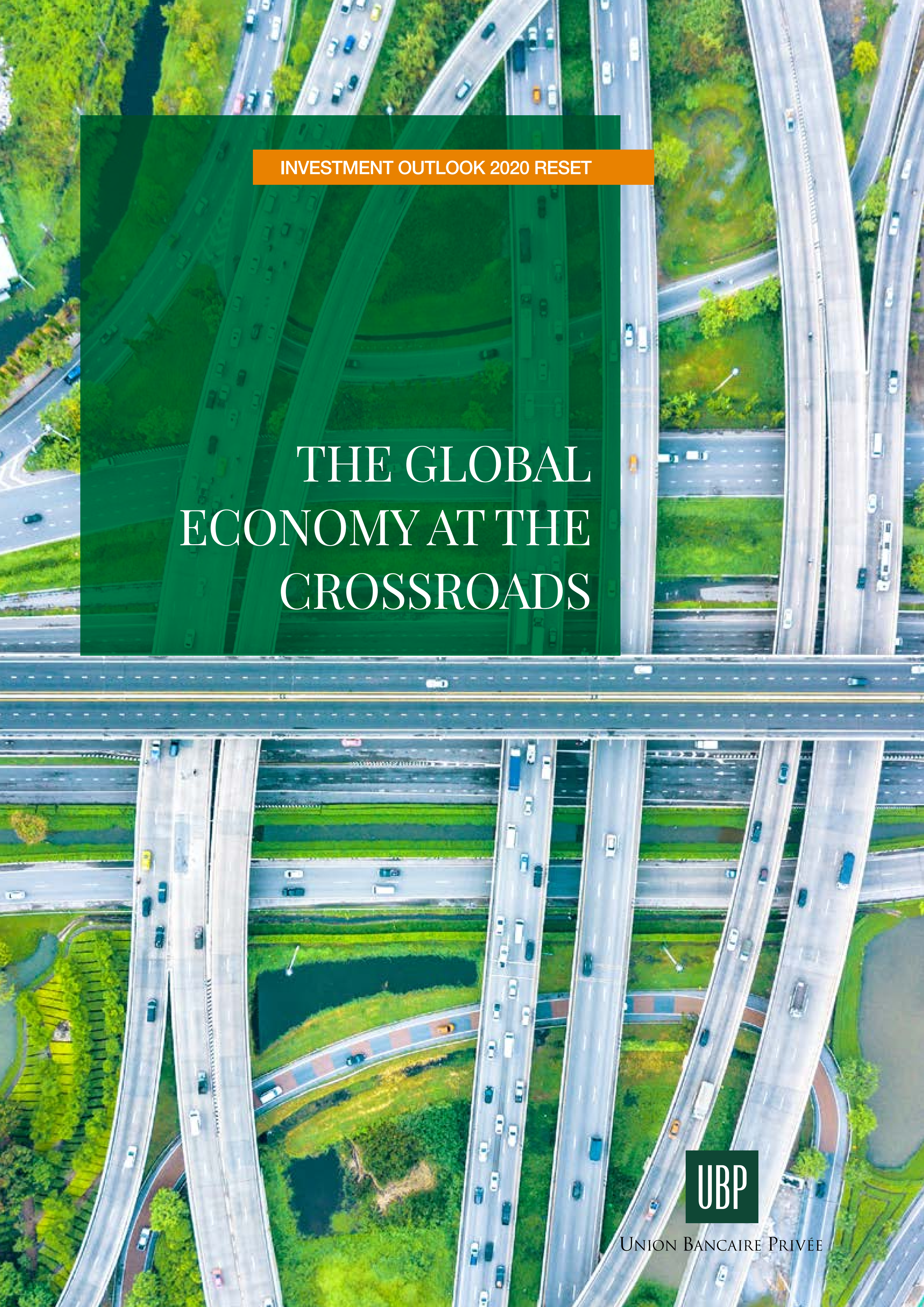


INVESTMENT OUTLOOK 2020 RESET

THE GLOBAL ECONOMY AT THE CROSSROADS

UBP

Union Bancaire Privée

CONTENTS

MICHAËL LOK
Group CIO and Co-CEO
Asset Management

Dear reader,

Investors have had a roller-coaster ride in the last six months with the Covid crisis. Both the pace of the virus' spread and the magnitude of its impact as economies shut down meant that investors absorbed much of the volatility in February and March.

Fortunately, UBP's risk-focused approach helped to protect client portfolios during that turmoil. It also allowed us to be agile at the height of the market sell-off, shifting portfolios into a more pro-risk stance and enabling UBP clients to capture the tailwind of the combined fiscal and monetary stimulus that emerged from the ashes of the crisis.

Rising from those ashes as well may be a new economic, corporate, consumer and geopolitical landscape. The current quarter should be the trough of this recession with a progressive global economic recovery – though uneven across geographies and sectors – over the rest of the year. While demand should pick up, high levels of debt mean companies and consumers will need to rethink their profit models and savings rates, potentially crimping corporate earnings. The global political landscape is likewise being rewritten with the US and China resuming their struggle for global dominance while the reshaping of the European Union may be accelerating.

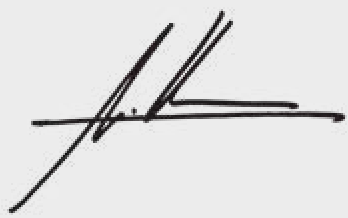
Investors should take the opportunity of this global transformation to re-anchor their portfolios.

'Risk-free' government bonds are no longer the refuge they once were. Instead, investors should turn to gold and safe-haven currencies like the Swiss franc and Japanese yen as sustainable stores of value for the longer term, especially as the US dollar bull market is set to end by 2021. Within bond portfolios, we have switched from our risk-focused capital-preservation approach in 2019 to a risk-managed approach in investment-grade credit, crossover credit and European bank hybrids.

