

# The COVID-19 Crisis: A Comparison of Global Responses Implications for Economies & Financial Markets



**Webinar**  
June 3, 2020



NATIONAL INSTITUTE ON  
**Retirement Security**

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# Agenda



1. Logistics & Speaker Introductions
2. Baillie Gifford Presentation
3. Q&A



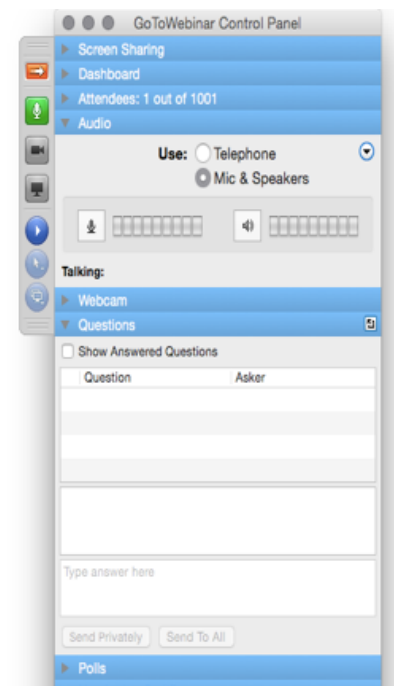
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Webinar replay and slides will be posted at <https://www.nirsonline.org/events>.



# Speakers



**Dan Doonan**  
Executive Director at NIRS



**Scott Lothian**  
Investment Manager at BG



**James Carver**  
Investment Manager at BG





# BAILLIE GIFFORD - NIRS WEBINAR

*COVID-19 AND LEARNINGS FROM OTHER COUNTRIES' RESPONSES*



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# Agenda

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## **Covid update**

- What can we learn from other countries COVID-19 pandemic profiles?

## **Timings of restriction ending**

- Importance of government strategy, new treatments and a vaccine.

## **Economies**

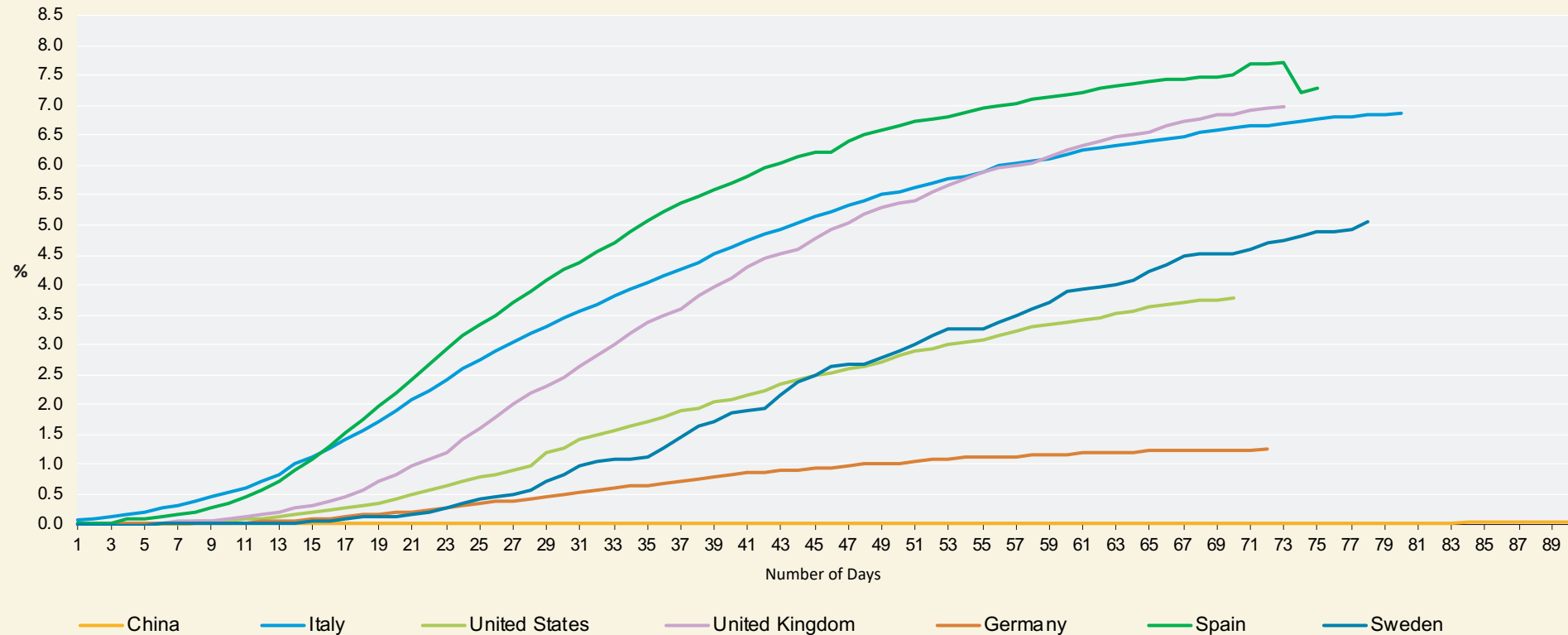
- What is the current economic situation and what is the outlook?

