BARINGS INVESTMENT INSTITUTE

May 2020

A Liquidity Bridge to Nowhere?

MONTHLY MACRO DASHBOARD

BARINGS

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Outlook Summary

Supply is rapidly coming back, although with large differentiation across industries. What remains unclear is the strength of demand recovery. There will be a recovery, but it will also include a significant **reshaping of key sectors**, with far brighter prospects for technology and health care and far deeper damage in travel and leisure. **Equity markets are pricing in the current recovery** and the early signs show that data is picking up quickly in some areas. In Asia, this reflects mainly **real rebounds in China**, while in the U.S. and Europe it may still depend more on the strength of the government fiscal and monetary support. **Risk assets may have farther to run this year**, especially against the prospect that bond yields will remain low, but they may face challenges as the uncertainties of next year come into view.

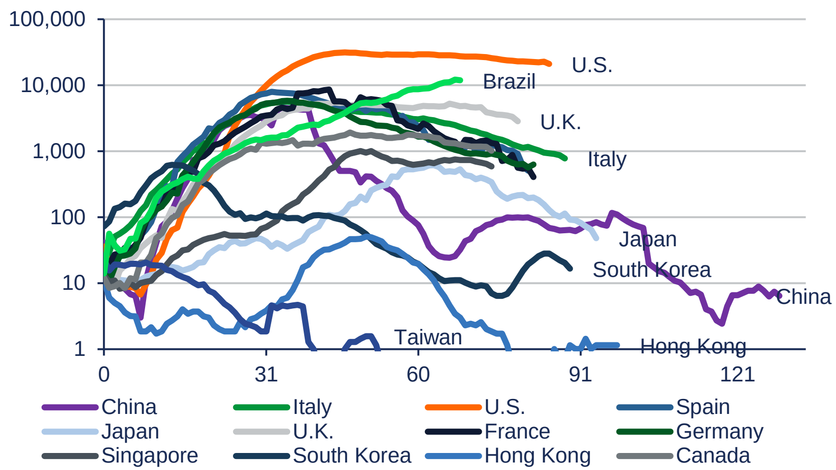
Flash PMIs and high frequency data showed **some signs of improvement in May but remain at very depressed levels with broad-based weakness**. While there is hope for a strong recovery as restrictions ease, weak consumer confidence and a slow recovery in the labor market will keep the return of demand and spending—particularly in consumer-facing and leisure industries—measured, and therefore the road to recovery longer. **The housing market is a bright spot on the near-term outlook,** having entered the crisis on good footing; pent-up demand, limited inventories, and low mortgage rates position it well for a modest rebound as restrictions ease. As risk markets continue their march higher amid extraordinary Fed liquidity and look towards 2021 with much optimism, **risks remain whether short-term liquidity risks evolve into longer-term solvency issues**, especially amid elevated corporate leverage and a default cycle that is just beginning.

As everywhere, **the damage inflicted by the pandemic on Europe is showing up to be even bigger than expected a month ago**, and the final bill is still very much up in the air. Lockdowns are being relaxed (sporadically and slowly) and economic activity is coming back to life in a very slow and uncertain manner. However, **just as unprecedented as the shock, so too was authorities' response**: fiscal and monetary policies are ensuring liquidity is maintained. Markets understand there is a lender of last resort in the EU (the ECB) and budget rules are being lifted, so the house is keeping up. But **what lies ahead?** For that we need to understand the scars left by this shock into the social and economic fabric of the continent. It seems still **too early to see that**.

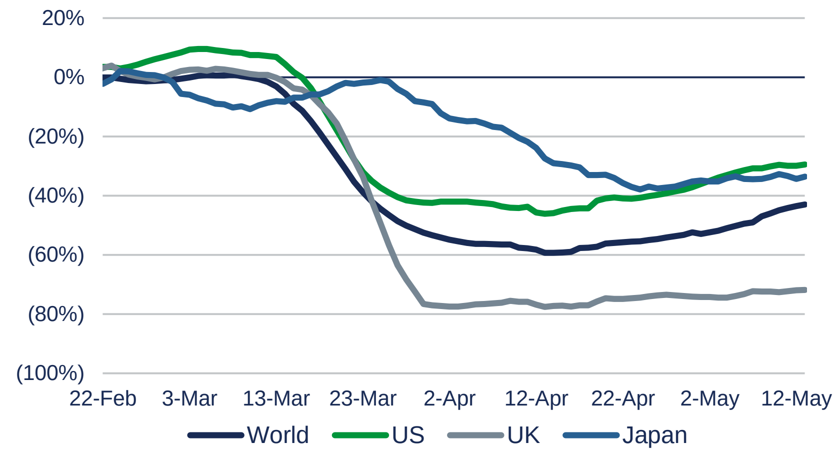
China's economy is on the road to recovery, though the path differs by sector. **The manufacturing sector and return to office is recovering first, followed by the service sector, with leisure and travel lagging behind.** Until a vaccine for COVID-19 is widely available, this differentiation by industry will likely hold true for other countries around the globe. **While China leads, Japan lags.** A state of emergency in Japan wasn't implemented until mid-April and continued through late-May. This means China's economic data is showing recovery, and the worst is yet to come for Japan's hard economic data. Weak global demand will weigh on Japan's recovery as restrictions ease due to the export-reliant nature of the economy. While liquidity risks have abated thanks to the influx of central bank liquidity, **a strong U.S. dollar remains a headwind for growth prospects overall**, especially as global debt continues to rise and much of it is denominated in dollars.

