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

Webinar
June 3, 2020
Agenda

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

Attendees in listen only mode.

Questions welcome. Type question using “Question” function on control panel, and we will answer.

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

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COVID-19 AND LEARNINGS FROM OTHER COUNTRIES’ RESPONSES
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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

**Scale of lockdown**
- Stringency of lockdown matters for decline rate

**Government strategy**
- “Elimination” vs “herd immunity” vs the economy

Source: Macrobond. Data from January 1, 2020.
Coronavirus – So Where Are We Now?

COVID-19 New Daily Confirmed Cases

Total Active Cases from Start of Lockdown

The bigger the peak, the less stringent the restrictions, the longer the dance
Coronavirus – Emerging Markets

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

*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

**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

Global recession caused by lockdown policies

Government strategy – Elimination Vs Herd immunity


Lockdowns Starting to End... Slowly and Unevenly

COVID-19 Stringency Indices


— What is the new normal?
— Massive government response to avoid vicious cycles
— Uncertainty over second round effects
Government Responses – Keeping the Consumer Alive

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


Unknown: Will it work?
Central Bank Responses – Limiting Financial Contagion

- Pandemic causes tighter financial conditions
- Companies/households reduce spending
- Corporates lay off workers
- Recession

**RESPONSES**

**US**
- 10% GDP QE
- 6% levered lending programs
- 9% fiscal spending*

**UK**
- 11% GDP QE
- 4% levered lending programs
- 5% fiscal spending*

**EUROPE**
- 5% GDP QE
- 0% levered lending programs
- 10% fiscal spending†*

Source: Bruegel. Quantitative easing and levered lending program figures are based on Baillie Gifford estimates.
†Based on Germany’s fiscal spending. *As at May 25, 2020.

Unknown: it looks enough, but what will it deliver?
# Economic Expectations

## 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
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
  - Value

DEBT
- Opportunities
  - Breakeven Inflation
  - EM Bonds

REAL ASSETS
- Opportunities
  - Renewables
  - Retail Real Estate

PROTECTIVE POSITIONS
- Opportunities
  - Gold

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Uncertainty Brings Opportunities

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

Stringency vs Global PMI


BP. Germany, FB. France, DI. Denmark, GI. Greece, NL. Netherlands, UK. United Kingdom, I. Ireland, FN. Finland, FI. Sweden, IG. Italy, IE. Iceland, FR. France, ES. Spain, PT. Portugal, GR. Greece, D. Germany, NL. Netherlands, UK. United Kingdom.
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 Schroders 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