## **Asset allocation impact**

- The market views relevant for pension funds

# Coronavirus – The Hammer

Cases as % of Population (Estimated from Deaths) from First Day of Lockdown

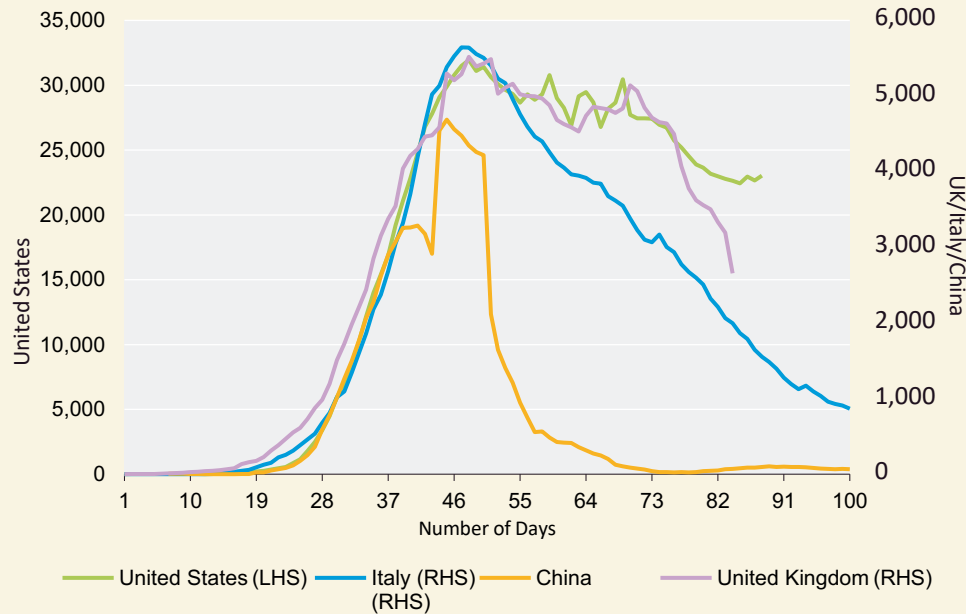


Source: Macrobond. Data showing 90 days from January 25, 2020.

- Stringency less important than timing
- Test, Track and Trace strategies
- Culture, Demography and Health

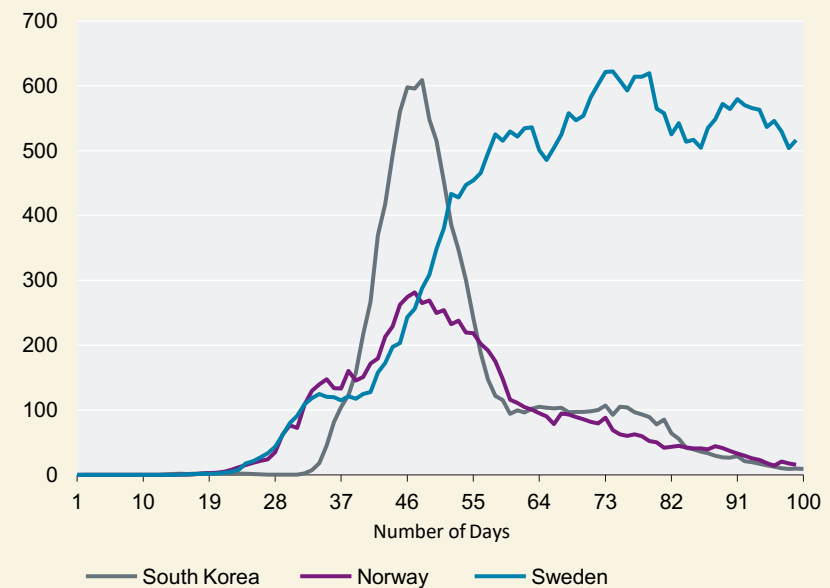
# Coronavirus – The Dance

## COVID-19 New Daily Cases (Large Countries)



Source: Macrobond. Data from January 1, 2020.