The Long And Winding Road Down The Great Re-Opening

DAILY NEW COVID-19 CASES (7D MOVING AVG)



GOOGLE MOBILITY - RETAIL (7D AVG)



Many countries appear to be past the peak of daily new COVID-19 infections and as such have been moving slowly to reopen their economies. The curve appears to have been flattened in several Asian economies, but the trend is much less pronounced for economies like the U.S. or the U.K. Both countries have seen the trend of new cases level off, however, and recently have started to decline somewhat. As the focus of health officials globally turns to a gradual reopening, risks remain whether additional waves of new infections emerge, not unlike those experienced in China, Hong Kong or South Korea, which have materialized in a seemingly "lumpy," albeit still declining, new case trend.

Following the most severe global economic contraction since WWII, the recovery will be differentiated by region. Similar to the path of the virus and the easing of restrictions, China will lead the way on the road to recovery, followed by various U.S. states, countries in Europe, and finally Japan. China serves as a good indicator of how various sectors will recover. While manufacturing bounced back as restrictions eased, recovery of services and leisure lagged. This will likely hold true in other countries, and the return to consumer-facing services, leisure and travel won't fully happen until a vaccine is widely available and consumer confidence makes a meaningful and sustained recovery.

Source: IMF, Bloomberg and Factset. As of 05/26/2020.

OUTLOOK

Supply is rapidly coming back, although with large differentiation across industries. What remains unclear is the strength of demand recovery. There will be a recovery, but it will also include a significant **reshaping of key sectors**, with far brighter prospects for technology and health care and far deeper damage in travel and leisure. **Equity markets are pricing in the current recovery** and the early signs show that data is picking up quickly in some areas. In Asia, this reflects mainly **real rebounds in China**, while in the U.S. and Europe it may still depend more on the strength of the government fiscal and monetary support. **Risk assets may have farther to run this year**, especially against the prospect that bond yields will remain low, but they may face challenges as the uncertainties of next year come into view.

Economic Activity	2016	2017	2018	2019	2020 (E)	2021 (E)
Real GDP (Y/Y %)	3.4	3.9	3.6	2.9	-3.0 ▼	4.9 ▲
CPI (Y/Y %)	2.8	3.2	3.6	3.6	2.3 ▼	2.5 ▼
Trade Volume (Y/Y%)	2.3	5.7	3.7	1.0	2.9 --	3.7 --
Inter-Bank Rates						
3-Month USD Libor	1.00	1.69	2.81	1.91	0.47 ▼	0.68 ▼
3-Month Euribor	-0.32	-0.33	-0.31	-0.39	-0.41 ▲	-0.40 ▲
3-Month GBP Libor	0.37	0.52	0.91	0.79	0.24 ▼	0.27 ▼
3-Month JPY Libor	-0.05	-0.02	-0.07	-0.05	-0.08 --	-0.05 ▲

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg and IMF as of 05/27/2020. (E)—Bloomberg private market consensus estimates for GDP, CPI and rates. Full-year 2019 trade volume data is a projected figure from the IMF.

CENTRAL BANKS continue to be accommodative but markets increasingly focus on the possibility of further negative rates.

Economy	Policy Rate (%)	Next CB Meeting	Implied Policy Rate (%) 3M	6M	1Y
U.S.	0.13	06/10/20	0.13	0.11	0.09
Eurozone	-0.50	06/04/20	-0.52	-0.54	-0.54
U.K.	0.10	06/18/20	0.08	0.05	0.04
Japan	-0.06	06/16/20	-0.08	-0.10	-0.12
China	2.20	—	1.87	2.03	2.00

- The **FOMC** has kept its accommodative bias, especially as more of its liquidity facilities have become operational. While its current operational toolbox appears adequate for now, some officials have discussed the possibility of outcome-based forward guidance and yield curve control. Negative rates continue to be a non-starter.
- Despite the ruling from Germany's top court on the legality of QE, the **ECB** has reiterated its full commitment to its inflation mandate and supporting the region while maintaining its easing bias.
- The **BoE** held its benchmark rate steady at the lower bound and voted to increase its asset purchase program. Officials also signaled that further QE may be implemented in June and that negative rates are not ruled out.
- The **BOJ** has maintained its easing bias and announced a new lending program worth ¥75 trillion beginning in June. Both the BOJ and central government have reiterated they are determined to not allow deflation.
- The **PBOC** has remained accommodative with bank lending rates close to all-time lows and credit growth topping expectations.

UPSIDE/DOWNSIDE RISKS TO THE OUTLOOK

Upside	Downside
Early containment of virus	Disappointment with the scale of policy support
Faster return to normal consumer activity	Intensification of trade war

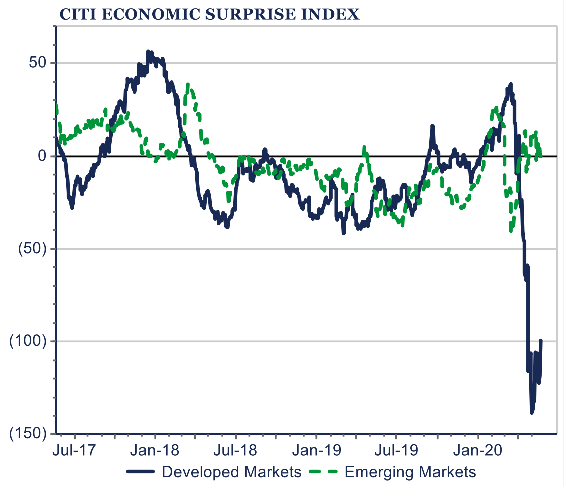
Source: Bloomberg and Factset. As of 05/27/2020.