With the global economy now facing a slow-growth recovery, debt-laden balance sheets and activist central banks, quality- and earnings growth-focused stock selection should help generate performance in global equities.

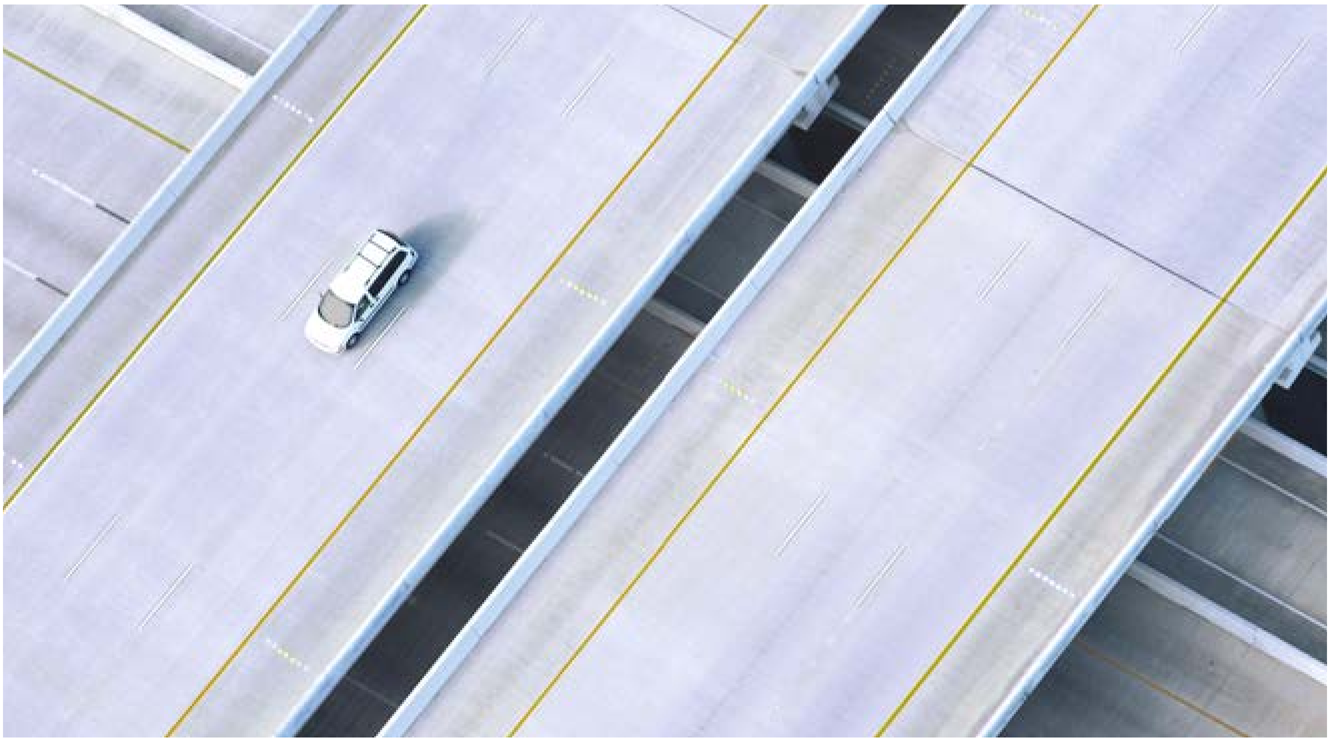
The development of technological, healthcare and broader ESG solutions will be key to creating investment opportunities in the post-lockdown world, but proactive risk management and not simply diversification will also be needed. Select hedge fund and options strategies are expected to remain a key part of the risk management arsenal at UBP in the year ahead.

We examine all of these topics and more in the pages that follow. As ever, we look forward to working alongside you to develop an investment portfolio that meets your expectations and needs.



MACROECONOMIC OUTLOOK

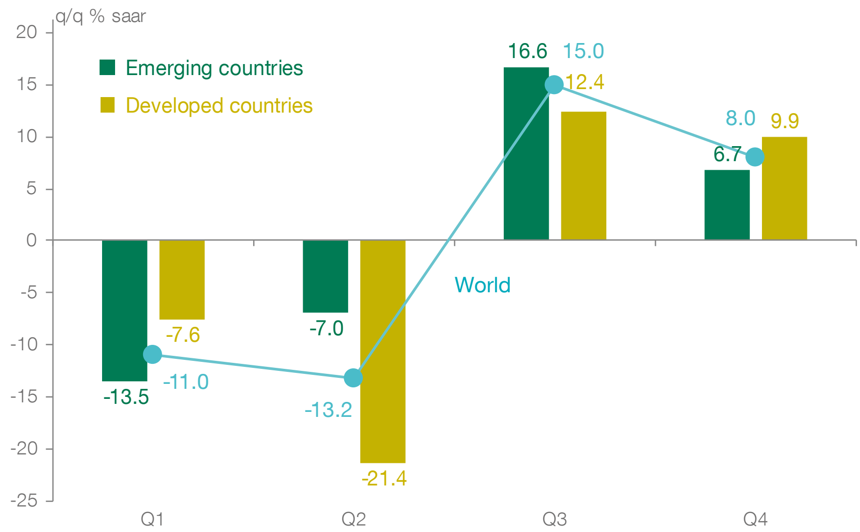
MILESTONES FOR THE POST-LOCKDOWN GLOBAL ECONOMY



Key points

- After a sharp recession in the first half of 2020, the global economy should gradually recover in the second, and firm growth is expected in 2021.
- Nevertheless, the recovery looks out of sync across countries and sectors; the rebound will be driven mainly by an upturn in domestic demand.
- Investment may remain hampered as corporates are likely to favour strengthening their balance sheets after the rise in debt levels during the COVID-19 crisis and lockdowns.
- Renewed pressures on global trade should cause large-scale reshoring of activity and increased regionalism after a decade of globalisation.
- Central banks are coming closer to monetary financing; monetary policy is aiming to avoid any potential credit and sovereign debt crisis during the Covid crisis and the recovery period.
- While debt and unemployment are the main burdens weighing on the post-lockdown global economy, authorities should look for new drivers, sectors and themes to revive potential growth.

