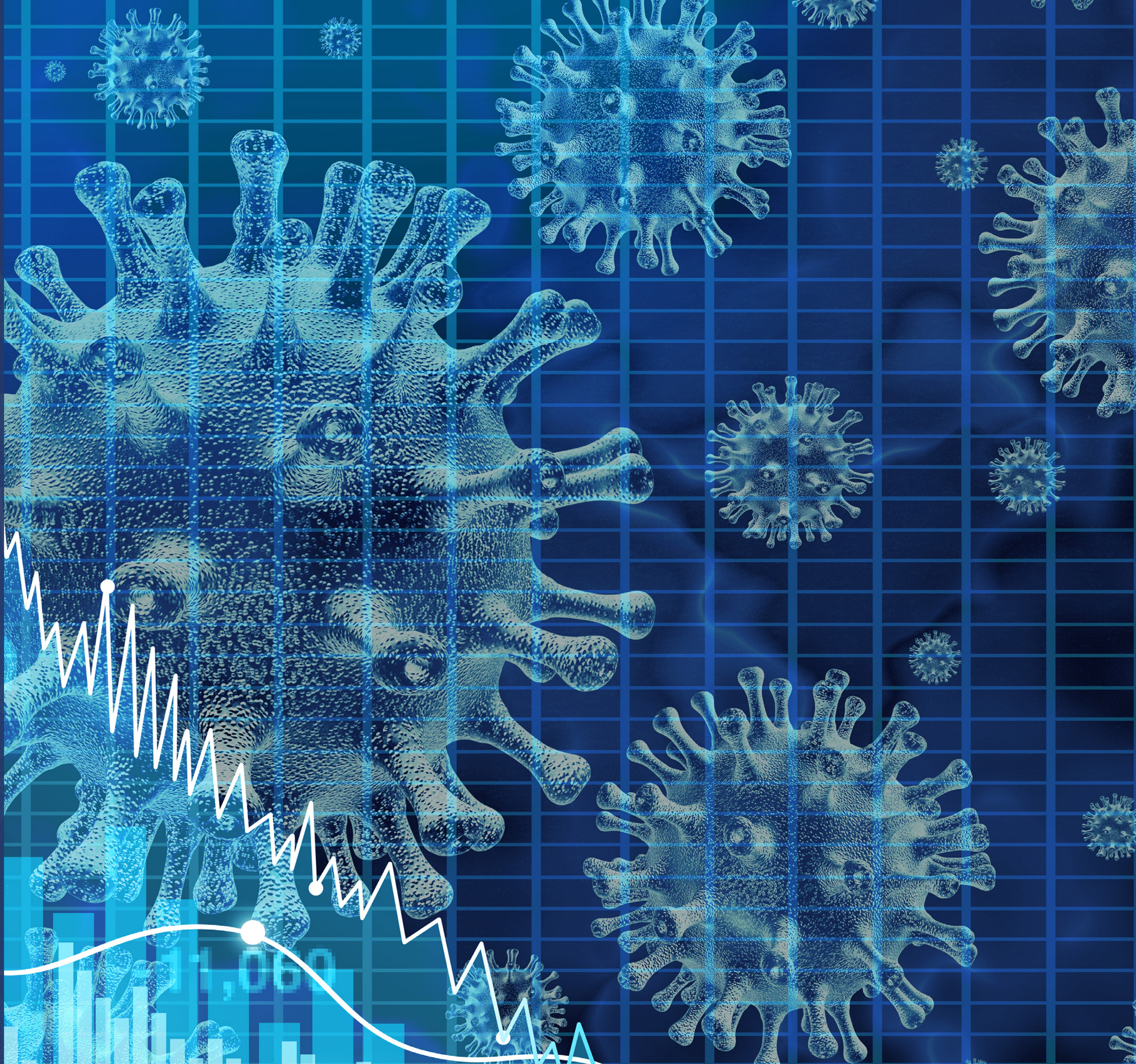
SPRING 2020 MACRO OUTLOOK

COVID-19

We are seeing increasing evidence, however, that we are able to chart the cycle of COVID-19 and it appears the window of peak contraction is 3-5 months.

At minimum, the global monetary and fiscal response will ultimately slow the pace of COVID-19's economic destruction.