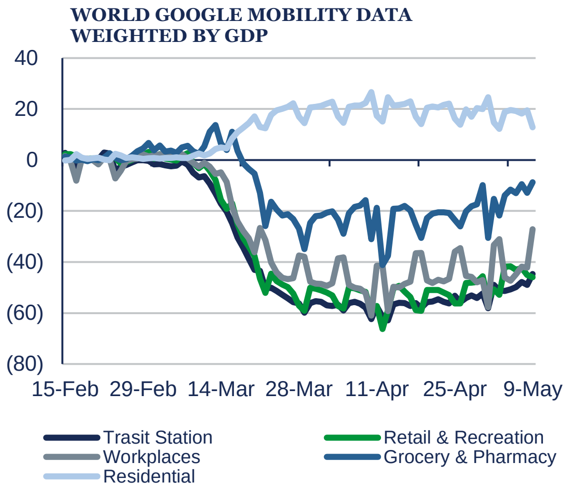
Global

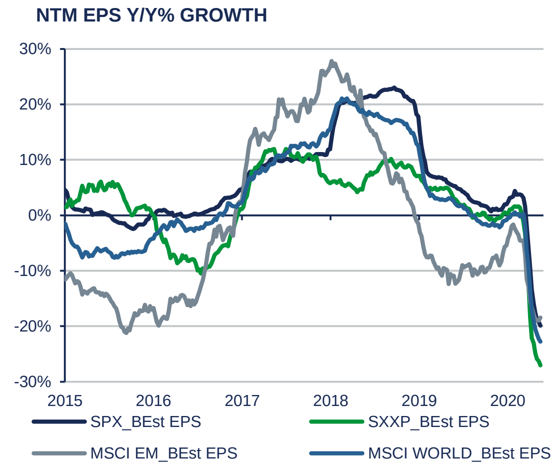
ECONOMIC DATA continues to surprise to the downside across the globe, leading to even weaker growth forecasts.

The road to RECOVERY will be differentiated by sector and lead to lasting changes in key sectors.

EARNINGS EXPECTATIONS down notably, but hopes of a V-shaped recovery in 2021 have sustained risk assets.







- Economic data has come in worse than expected in April and May across developed economies, leading economic forecasters to lower growth expectations for 2020.
- While 2Q20 will be devastating, as restrictions ease, a rebound—to varying degrees by geography and sector—is expected in 2H2020 and 2021.
- The road to recovery will vary by regions, as the restrictions are lifted on different timelines. While China is a leader, Japan lags and Europe and the U.S. fall in between.

- The recovery will differ by sector. While manufacturing and a return to office will likely be first—as seen in China—the return to services will lag, and a recovery in travel and hospitality will be last.
- The magnitude and length of the recovery depends on successful containment of the virus, the ability of companies to weather the downturn, and the rebound in consumer confidence and spending.
- There will also likely be lasting changes in key sectors such as tech, retail, and health care, as lockdowns expedite shifts to online.

- Unsurprisingly, given the current zero-revenue environment amid the global lockdown, earnings expectations for the next 12 months have dropped significantly.
- Looking ahead to 2021, market participants are expecting a 25-30% Y/Y near V-shaped rebound in earnings. This optimism, together with extraordinary monetary policy liquidity, may be keeping a bid underneath risk assets.
- There are risks, however, that these lofty expectations won't be met, especially if the economic backdrop does not improve meaningfully in coming months.

Source: Bloomberg, Factset, and Google. As of 05/27/2020.

OUTLOOK

Flash PMIs and high frequency data showed **some signs of improvement in May but remain at very depressed levels with broad-based weakness**. While there is hope for a strong recovery as restrictions ease, weak consumer confidence and a slow recovery in the labor market will keep the return of demand and spending—particularly in consumer-facing and leisure industries—measured, and therefore the road to recovery longer. **The housing market is a bright spot on the near-term outlook,** having entered the crisis on good footing. Pent-up demand, limited inventories and low mortgage rates position it well for a modest rebound as restrictions ease. As risk markets continue their march higher amid extraordinary Fed liquidity and look towards 2021 with much optimism, **risks remain whether short-term liquidity risks evolve into longer-term solvency issues**, especially amid elevated corporate leverage and a default cycle that is just beginning.

Economic Growth	05/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
Real GDP (Y/Y %)	0.3	2.4	2.9	2.3	-5.7 ▼	3.9 ▲
Inflation						
CPI (Y/Y %)	0.3	2.1	2.5	1.8	0.8 ▼	1.7 --
Core PCE (Y/Y %)	1.7	1.6	2.0	1.6	1.3 ▼	1.3 ▼
Labor Market						
Unemployment (%)	14.7	4.3	3.9	3.7	11.0 ▲	8.1 ▲
Rates						
Fed Funds	0.13	1.38	2.38	1.63	0.25 ▼	0.40 ▼
2Y Treasury	0.17	1.89	2.52	1.57	0.36 ▼	0.69 ▼
10Y Treasury	0.67	2.41	2.72	1.92	0.88 ▼	1.28 ▼