## COVID-19 New Daily Cases (Smaller Countries)



Source: Macrobond. Data from January 1, 2020.

## Scale of lockdown

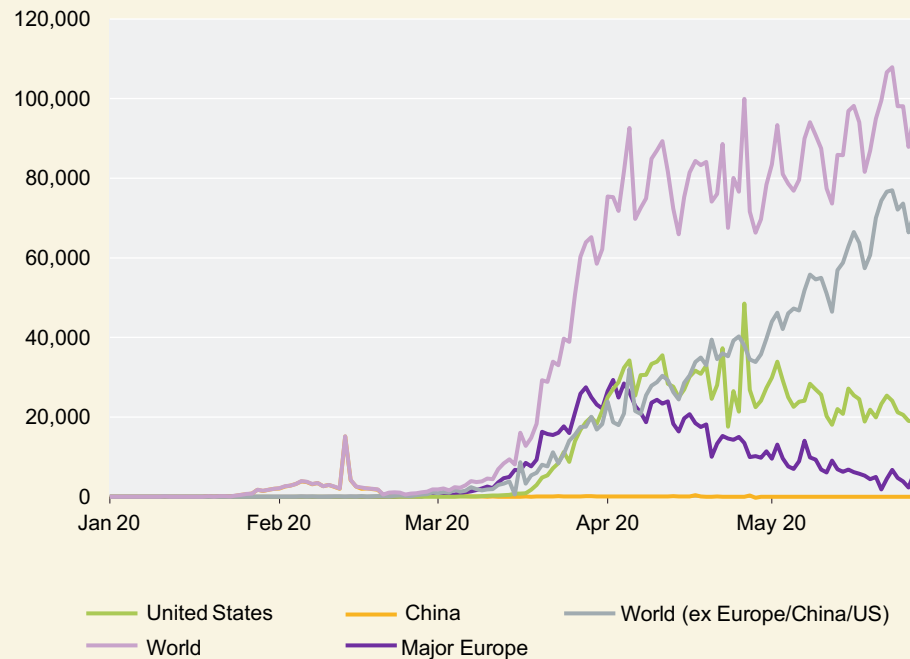
— Stringency of lockdown matters for decline rate

## Government strategy

— “Elimination” vs “herd immunity” vs the economy

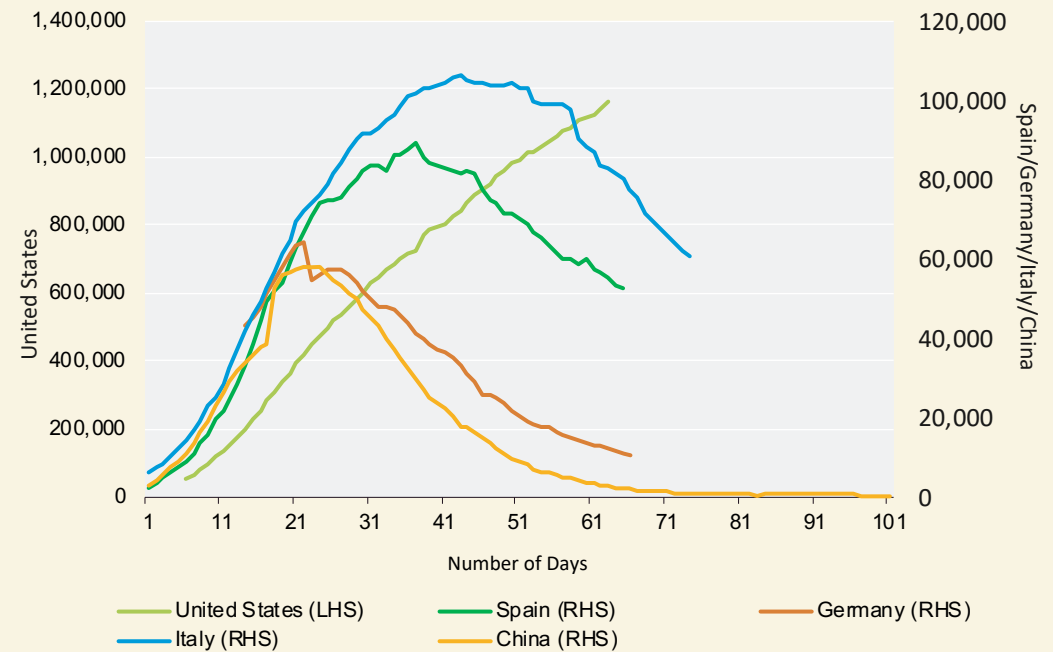
# Coronavirus – So Where Are We Now?