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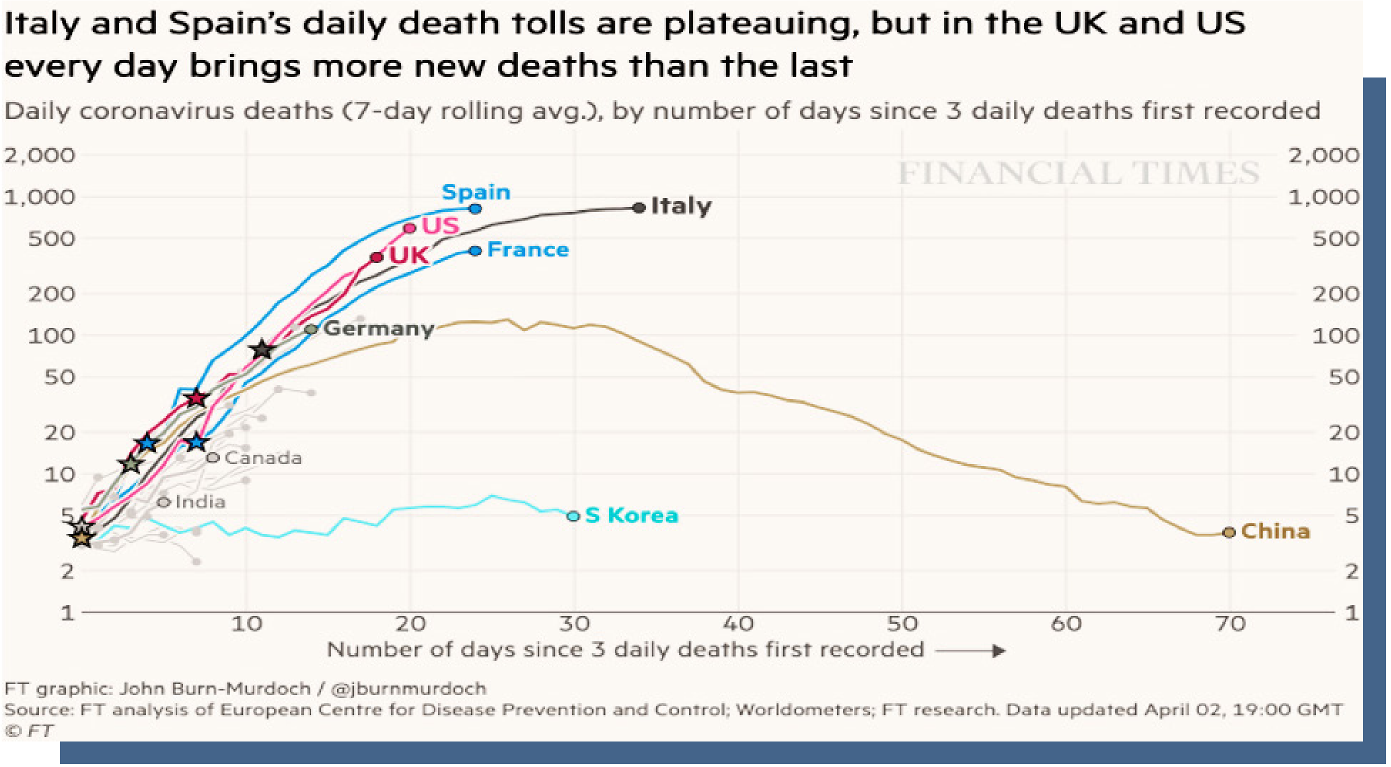
that we are able to chart the cycle of COVID-19 and it appears the window of peak contraction is 3-5 months.

Even Italy appears to have turned the corner. Next is the US.



SOURCE: Financial Times

We continue to expect extreme near term volatility,

but a gradual return to normal conditions once the cycle of COVID-19 is known with more certainty.

SOURCE: St. Louis Fed

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Global Monetary Response

- The US Fed has taken multiple steps including two rate cuts, implementing quantitative easing, buying residential and commercial mortgage backed loans, buying commercial paper and eliminating bank reserve requirements
- The UK has implemented 4 emergency stimulus packages totaling 65.5 billion Pounds
- China's Central Bank has taken several monetary stimulus measures including expanding reverse repo operations, lowering lending rates and lowering bank reserve requirements
- The European Central Bank will purchase $800 billion of bonds in 2020 through its PEPP, it has lowered capital requirements and cut rates
- The Reserve Bank of Australia has lowered interest rates, announced bond purchases, and started a repo operation.

Global Fiscal Response

- The UK is perhaps the most aggressive nation having announced 4 emergency stimulus packages that include cash grants, $379 billion in business loan guarantees, $1.2 billion in rent support, deferred taxes and $95 billion of grants to cover 80% or workers' salaries
- Germany announced $610 billion in lending, $170 billion increased spending and is contemplating another 300 billion Euro relief package for its citizens
- The US has implemented 3 phases of fiscal stimulus culminating in the $2 trillion Phase Three package signed into law by President Trump March 31st.
- France is opening over $300 billion in business loans and nearly $50 billion in relief spending
- Australia has announced 2 stimulus packages totaling $65 billon.

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