WORLD GROWTH IN 2020



Source: UBP Economic & Thematic Research

Rebuilding activity after a sharp recession

Global growth collapsed by more than expected in the first half of 2020 under the combined effects of the rapid spread of COVID-19 and the adoption of containment measures in one country after another, with the result that in April two thirds of the world's population was under lockdown.

Growth has fallen in China and the recessionary wave has hit Asian countries, Europe, the Americas and the rest of the world even harder than the 2008 financial crisis.

In May and June, as Covid cases have peaked and containment measures have been eased, signs of a recovery in activity have emerged. In China, output has rebounded quite quickly in some manufacturing sectors and consumer spending has improved since the end of the lockdown. In Europe, the upturn in activity is in its early stages, since containment measures have only just been eased. The US and the UK are still seeing significant numbers of new cases, but their governments are actively preparing to lift confinement.

As a result, global economic output fell close to 12% (q/q annualised) in Q1 and is expected to contract further in Q2, by a huge 20–40% (q/q annualised) globally due to the effect of lockdowns, except in China. The end of isolation in all major economies should cause activity to revive gradually, and Europe and the US are expected to see a similar sector-based pattern of recovery as China. As a result, growth should progressively turn positive again in the second half of the year: early in Q3 in China and gradually over the next two quarters in other countries. We should therefore see a huge contrast between the sharp global recession up to June (around -20% q/q annualised) and the rebound expected thereafter (11–20%). This should lead to an average year-on-year contraction of 5% in developed countries, 1.3% in emerging-market countries and 3.5% for the world as a whole in 2020, provided a second wave of the pandemic does not occur.

As governments and central banks have adopted huge fiscal stimulus and monetary measures, firmer growth is expected in 2021. Emerging-market countries are likely to recover more rapidly and achieve growth close to their previous 4–5% trend rate thanks to China and Asia. Developed countries should see a strong rebound of 5%, or even more if a second wave of infections is avoided and a vaccine is discovered.

Emphasis on regional and country leadership in a de-globalised world

Since April, industrial output in China has gradually recovered and consumer spending has rebounded with the end of the lockdown. Other Asian countries, such as South Korea and Japan, have continued to be affected by Covid, and their recovery has come later and at a slower pace. In Europe, Germany has seen less of an impact from the Covid crisis than other countries and its lockdown also ended earlier. The UK and the US, and some other European countries, are only just starting to ease confinement in June.

The timing of the resumption in activity is likely to vary between countries depending on the spread of Covid and the containment measures adopted, and on the support provided to strengthen the recovery. China should therefore lead the rebound in Q3, followed by Germany. The US and UK are traditionally highly flexible, meaning they should be able to recover rapidly.

Countries and sectors are likely to move out of sync in the post-lockdown global economy. This situation will probably be magnified by the various economic policies in place, which favour domestic recovery and particularly consumer spending.

Renewed global trade tensions and the emergence of a new Cold War between the US and China are likely to cause the world economy to pivot more clearly towards regionalism. Economic policies should favour local and regional processes for production, and each major country will try to capitalise on being a regional leader. Moreover, one lesson from the Covid crisis has been that economies had been highly dependent on pharmaceutical, consumer and industrial goods from China's manufacturing hub, and this is now driving policies in favour of reshoring strategic sectors such as pharma in developed countries. The fight against unemployment has also ramped up similar political pressures on other industrial sectors. As a result, the post-lockdown global economy is becoming gradually de-globalised and, with rising US–China tensions, the US's end-game seems to be to weaken China's influence over global manufacturing.

Investment and labour key for short- and medium-term recovery

While consumer spending may pick up as lockdowns end, investment faces a more challenging outlook. The desynchronised recovery and trade tensions argue against any rapid rebound in exports and orders, as well as reducing visibility. Moreover, with supply chains still disrupted, companies may face bottlenecks for components, while firms experiencing difficulties have increased their debts and some have even failed.

Their priorities will be to secure production, boost activity and strengthen balance sheets, even if central banks and governments have encouraged them to take on debt by offering guarantees and moratoriums on interest payments.

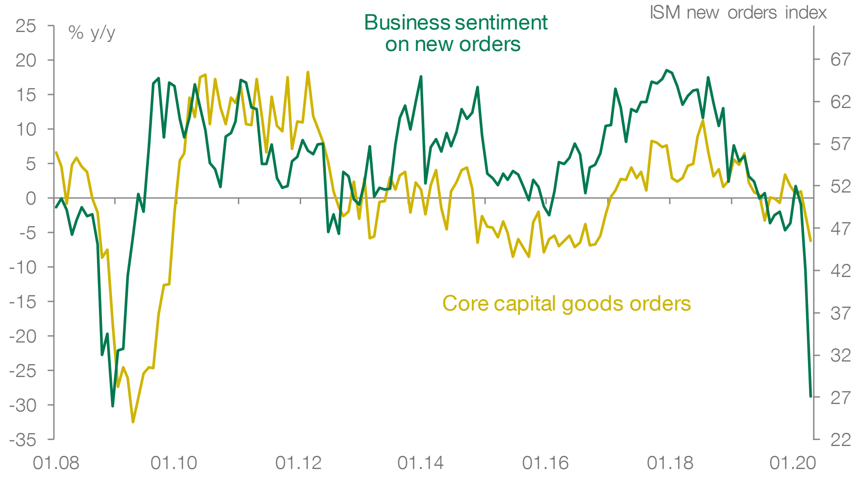
As a result, the rebound in investment could lag behind the recovery in other areas. This is why public-sector investment has a new role in the post-lockdown landscape. Governments have launched or prepared plans to revive investment and use the current situation to develop new strategic sectors. China favours infrastructure, new technologies and consumer spending, while in Europe, the recently launched recovery fund aims to boost green and climate-related investments. In the US, the Republican political campaign is backing the reshoring of traditional sectors and has placed a strategic focus on the IT sector.