## COVID-19 New Daily Confirmed Cases



Source: Macrobond. Data from January 1, 2020 to May 27, 2020.

## Total Active Cases from Start of Lockdown

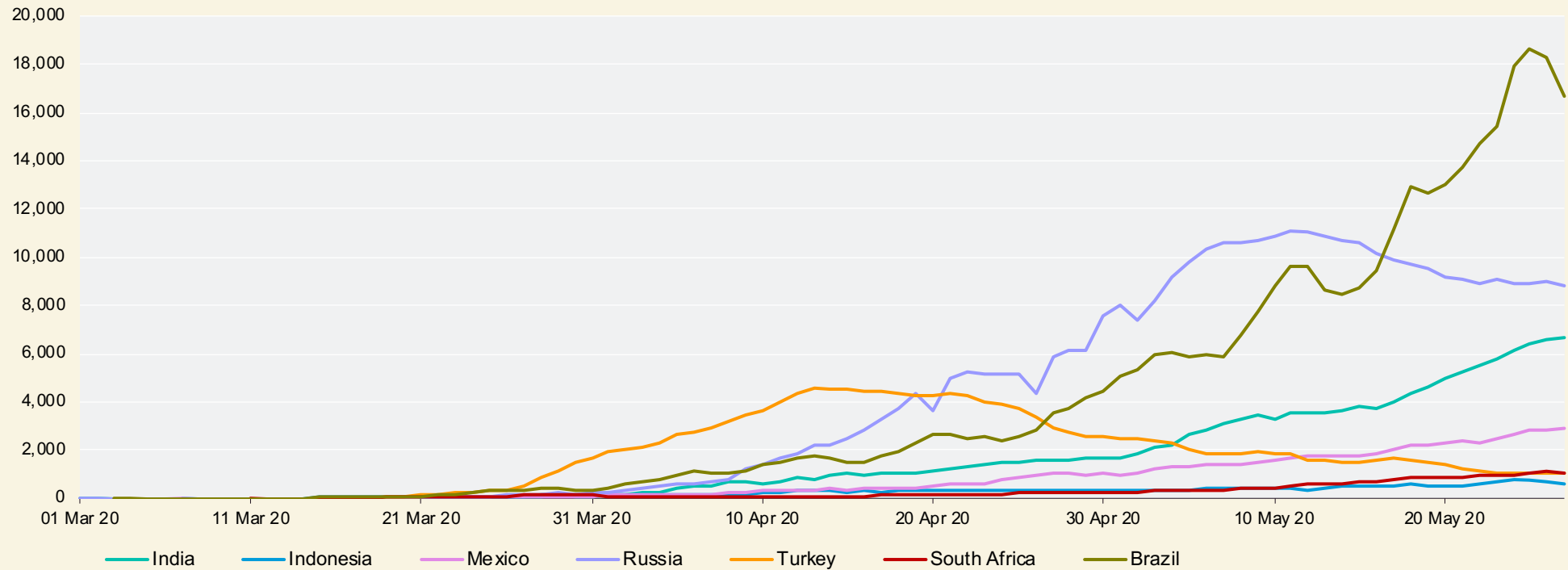


Source: Macrobond. Data from January 25, 2020.

— The bigger the peak, the less stringent the restrictions, the longer the dance

# Coronavirus – Emerging Markets

COVID-19 New Daily Cases (5-day ma\*)



Source: Macrobond. Data from March 1, 2020 to May 27, 2020.  
\*Moving average.