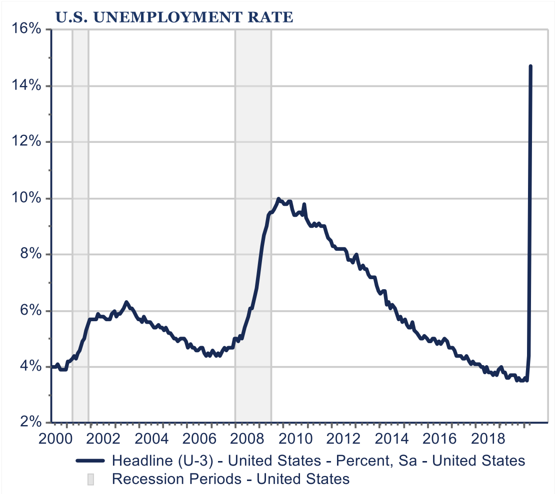
Arrows indicate consensus estimate change compared to one month ago

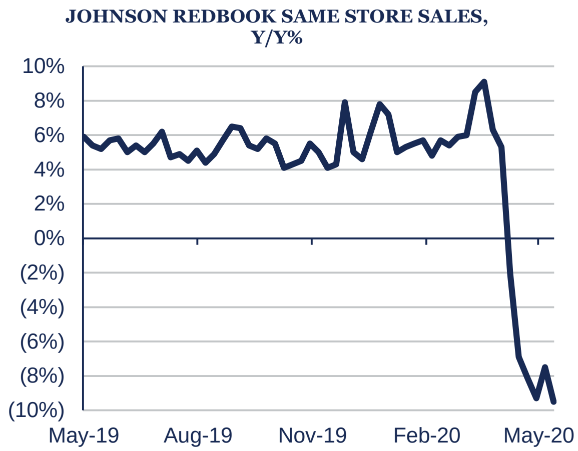
Source: Bloomberg and IMF as of 05/27/2020. (E)—Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.

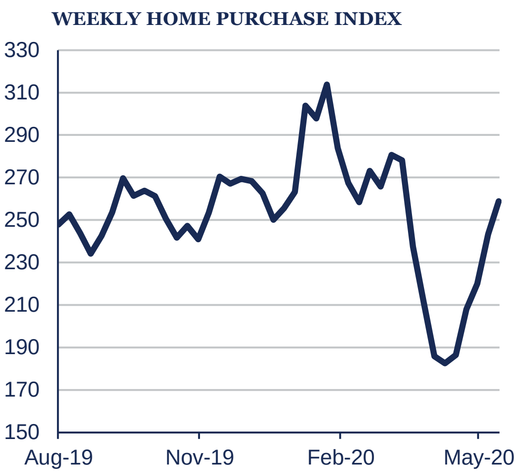
LABOR MARKET pain is broad-based and the unemployment rate may rise before beginning its long descent.

CONSUMER SPENDING is set to worsen in Q2, and a sustained rebound won't happen until consumer confidence improves.

HOUSING MARKET data collapsed in April, but high frequency data suggests a modest rebound as restrictions ease.







- Nonfarm payrolls plunged 20.537 million in April—undoing a decade of job gains. Pain was broad-based across industries as the diffusion index fell to a record-low of 4.8.
- The unemployment rate hit a series-high of 14.7%, which understated the pain. The unemployment rate could rise before falling, as a record number flowed from employed to out of the labor force. As they begin to search for jobs again, this will put upward pressure on the number of unemployed and the unemployment rate.
- While it took weeks for the unemployment rate to spike, it will take years for it to return to pre-crisis levels, which will weigh on consumer spending and the recovery.

- Retail sales plunged 16.4% M/M in April, with declines in every subsector except nonstore retailers, as consumers switch to e-commerce.
- Johnson Redbook Same Store Sales Index was down 9.5% Y/Y in mid-May, suggesting continued weakness in the second month of Q2.
- While OpenTable reservations are picking up in some states that are lifting restrictions, a sustained rebound in spending—particularly on leisure/hospitality and consumer-facing services—will be tame while the unemployment rate remains elevated and consumer confidence subdued.

- Lockdowns wiped out demand and caused housing market data to nosedive in April—with housing starts and permits plunging 30.2% M/M and 20.8% M/M, respectively.
- However, weekly home purchase applications—which have risen for five-consecutive weeks—and the NAHB housing market index—which rose 7 points in May with improvement in all three subcomponents—suggest a modest rebound in May and June.
- Low mortgage rates, pent-up demand, and limited supply position the U.S. housing market well as restrictions ease.

Source: Bloomberg and Factset. As of 04/23/2020.

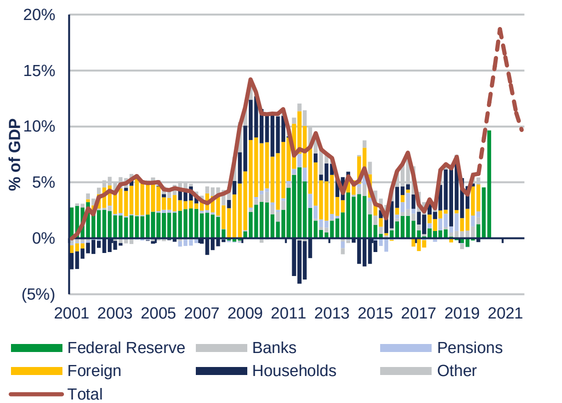
U.S.

FEDERAL RESERVE PURCHASES have dominated treasury issuance as the budget deficit is expected to swell.