Being forced to reshore in order to secure production, avoid trade barriers and tariffs, and insure against new external shocks is exposing companies to the risk of finding themselves with additional and underutilised production resources. It also means that the need to replace globalised production and delivery channels by increasing local capacity will tie up more capital.

Employment is another key factor for the recovery in the short term. All governments have adopted furlough measures and have successfully compensated for losses in income. But major uncertainties will arise when the recovery comes: a less than swift upturn in activity could force firms to reduce their workforces permanently, preventing a return to full employment. This could mean that governments have to extend support or adopt new jobs-focused measures.

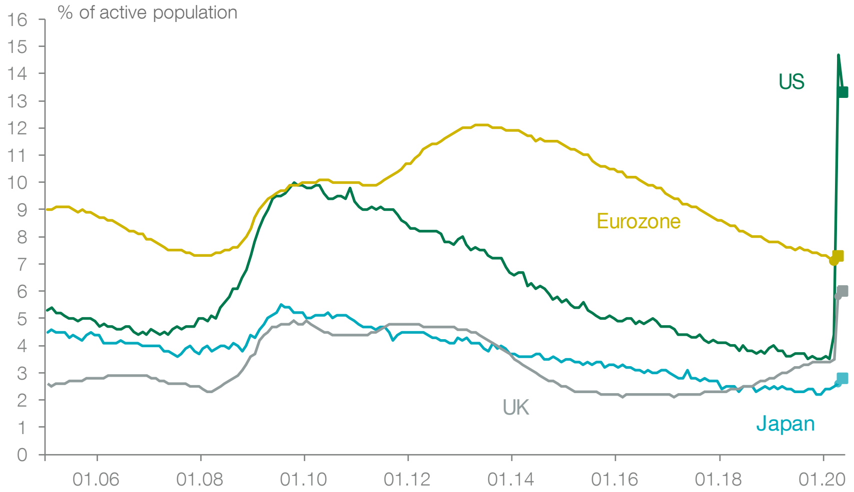
Although the pace of growth may improve rapidly, it will take longer to recover fully. A rapid rebound following the current major crisis will be fairly automatic given the supports in place, but the challenge will be to fill the gap in terms of wealth lost. According to simulations, it will probably take a full year at best for nominal GDP to get back to the level seen before the crisis.

US BUSINESS SENTIMENT & NEW ORDERS



Sources: Census Bureau, ISM

UNEMPLOYMENT RATE IN G4 COUNTRIES



Sources: Eurostat, UK ONS, US BLS, Japan Ministry of Internal Affairs & Communication

Central banks coming closer to monetary financing

Central banks, and particularly the Fed, were the first to react to the crisis: cutting interest rates to 0%, launching new measures to push down long-term interest rates further, providing liquidity to banks and the money markets, and increasing their purchases of various assets, including high-yield corporate bonds in the Fed's case, in addition to existing government bond-buying. All central banks have followed the same strategy; although the ECB is still not purchasing high-yield bonds, it has eased its collateral eligibility requirements and reduced precautionary measures regarding banks' balance sheets. The goal was to avoid a major financial crisis in addition to the existing pandemic.

Ahead of the nascent recovery, avoiding a major credit or sovereign crisis is still a challenge since debt has increased in all segments and activity is recovering slowly. Central banks have successfully refuelled money markets, revived lending and reduced the cost of capital in all major segments of the economy. The programmes launched recently by the ECB and the Fed should continue to gain momentum in the next two quarters, further easing financial conditions.

Government action came a bit later, but now looks more coordinated. The recently announced European recovery fund introduces, for the first time, some fiscal transfer between countries and debt issuance at the EU level, in addition to national initiatives.

Flooding banks and markets with liquidity and mutualising sovereign and corporate debt (via state guarantees) was a major policy decision in the face of an unprecedented crisis. These mechanisms should remain in place for some time, and probably longer than officials have in mind; following the 2008 crisis, it was particularly difficult to exit from negative or zero interest-rate policies and reduce the amounts of assets purchased by banks.

The post-pandemic world will remain challenging because of the high level of debt in both the public and corporate sectors, and central banks are likely to find it even harder to withdraw their support.

Central banks are coming closer to monetary financing, which seems to be the only way to support the recovery if global growth has not resumed to the extent that economies are running at full capacity. Asset purchases and interest-rate management will be the focus of central banks, while inflation targeting will have lower priority as long as inflation remains well below the long-term target of 2%. Inflation risks should be limited, fuelled more by security costs and delivery pressures in the short term. In the medium term, health costs will probably continue rising, while housing should also fuel higher inflation. However, manufactured goods prices are unlikely to rebound, except where using more local producers is slightly more expensive than using global producers.

Central banks and governments will be obliged to act more in parallel in the post-lockdown world, which means that central banks will gain further power but become slightly less independent from the financial markets and political authorities.