Successful elimination in some countries

Europe cautiously re-opening

US re-opening relatively early

New outbreak clusters across Asia

Emerging Markets now the epicenter



# Virus Treatments and Vaccines

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## Treatments

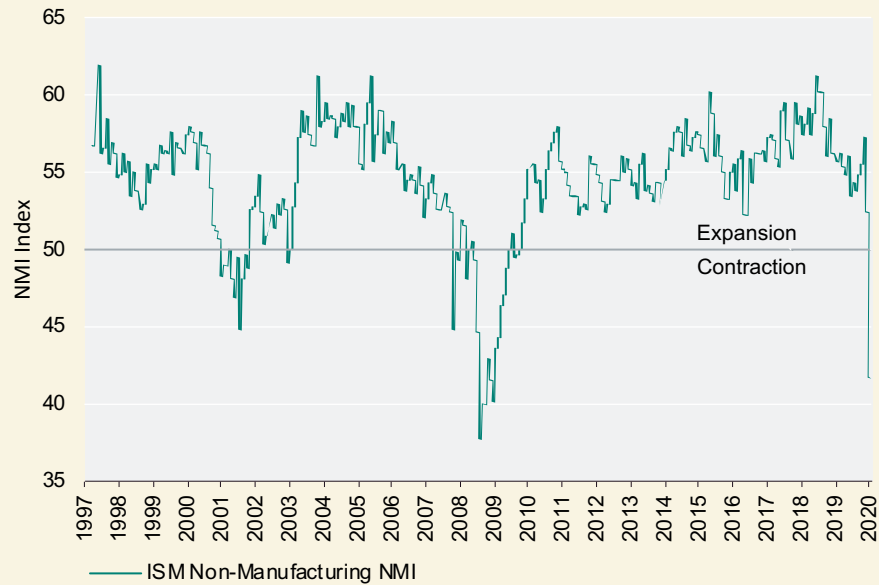
- Remdesivir: Not a game changer
  - Mortality rates dropped from 11% to 8%
  - Recovery time from 15 days to 11 days
- Hydroxychloroquine: Non-conclusive evidence to date
  - Potential hazardous effects
- Many trials ongoing

## Vaccines

- Previous record 7 months (Zika virus)
  - First possible vaccine administered in just 2 months
  - Trials now required
- Operation 'Warp Speed'
  - Aims for 100m doses by year end
- Moderna
  - Initial trials positive
  - Phase 3 trials starting in July
- Oxford University
  - Initial trial results likely in June
  - Phase 3 trials starting end May
  - Target is September mass production

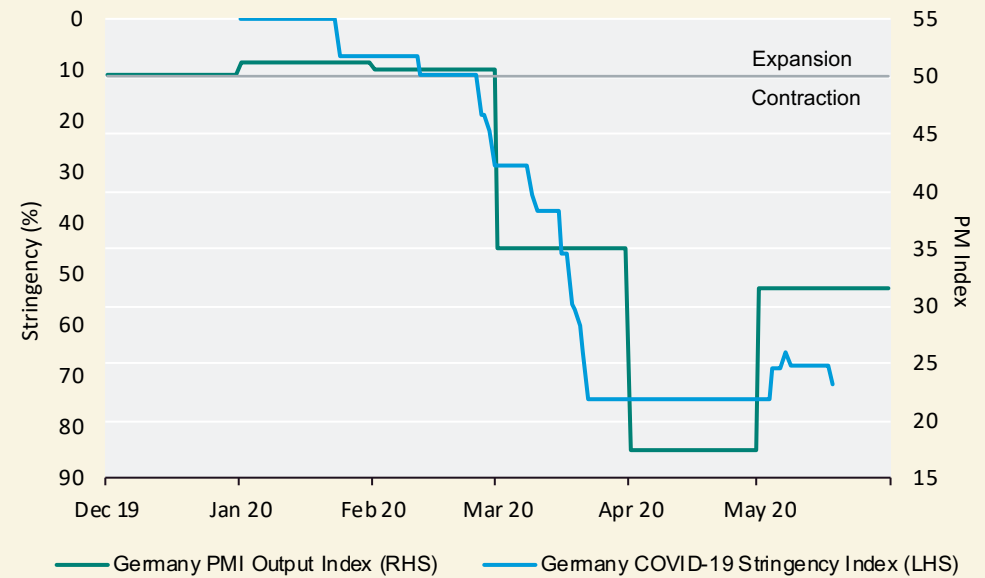
# Lockdowns and Economic Armageddon

## US Growth



Source: Macrobond. As of April 30, 2020.