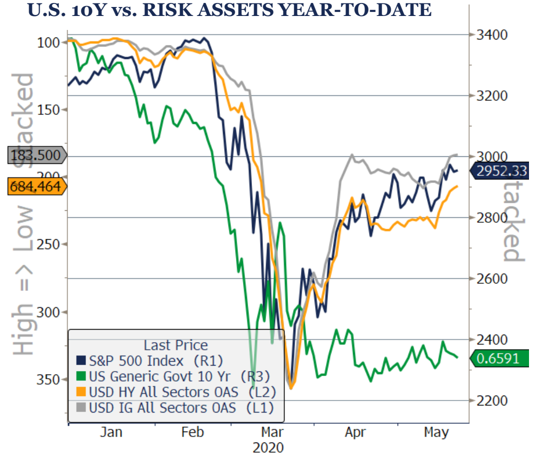
RISK ASSETS have continued their rebound in stark contrast with rates, which remain subdued.

Elevated CORPORATE LEVERAGE, especially for small and midcaps, make solvency risks top of mind.

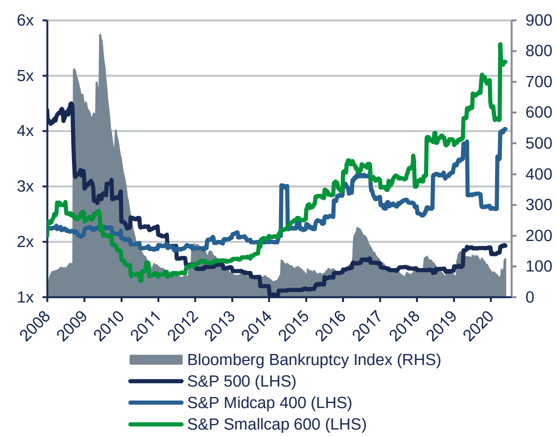
U.S. TREASURY ISSUANCE VS. DEMAND



U.S. 10Y vs. RISK ASSETS YEAR-TO-DATE



NET DEBT TO EBITDA VS. BANKRUPTCIES



- A scrambling for U.S. dollar liquidity globally earlier in the crisis led to $440 billion in net Treasury outflows from foreign holders in March. The Federal Reserve's QE purchase program has abated liquidity concerns and stabilized benchmark rates.
- Fed purchases have been focused on the short-to-medium part of the curve, which has led to a notable steepening of the yield curve.
- Risks remain whether rates, especially on the long-end, become de-anchored as the Fed pulls back from its QE program or if supply ramps up further, especially amid expectations of a widening budget deficit in coming quarters.

- The Fed's QE program, which depressed rates, has been supportive of riskier assets such as equities, investment grade and high yield bonds, which have all continued their rebound since the March lows.
- The recovery in risk is particularly narrow, however. Mid- and small-cap equities have lagged and only 35% of large-caps are above their 200-day moving average. The outperformance of growth versus value stocks also point to a somewhat lackluster growth environment from here.
- Risk assets may have more to run from here, especially as institutional investor positioning remains biased towards cash and rates remain low.

- Much of the focus for corporates earlier in the crisis amid the zero-revenue environment has been to bridge their short-term liquidity needs via both government aid and capital markets, and mostly in the form of debt.
- With leverage already elevated in some sectors, however, there is a risk that short-term liquidity risks evolve into longer-term solvency risks, especially if the economic backdrop continues to underperform.
- More stress may be ahead as bankruptcy filings and delinquencies, while still below 2008 highs, have noticeably ticked higher and suggest a default cycle has begun.

Source: Bloomberg, Factset and CFRB. As of 05/27/2020.

Europe

OUTLOOK

As everywhere**, the damage inflicted by the pandemic on Europe appears to be even bigger than expected a month ago**, and the final bill is still very much up in the air. Lockdowns are being relaxed (even if not everywhere and not fast) and economic activity is coming back to life in a very slow and uncertain manner. However, **just as unprecedented as the shock, so was authorities' response**: fiscal and monetary policies are ensuring liquidity is maintained. Markets understand there is a lender of last resort in the EU (the ECB) and budget rules are being lifted, so the house is keeping up. But **what lies ahead?** For that we need to understand the scars left by this shock into the social and economic fabric of the continent. It seems still **too early to see that**.

Economic Growth	05/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
EZ Real GDP (Y/Y %)	-3.2	2.5	1.9	1.2	-7.6 ▼	5.0 ▲
U.K. Real GDP (Y/Y %)	-1.6	1.9	1.3	1.4	-7.8 ▼	5.5 ▲
Inflation						
EZ CPI (Y/Y %)	0.3	1.5	1.8	1.2	0.4 ▼	1.2 ▼
U.K. CPI (Y/Y %)	0.8	2.7	2.5	1.8	1.0 --	1.5 ▼
Labor Market						
EZ Unemployment (%)	7.4	9.1	8.2	7.6	9.5 ▲	9.3 ▲
U.K. Unemployment (%)	3.9	4.4	4.1	3.8	6.7 ▲	6.2 ▲
Rates						
EZ Central Bank	0.00	0.00	0.00	0.00	0.00 --	0.00 --
EZ 2Y Note	-0.64	-0.64	-0.62	-0.61	-0.66 ▼	-0.48 ▼
EZ 10Y Bond	-0.41	0.42	0.24	-0.19	-0.40 ▼	-0.13 ▼
U.K. Central Bank	0.10	0.50	0.75	0.75	0.10 --	0.10 ▼
U.K. 2Y Gilts	-0.03	0.43	0.74	0.53	0.18 ▼	0.44 ▼
U.K. 10Y Gilts	0.19	1.19	1.27	0.82	0.43 ▼	0.75 ▼
Currencies						
EUR/USD	1.10	1.20	1.14	1.12	1.12 --	1.16 ▲
GBP/USD	1.22	1.35	1.27	1.33	1.27 ▲	1.33 ▲