MANAGING RISKS & OPPORTUNITIES

ASSET ALLOCATION IN A POST-LOCKDOWN WORLD

Key points

- Investors have witnessed the fastest equity bear market in history as well as an equally breathtaking rebound, all in the first half of 2020. This leaves investors confronted with an economic, corporate and geopolitical landscape forever changed by the fallout of the global COVID-19 pandemic.
- These changes should be viewed as a catalyst first for re-anchoring portfolios in the face of new risks and then for focusing on the opportunities the new era will offer.
- With government bonds maybe no longer the safe havens that many investors had hoped, investors should look at gold, safe-haven currencies and implied protection from global central banks to anchor their portfolios.
- These strategies should allow investors to be active in both the risky credit and equity arenas despite global uncertainty.
- For credit investors, bottom-up selection in European bank hybrids and US crossover credit should add value in the months ahead.
- Equity investors, in contrast, should learn from Europe and Japan where the slow growth, overly leveraged balance sheets, and easy central bank policies that the global economy faces today led to a high-quality, earnings-growth-biased stock selection generating 2–2.5x the capital returns of a more value-oriented approach.
- In addition, investors should position themselves to benefit from the solutions that are spurring transformation from the way things were before the pandemic to the post-lockdown world.

A new economic, corporate and geopolitical landscape ahead

Investors have witnessed the fastest bear market in history as well as an equally breathtaking rebound in global equities all in the first half of 2020.

While on the surface, the February–March 2020 slump may now look like a flash in the pan – like that seen in US equities in late 2018, which was then followed by a return to new all-time highs in early 2019 – this abbreviated version of a global bear market leaves investors confronted with an economic, corporate and geopolitical landscape forever changed by the fallout from the global pandemic.

Investors are now faced with governments having abandoned both fiscal and monetary restraint in favour of a "whatever it takes" policy approach. Budget deficits around the world are the largest in modern history, and matched by central bank balance sheet expansion, in the US and Europe in particular, which dwarfs the asset purchases that followed the Global Financial Crisis, all in the first half of 2020.

Beyond this, the ever-rising use of debt to sustain corporate earnings growth and consumer lifestyles is likely to be a casualty of the post-lockdown world. This leaves growth prospects increasingly fragile, and profit models and household savings targets to be reassessed.

Compounding these challenges are geopolitical shifts occurring across multiple axes. As regards the US–China trade war that began in 2018, the truce struck between the world's largest economies in December 2019 appears to have been broken. America is now pressing its fight with its geopolitical rival, having shifted the focus of the conflict from trade to access to US capital markets and technology.

In Europe, the May Franco-German proposal to spur EU recovery, which has inspired a budget plan from the European Council, has the potential to change the North–South divide within the EU. Though it remains uncertain whether the proposal can garner unanimous agreement, Germany's concessions on both the shift from loans to grants and common funding at the supra-sovereign level represent ambitious moves from usually conservative policy-makers in Brussels. The boldness of the project is all the more striking given that the year-end Brexit deadline is drawing closer, creating the potential for a truly reshaped Europe in the run-up to 2021.

Re-anchoring portfolios to the new world ahead

In view of these changes in the global landscape, and despite the fact that the tragedy of the global pandemic is still playing out in many economies around the world, investors should take the opportunity that the recent rebound in markets provides to re-anchor their portfolios and adapt them to this dynamic investment environment.

The first priority is to recognise that government bonds may no longer be the safe havens that many investors may hope for.

Though long-duration US Treasuries have served their purpose in protecting portfolios by rallying 10% during this crisis, yields are now perilously close to zero and the experience of German Bund investors during the March sell-off is instructive.

With German yields already consistently below zero before the outbreak, German bonds did little to mitigate the fall in risky asset prices, delivering a comparatively modest 5% annual return at the time of the March equity market trough.

Now that US Treasury yields are below 1% and assuming Fed Chairman Powell's guidance against negative interest rates holds, they, like German Bunds before them, will become at best a capital-preservation solution rather than a credible offset to risky asset volatility.

In light of this, investors should turn to other strategies to protect portfolios in case central bank firewalls against a wider credit crisis are once again tested. In particular, we believe that gold should make up a significant proportion of portfolios.

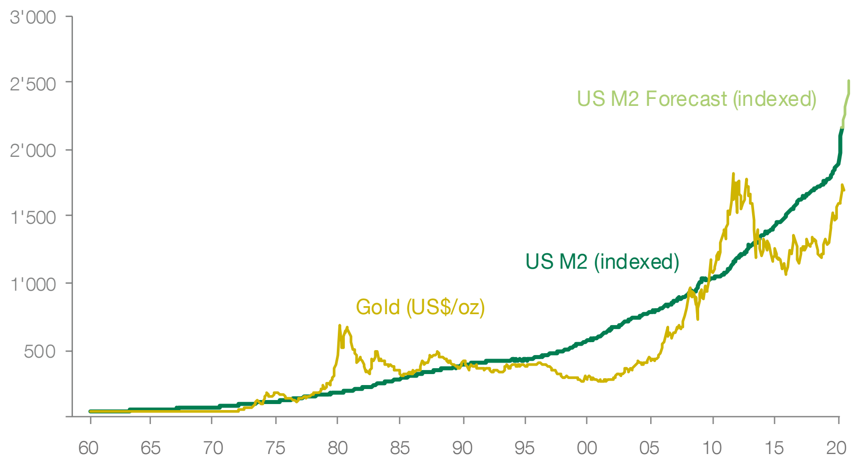
Central banks around the world have demonstrated a low pain threshold in their battle against deflation before turning to their primary policy tool – money printing. This is now a standard response and will provide a tailwind for gold if global stability suffers more shocks.

Pairing gold with safe-haven currency exposure in Swiss franc and Japanese yen can help to partially recreate the refuge previously offered by government bonds within portfolios (see *Foreign Exchange in a Post-Lockdown World*).

A different approach to credit in the post-lockdown era

With the ballast in portfolios re-established, investors can turn their attention towards return-generating assets. Even here, however, risk-averse investors should revisit the assumption that credit exposure carries lower risk than equities.