## Germany

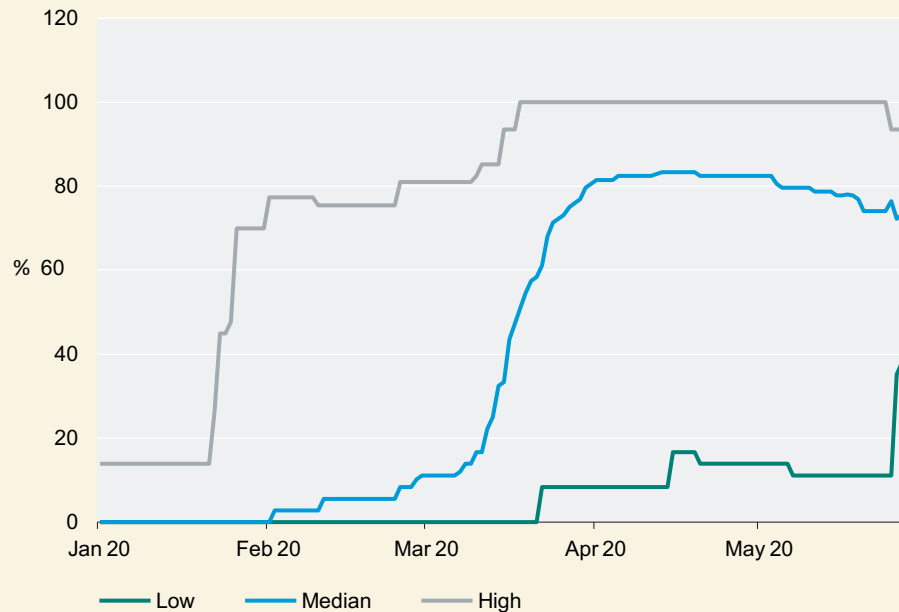


Source: Macrobond. Data from December 1, 2019 to May 31, 2020.

- Global recession caused by lockdown policies
- Government strategy – Elimination Vs Herd immunity

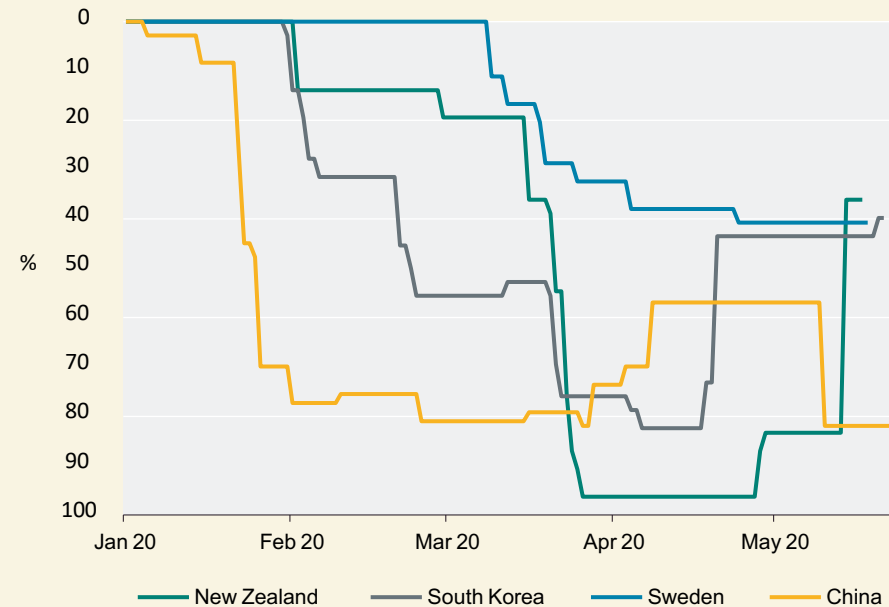
# Lockdowns Starting to End... Slowly and Unevenly

## COVID-19 Stringency Indices



Source: Macrobond. Data from January 1, 2020 to May 27, 2020.

## COVID-19 Stringency Index



Source: Macrobond. Data from January 1, 2020 to May 23, 2020.