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg. As of 05/27/2020. (E)—Bloomberg private market consensus estimates.
*Represents actual data

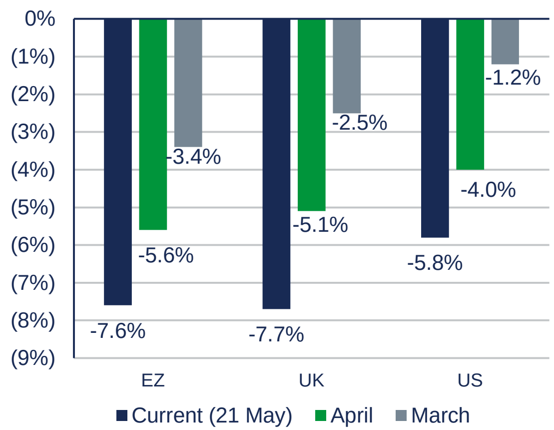
Europe

BIGGER THAN EXPECTED SHOCKS have hit the European (and global) economies.

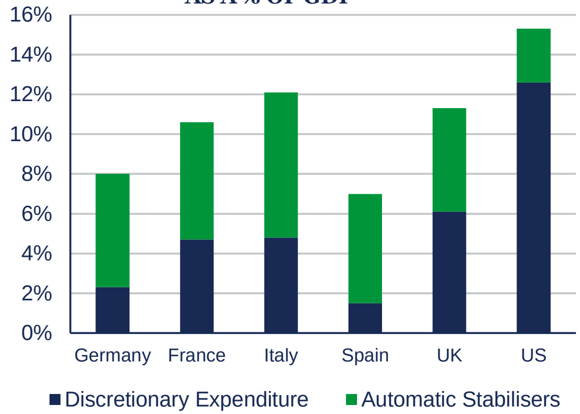
UNPRECEDENTED POLICY RESPONSES have offset, at least partly, the shocks.

REOPENING is progressing but SAVINGS are skyrocketing.

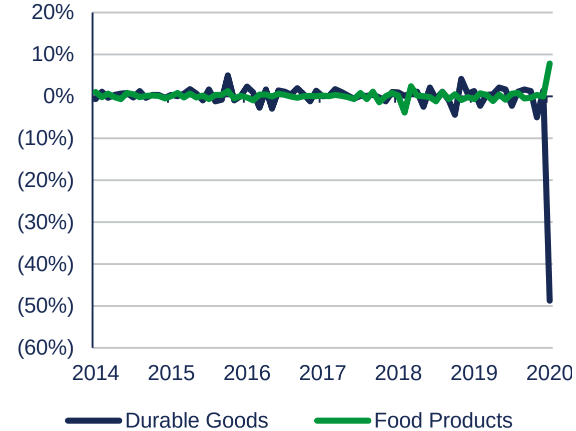
2020 GDP FORECAST



COVID-RELATED FISCAL EXPANSION, AS A % OF GDP



FRANCE HOUSEHOLD CONSUMPTION, M/M%



- Notwithstanding the subdued expectations for growth in 2020, hard data have surprised negatively this month.
- As a consequence, forecasters have continued downgrading 2020 growth estimates for EU economies, the U.K. and the U.S.
- What was thought to cause a minor recession in March is now being assessed as a contraction bigger than during the Global Financial Crisis (GFC).

- Summing up discretionary spending (the announced fiscal packages) and automatic stabilizers (unemployment benefits, lower tax revenues), major EU economies have mobilized unprecedented fiscal resources.
- While the U.S. is likely to spend more altogether, the bigger size of welfare states in the EU make up for some of the differences across the Atlantic.
- The Recovery Fund, whose proposal should be tabled by the EU Commission this week, would add an additional 3-4% of GDP to EU countries' spending.

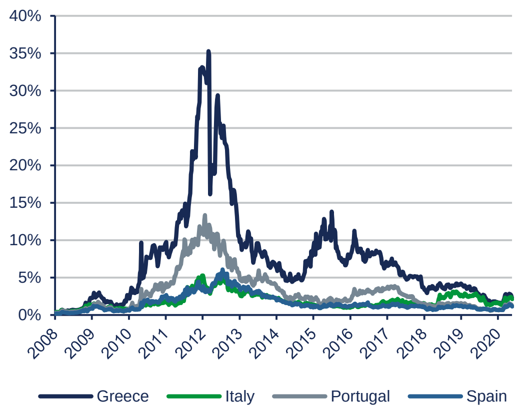
- While EU consumers can now spend more as shops, bars and restaurants reopen, their willingness to do so is less clear.
- Typically when shocks hit the economy and uncertainty rises, households cut big purchases such as cars and holidays and focus on more fundamental items such as food.
- The difference between big item purchases and food has dropped to unseen levels in May.
- Household sentiment will have to improve enormously to see any sustained rebound in consumption.

Source: Bloomberg and various Ministries of Finance. As of 05/27/2020.