GOLD CONTINUES TO UNDERPRICE 'WHATEVER IT TAKES' CENTRAL BANK POLICIES



Sources: Federal Reserve Bank of St. Louis, Bloomberg Finance L.P. and UBP

As seen in the March sell-off, both USD investment-grade and high-yield credit delivered peak-to-trough losses of 18%, providing only relative shelter against the 30% decline in global equities.

Fortunately, overt Fed purchases of investment-grade credit should provide investors with some protection from renewed liquidity events. Indeed, once again looking at the euro area's experience, ECB purchases allowed EUR credit to outperform its USD equivalent during the March sell-offs.

In riskier credit arenas such as high-yield bonds or emerging market debt, where central banks are less active, investors will need to be increasingly selective given that we expect an accelerating default cycle in the second half of 2020 and going into 2021.

As a result, the buy-and-hold, passive approach that has served investors well in recent years should give way to a more active, bottom-up credit-focused selection to add value in the months ahead.

Even with this, investors should take account of the economic and geopolitical uncertainty that lies ahead. Fortunately, opportunities to use options strategies cost-effectively are now available to protect risky credit and equity exposure in this new increasingly volatile environment.

Indeed, with the CBOE Volatility Index (VIX) having retreated to below 30 for the first time since February, we are once again, just as we did then, adding outright put option protection into portfolios, a strategy which helped client portfolios weather the March sell-offs well.

Europe/Japan – A template for global equities

With protection in place, both implied (via central banks) and explicit (via options strategies), investors are left in a better position to face the uncertainty of the post-lockdown world. This allows us to focus with greater confidence on active stock selection to drive returns.

Looking at the eurozone and Japan, where slow economic growth, leveraged balance sheets, and activist central banks have transformed swaths of their domestic corporate sectors into corporate zombies, a growth and quality bias in stock selection has allowed investors to navigate these challenging environments since the Global Financial Crisis.

Indeed, while value strategies did close the performance gap in Japan and Europe through premium dividends, in our view corporate dividends are now at risk as deleveraging, rather than returning capital to shareholders, will likely become a focus for companies.

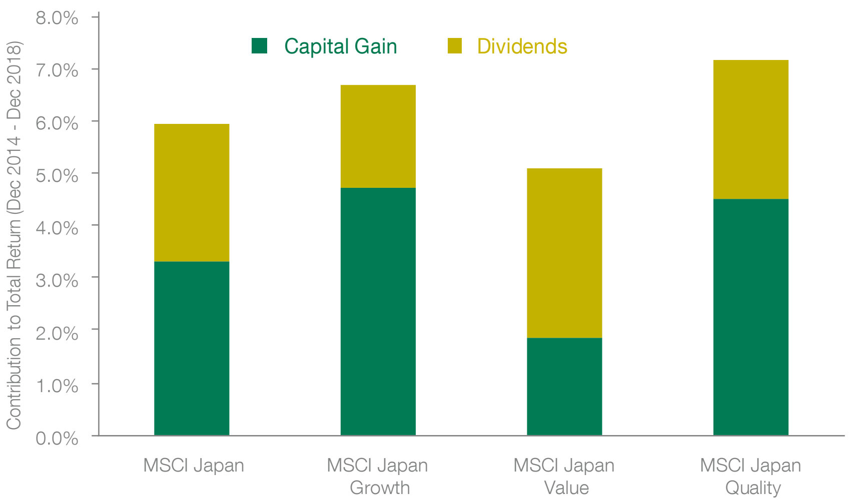
With the global economy increasingly facing the same trials, we expect a similar growth and quality bias will reward investors in the wake of the current crisis. Indeed, though the outperformance to date has been impressive, the risk to dividends suggests to us that the quality/growth bias can continue to add value to stock-pickers as markets re-price this dividend outlook, especially among value stocks.

Investors can also look to capitalise on the disruption caused by policy responses to the global pandemic (including an expected surge in biotechnology investment), as well as by the shift in the US–China power balance, and the reduced power of leverage as a driver of consumer spending and value for global corporates. Together, these trends should reinforce the value of company-level analysis in generating returns, via active stock selection.

Investors should benefit from the acceleration of long-cycle trends, including the development of technological solutions that are spurring transformation of the pre-lockdown economy as we enter the post-pandemic world. The localisation and regionalisation of global supply chains in the coming years should create intra-sector winners and losers, much as globalisation two decades ago favoured first movers among companies as well as investors.

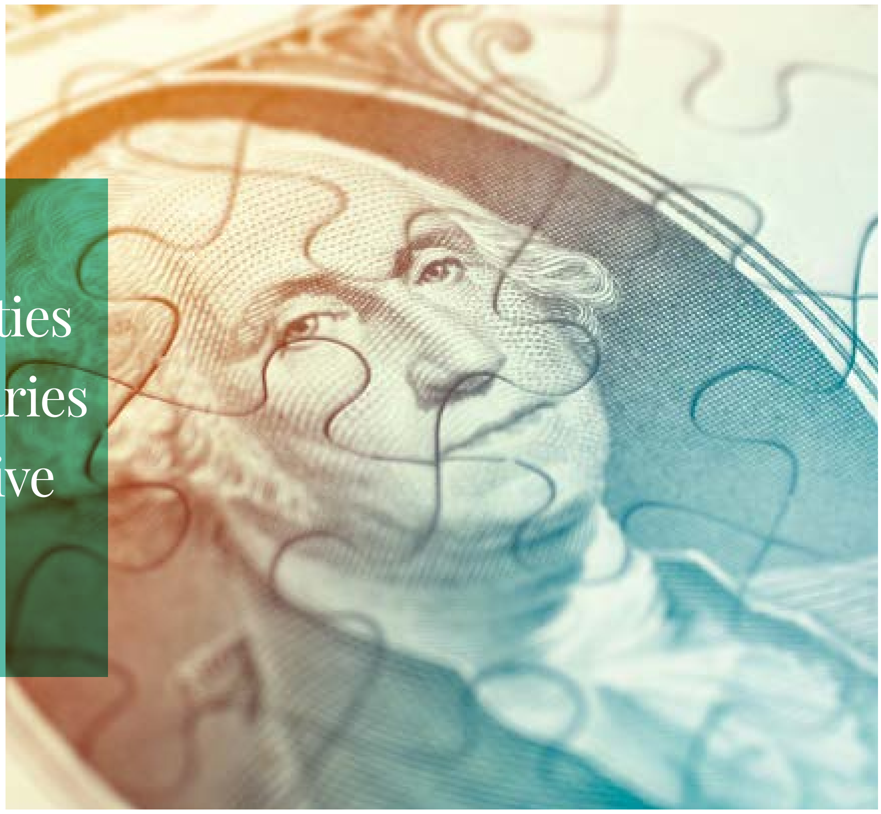
Thus, the pandemic and lockdown of the global economy in the first half of 2020 should be viewed as a catalyst, first for re-anchoring portfolios in the face of new risks, and then for focusing on the opportunities the new era will offer.