- What is the new normal?
- Massive government response to avoid vicious cycles
- Uncertainty over second round effects

# Government Responses – Keeping the Consumer Alive

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## Responses

### — Germany

- Kurzarbeit scheme pays 60% of net salaries, currently for 12 months
- Generous wage restriction at €6,500 for Western Germany

### — United Kingdom

- Furlough scheme pays 80% of wages until October
- Wage restriction at £2,500

### — United States

- Payment Protection Program - companies apply for forgivable loans up to 2.5 months of wages
- Also extended unemployment insurance from 6 months to 9 months

Sources: Federal Ministry of Labour and Social Affairs, Globalization Partnerships, The Guardian, Patriot and Investopedia.

## Unknown: Will it work?

# Central Bank Responses – Limiting Financial Contagion



RESPONSES		
US	UK	EUROPE
10% GDP QE	11% GDP QE	5% GDP QE
6% levered lending programs	4% levered lending programs	0% levered lending programs
9% fiscal spending*	5% fiscal spending*	10% fiscal spending <sup>†*</sup>

Source: Bruegel. Quantitative easing and levered lending program figures are based on Baillie Gifford estimates.

<sup>†</sup>Based on Germany's fiscal spending. \*As at May 25, 2020.

**Unknown: it looks enough, but what will it deliver?**

# Economic Expectations

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## Knowns

- Massive recession
- Huge fiscal support
- Very easy central bank policy
- Clusters likely until vaccine (minimum Q4)

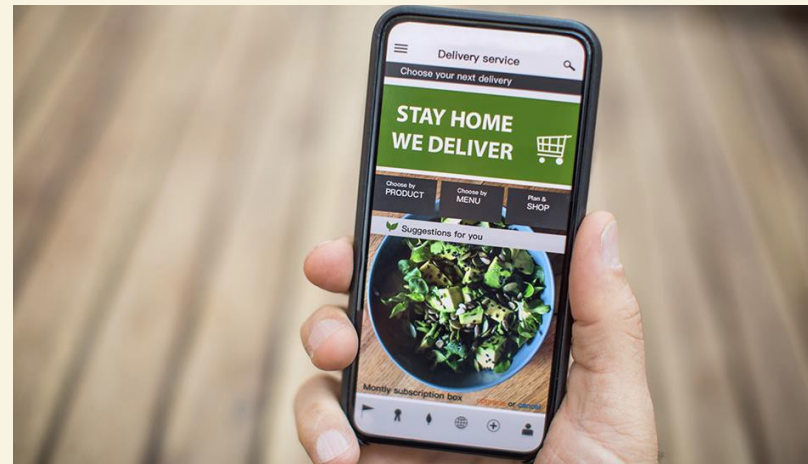
## Unknowns

- How the virus responds to easing of restrictions?
- How will government strategies evolve
  - V, L, U or W
- Vaccine timing (Q4 or later?)
- How to pay or not pay for a 3m global holiday?
- New normal
  - Travel
  - Globalization
  - Supply chains

# From Infecting... To Investing



Image source: ©NurPhoto/Getty Images





# The Investment Opportunity Set

## EQUITIES

### Listed Equities

- Global
- Regional



## DEBT

### High Yield Credit

- High yield bonds
- Senior loans

### Investment Grade Bonds

### Structured Finance

- Senior
- Mezzanine

### Emerging Market Bonds

- Local currency
- Hard currency

### Developed Market Government Bonds



## REAL ASSETS

Liquid exposure to:

### Infrastructure

- PPP
- Renewables
- Utilities

### Real Estate

- Regional and sector REITs

### Commodities

- Individually selected positions



## PROTECTIVE POSITIONS

### Absolute Return

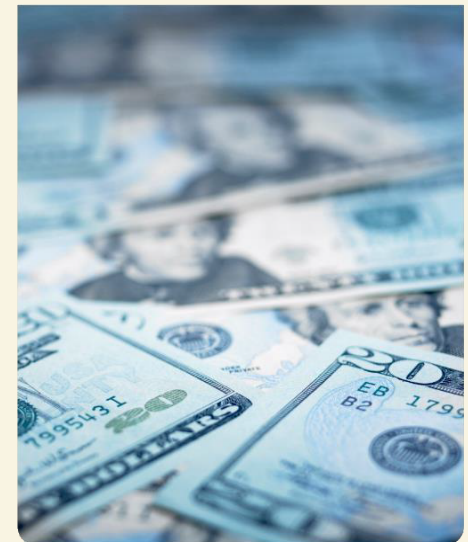
- Uncorrelated strategies

### Active Currency

- Return seeking
- Hedge

### Cash

### Gold



# The Spectrum of Opportunity

## EQUITIES

Opportunities

**Tech**

Threats

**Value**



## DEBT

Opportunities

**Breakeven Inflation**

Threats

**EM Bonds**



## REAL ASSETS

Opportunities

**Renewables**

Threats

**Retail Real Estate**



## PROTECTIVE POSITIONS

Opportunities

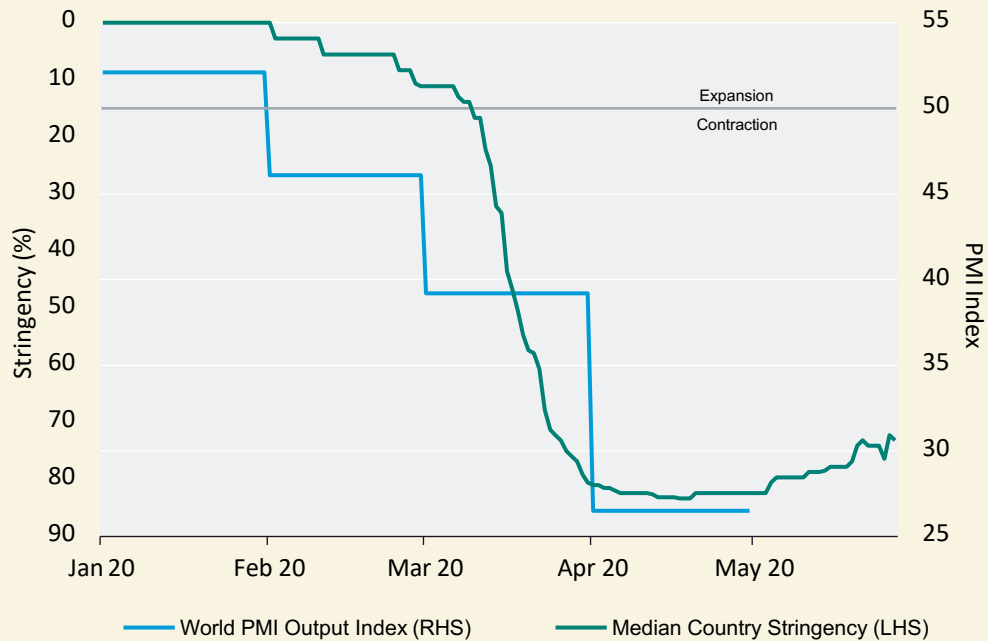
**Gold**





# Uncertainty Brings Opportunities

**Stringency vs Global PMI**



Source: Macrobond. Data from January 1, 2020 to May 27, 2020.

EQUITIES	CREDIT	REAL ASSETS	PROTECTIVE POSITIONS
<b>Listed Equities</b> — Global — Regional	<b>High Yield Credit</b> — High yield bonds — Senior loans	Liquid exposure to: <b>Infrastructure</b> — PPP — Renewables — Utilities	<b>Absolute Return</b> — Uncorrelated strategies
	<b>Investment Grade Bonds</b>  <b>Structured Finance</b> — Senior — Mezzanine	<b>Real Estate</b> — Regional and sector REITs	<b>Active Currency</b> — Return seeking — Hedge
	<b>Emerging Market Bonds</b> — Local currency — Hard currency	<b>Commodities</b> — Individually selected positions	<b>Cash</b>
	<b>Developed Market Government Bonds</b>  		<b>Gold</b>
			<b>Index-Linked Bonds</b>  

**The widest spectrum of opportunities ever?**  
**Outcomes remain uncertain**  
**Think broadly and allocate specifically**

# Q&A

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## **Scott Lothian**

Scott joined Baillie Gifford in 2015 and is an Investment Manager in the Multi Asset Team. Prior to joining Baillie Gifford, he worked for Schrodgers in London, BEA Union in Hong Kong and Towers Watson. Scott graduated BSc in Actuarial Mathematics and Statistics from Heriot-Watt University in 1999. He is a Fellow of the Institute and Faculty of Actuaries.



## **James Carver**

James joined Baillie Gifford in 2018 and is an Investment Manager in the Income Research Team. He began his career with Deutsche Asset Management and spent 10 years working across emerging market debt, global macro and asset allocation before moving to Scottish Widows to run their Absolute Return bond fund. James is a CFA Charterholder, graduated MSc (Hons) in Earth Sciences from the University of Oxford in 2001 and later completed an MBA at the University of Edinburgh.

# Questions