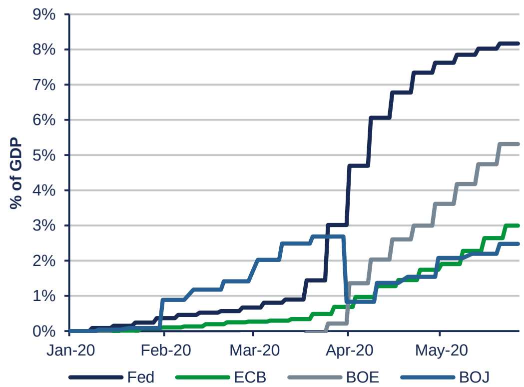
Europe

BIGGER FISCAL SHOCKS AND SMALLER SPREAD JUMPS compared to 2008 suggest that markets recognize something has changed in Europe.	**THE ECB has used less fire power to calm markets so far.**	**THE ECB WILL ALSO NEED TO DO LESS than its peers.**

HISTORICAL SPREADS VS. GERMANY 10Y



CHANGE IN CENTRAL BANK PURCHASES



IN BILLIONS OF LOCAL CURRENCY	NET ISSUANCE	CENTRAL BANK PURCHASES	SUPPLY AVAILABLE TO PUBLIC
USD	4,152	2,522	1,630
DEM	281	207	74
FRA	183	182	2
ITA	178	168	(8)
ESP	129	108	21
GBP	335	290	45
JPY	48	25	23

- As seen in the previous slide, the growth and fiscal shocks hitting Europe have been bigger than the 2008 ones.
- However, sovereign spreads have remained much more contained this time, suggesting markets are less worried about sovereign debt sustainability.
- Likely, markets speculate that the Eurozone now has given itself a safety net, in the form of the ECB bond buying programs.

- Compared with all other major central banks, the ECB has bought much less sovereign debt since the outbreak of the pandemic.
- This supports the view that spreads have remained contained because markets do not see any immediate threats to sovereign debt sustainability, rather than because the ECB has intervened massively.
- This is reassuring, particularly seeing that spreads in highly indebted EU countries have also remained well behaved.

- COVID-related fiscal expenditures will be lower in the Eurozone than in the U.S.
- Public deficit was also lower in the Eurozone than it was in the U.S. at the outbreak of the pandemic.
- Putting the two together, one can see that the additional issuance of sovereign bonds that the central bank would have to buy will be considerably lower in the Eurozone.

Source: Bloomberg, Goldman Sachs. As of 05/27/2020.

Asia Pacific

OUTLOOK

While China's economy is on the road to recovery, the path differs by sector. **The manufacturing sector and return to office is recovering first, followed by the service sector, while leisure and travel lag behind.** Until a vaccine for COVID-19 is widely available, this differentiation by industry will likely hold true for other countries around the globe. **While China leads, Japan lags.** A state of emergency in Japan wasn't implemented until mid-April and continued through late-May. This means, while China's economic data is showing recovery, the worst is yet to come for Japan's hard economic data. Weak global demand will weigh on Japan's recovery as restrictions ease due to the export-reliant nature of the economy. While liquidity risks have abated thanks to the influx of central bank liquidity, **a strong U.S. dollar remains a headwind for growth prospects overall**, especially as global debt continues to rise and much of it is denominated in dollars.

Economic Growth	05/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
Japan Real GDP (Y/Y %)	-2.0	2.2	0.3	0.7	-4.7 ▼	2.2 ▲
China Real GDP (Y/Y %)	-6.8	6.9	6.7	6.1	1.8 ▼	8.0 --
Inflation						
Japan CPI (Y/Y %)	0.1	0.5	1.0	0.5	0.0 --	0.3 ▼
China CPI (Y/Y %)	3.3	1.6	2.1	2.9	3.2 --	2.1 ▲
Labor Market						
Japan Unemployment (%)	2.5	2.8	2.4	2.4	3.0 ▲	3.0 ▲
China Unemployment (%)	3.6	3.9	3.8	3.6	4.3 ▲	4.2 --
Rates						
Japan Central Bank	-0.10	-0.10	-0.10	-0.10	0.00 --	0.00 --
Japan 2Y Note	-0.16	-0.14	-0.15	-0.13	-0.14 ▼	-0.07 ▲
Japan. 10Y Bond	0.00	0.04	-0.01	-0.02	-0.05 ▼	-0.03 ▼
China Central Bank	4.35	4.35	4.35	4.35	4.30 --	4.25 --
China 2Y Note	1.79	2.40	2.75	2.75	1.48 --	1.50 --
China 10Y Bond	2.71	3.88	3.30	3.14	2.44 --	2.62 --
Currencies						
USD/JPY	107.69	112.69	110.27	108.61	107.00 --	110.00 --
USD/CNY	7.11	6.53	6.86	6.98	7.00 --	6.95 ▲

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg. As of 05/27/2020. (E)—Bloomberg private market consensus estimates.

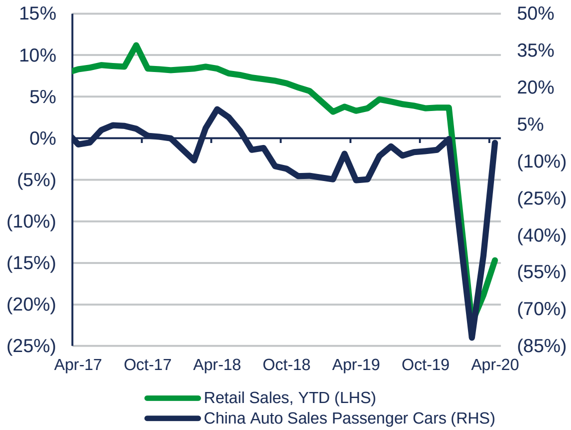
CHINA'S ECONOMY is recovering, with the return to offices and manufacturing leading the way.

CHINA DAILY COAL CONSUMPTION

- China's economy is recovering, but the rebound varies by industry, led by the return to offices and a rebound in manufacturing.
- Coal consumption has returned to normal levels as factories operate and energy demand rises.
- However, weak external demand and a differentiated recovery by sector will make the road to recovery longer.