GROWTH AND QUALITY EQUITIES TO CONTINUE OUTPERFORMING VALUE STRATEGIES IN A SLOW GROWTH RECOVERY



Sources: MSCI, Bloomberg Finance L.P. and UBP

Seek opportunities among beneficiaries of transformative change



FX OUTLOOK

FOREIGN EXCHANGE IN A POST-LOCKDOWN WORLD

Key points

- The COVID-19 pandemic has resulted in significantly reduced interest rates in the G10, especially for the USD. US Fed rate cuts and aggressive easing policies are likely to result in modest USD weakness over the remainder of the year, in particular once the global economic recovery becomes more firmly established.
- G10 currencies with a traditionally high beta to global growth, such as AUD, NZD, CAD and to a lesser extent EUR, will perform well. The scope for EUR outperformance will be limited by structural constraints and modest EU growth.
- We anticipate that traditional safe-haven currencies will appreciate at a slower pace than previously expected. JPY will rise gradually, while CHF's strengthening will slow because of SNB interventions.
- Emerging market currencies are unlikely to appreciate aggressively, reflecting a drop in interest rate profiles and in growth prospects. Idiosyncratic factors will play a strong role in determining the relative performances of various emerging market currencies. We anticipate a continued weak trend in the likes of TRY, ZAR and BRL.
- CNH exchange rates are unlikely to benefit from even modest USD weakness, due to heightened US–China political and economic tensions ahead of the November US presidential election.
- Gold is likely to rise towards a fair value of USD 2,100 per ounce, which is consistent with the pace and scale of US broad money growth (M2). There are upside risks to this forecast, reflecting the potential for unconventional monetary policy measures.

1-MONTH EUR/USD FORWARDS HAVE DECLINED SIGNIFICANTLY

Sources: UBP, Bloomberg Finance L.P.

The end of the USD bull market

Since mid-March, trade-weighted USD exchange rates have depreciated only modestly, despite the US Federal Reserve's monetary policy easing measures. In February and March, it cut its Fed Funds rate to 0.00–0.25%, restarted its QE programme, and pledged to undertake large-scale purchases of corporate debt for the first time in its history.

Crucially, the Fed also expanded its USD swap facilities with a number of advanced and emerging economy central banks. These swap lines reduced demand for USD in the spot market, meaning that companies and banks could utilise cheap USD-denominated funding without having to go into the spot market and purchase USD.

Before the onset of the COVID-19 pandemic, consensus opinion was that the Fed would cut rates by only 25bps in 2020. The Fed's rate cuts since then have eroded the USD's carry advantage and the decrease in US ten-year yields in particular suggests that long-end interest rate erosion may be permanent.

We anticipate that as the global economic recovery becomes more firmly established, the USD will weaken modestly in line with the shape of the US yield curve; the USD typically dips with moderate yield-curve steepening during economic recoveries as investors no longer need to hold safe-haven assets.

USD weakness is a benign development for G10 and emerging market currencies. Because the USD has a hegemonic role in trade and reserve currency status, even a slight drop in the USD is beneficial for global growth prospects as the cost of external financing declines and global trade tends to increase.

G10 high-beta currencies are set to outperform

G10 currencies with a traditionally high beta to global economic growth have performed well since the lows they reached in mid-March.

The recovery in the likes of AUD, CAD and NZD is a reflection of higher energy prices, a modest rise in commodity prices and the gradual reopening of the Chinese economy. The latter factor is particularly important, because the two-stage nature of the Chinese recovery (manufacturing first, services second) implies that there are still upside risks for Antipodean currencies, despite monetary policy easing programmes from the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ).

We expect that USD weakness, which should become more evident in the second half of the year when the global economic recovery is more firmly established, will provide a tailwind both for high-beta G10 currencies and for commodities, which are priced in USD. Consequently, we anticipate further upside for AUD/USD towards levels of around 0.71 by year-end. USD/CAD is likely to grind lower, towards 1.35, with risks on the downside of our forecast.

The EUR will be a beneficiary of the global economic recovery, reflecting the eurozone's extensive share of global exports. The European Commission's rescue fund announcement is not a game-changer for the EUR, but it will succeed in suppressing peripheral countries' yields. We anticipate EUR/USD may rise to around the 1.14 mark by year-end, which is mainly a reflection of USD weakness. The European Central Bank (ECB) will not favour a faster pace of EUR appreciation, given the fragility of the eurozone's domestic economy.