SERVICES AND LEISURE & HOSPITALITY IN CHINA are having a more measured rebound, keeping a lid on the recovery.

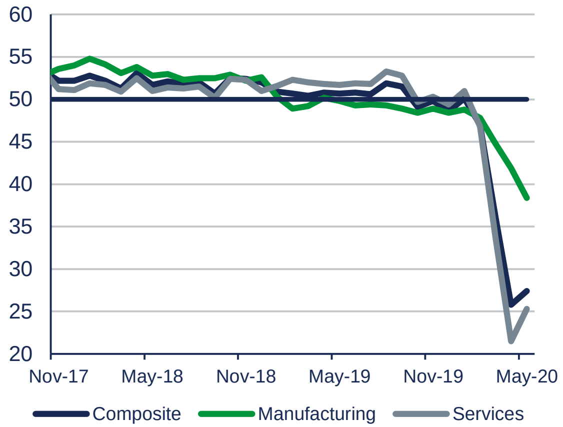
CHINA RETAIL AND AUTO SALES, Y/Y%



- The manufacturing sector is followed by a more gradual and modest rebound in services industries, while travel and leisure and hospitality lag behind.
- Social distancing measures will likely be voluntarily followed until a vaccine or effective treatments are widely available, which will keep these sectors from fully recovering in the near-term.
- A weaker rebound in consumer spending and a slower return to shops and leisure/hospitality will keep the Chinese economy from recovering quickly.

JAPAN'S ECONOMIC DATA is set to nosedive in April releases, amid later restrictive measures and weak demand.

JIBUN BANK JAPAN PMI



- Japan's mid-April state of emergency declaration means the worst is yet to come for economic data, which is expected to sharply deteriorate in Q2.
- Japan entered the crisis on weak footing, and the pandemic will likely lead to at least three-consecutive quarters of negative GDP growth.
- Easing of restrictions amid the lifting of the state of emergency at the end of May will aid a recovery in 2H20, but weak global demand will weigh on the export-dependent economy.

Source: Bloomberg, Factset, and UBS. As of 04/22/2020.

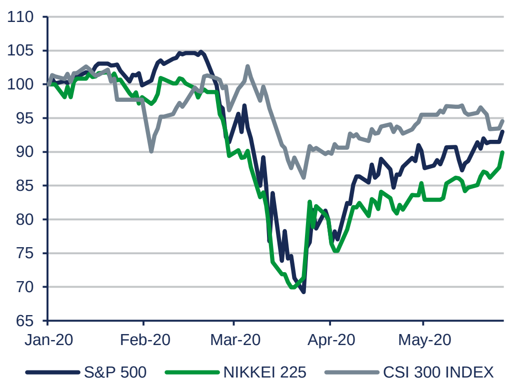
Asia Pacific

BIFURCATED PRICE ACTION across regional equity indices, with China outperforming and Japan lagging.

CHINA SPOT METALS are confirming signs of a rebound in activity, although still at levels below what is considered normal.

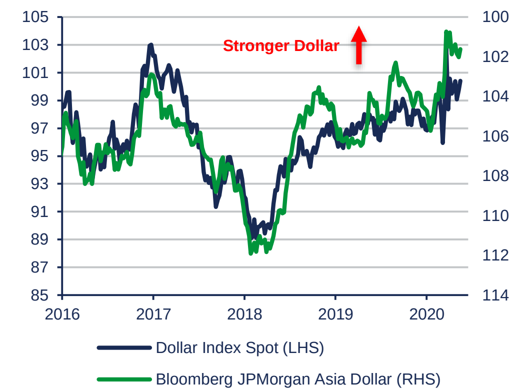
A STRONGER DOLLAR will provide a headwind for the rest of the world's growth prospects.

EQUITY PERFORMANCE (INDEXED YTD)



CHINA SPOT METAL PRICES INDEXED

U.S. DOLLAR INDEX



- Despite the current crisis originating in China, the drawdown in the Shanghai Shenzhen CSI 300, the local benchmark, has been relatively mild, especially compared to the U.S. or Japan.
- This could be in part due to optimism about the country's handling of its COVID-19 outbreak, which despite highly stringent lockdown procedures has seen economic activity slowly return.
- The timing of the outbreak also meant that China is positioned to emerge from the crisis earlier than the rest of the world. However, given its export-oriented economy, risks remain whether internal demand in the short-term will be enough to buoy growth.

- Spot market price action in domestic exchanges for a variety of industrial metals is suggesting domestic industrial activity has been picking up since bottoming in March.
- The rebound in domestic metals has deviated somewhat from global metal benchmarks, which have lagged their Chinese counterparts. This suggests while Chinese industrial activity is slowly returning, rest of world industrial output hasn't yet.
- This rebound, while supportive of the narrative that China is "going back to work," also suggests that activity hasn't completely return to normal.

- The U.S. dollar has rallied notably since the start of the year amid safe haven flows and liquidity seeking. While it is off its highest levels since the peak of the crisis, it is still relatively elevated and has been grinding higher since 2018.
- A weaker currency is generally a boon for export-oriented economies, but as trade activity has essentially halted, it is much less helpful in the short-term.
- Continued dollar strength from here would have a de facto tightening on rest of world balance sheets, especially as global debt continues to rise, as much of it is denominated in U.S. dollars.

Source: Bloomberg and Factset. As of 05/27/2020.

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As of March 31, 2020.

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As of March 31, 2020.