GBP normally tends to benefit during periods of global economic recovery, but the lingering prospect of a failure in EU–UK trade negotiations suggests that it will fail to appreciate materially over the coming weeks and months. GBP volatilities are likely to increase ahead of the June European summit, and the lack of progress in trade negotiations so far indicates that there is a real prospect of the EU and the UK failing to achieve a trade agreement by year-end.

The Bank of England (BoE) has raised the possibility of implementing negative deposit rates, which would be a first for a current account deficit economy and, we believe, an extremely malign development for GBP.

The bottom line is that political and economic risks are starting to increase for GBP and consequently we anticipate that GBP/USD may decline below 1.20 over the coming months.

Safe-haven currencies will remain in demand

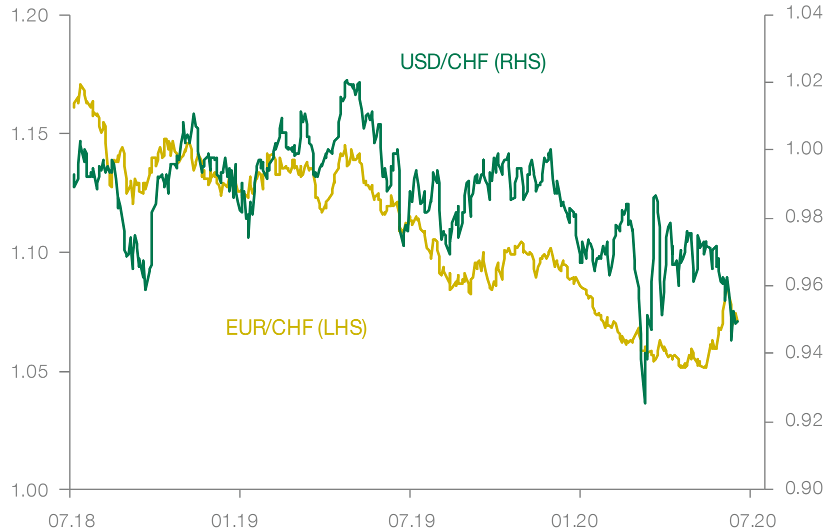
The emerging recovery of the global economy and the improvement in risk sentiment implies a modest decline in the rush to safe-haven currencies. However, underlying appreciation pressure for both JPY and CHF will continue.

The large decline in US–Japanese real yield differentials implies that USD/JPY's 'fair value' is below 100. At a minimum, the compression in US interest rates, especially at the long end, suggests that USD/JPY will struggle to rise, even if risk sentiment continues to improve. Japan's large current account surplus remains a strong source of underlying demand for JPY. The Bank of Japan (BoJ) may feel emboldened and occasionally intervene to weaken JPY, but we believe any interventions will merely slow the pace of JPY appreciation and will not change the ultimate path of USD/JPY exchange rates.

The Swiss National Bank (SNB) stepped up its currency interventions significantly from mid-March. The huge increase in its sight deposits since then (approx. CHF 100 bn), indicates continued CHF appreciation pressure. The SNB's large stock of foreign assets has grown, as has the income stream from them, meaning that the central bank now faces both a stock and a flow problem, which compounds CHF strength.

Switzerland's large current account surplus (10% GDP) means that CHF will continue to benefit from a strong underlying bid over the medium term. We think that further SNB deposit rate cuts are unlikely in the absence of a similar move from the ECB. Consequently, we think that over the medium term EUR/CHF will move closer to parity, and USD/CHF will decline to the mid-0.90s.

CHF EXCHANGE RATES UNDER APPRECIATION PRESSURE



Sources: UBP, Bloomberg Finance L.P.

As good as gold

Gold prices have surged by around 30% since June 2019. The rise in the price of gold predates the COVID-19 outbreak, but the impact of the pandemic has accelerated the underlying trend.

Central banks around the world have de facto moved from an inflation-targeting regime towards a more nuanced and implicit debt-management approach. Consequently, we do not anticipate that monetary policy-makers will react to higher inflation prints in the future, meaning that gold downside is quite limited.

The current pace and scale of global monetary easing is unprecedented and if central banks move towards further unconventional monetary policies (negative deposit rates or helicopter money), we think that gold prices could rise in a parabolic manner. Our central forecast is that they will increase in line with the decline in US real interest rates and as a function of US broad money growth. The historical correlation between gold and US M2 suggests that fair value for gold is around USD 2,100 per ounce.

If central banks do move towards aggressive unconventional easing measures, we think gold could shoot up towards at least USD 3,000 per ounce, with risks being firmly on the upside of this forecast.

Risks rising for CNH exchange rates

Although the Chinese economy has largely recovered from the impact of COVID-19, CNH exchange rates have not appreciated to any significant degree. In fact, they illustrate a small loss against the USD since the beginning of the year. Previously, we anticipated that CNH would rise over the remainder of 2020, reflecting capital inflows and higher Chinese government bond yields (on a hedged and unhedged basis) than developed market equivalents.

However, the severe deterioration in US–China relations suggests that capital inflows will not materialise and if the US administration proceeds with further political sanctions, CNH appreciation is extremely unlikely. We expect that US President Donald Trump will use his anti-Chinese stance as one of his main arguments in his re-election campaign. This would keep relations between Washington and Beijing on edge over the coming months and prevent material CNH strengthening.

The distinct risk to this scenario is that the atmosphere deteriorates even further. The Chinese leadership likely feels very self-confident and therefore unwilling to back down over the Hong Kong issue. In a stressed situation, we believe that USD/CNH could rise to levels close to 7.40.

No emerging markets rally

We anticipate that emerging market currencies will struggle to appreciate over the coming months and recommend a cautious stance. Emerging market currencies have posted heavy losses since the beginning of the year against most advanced economy currencies. There are numerous reasons for this:

- The steep decline in remittances from developed markets
- The collapse of the international and domestic tourism industries, which has battered hard-currency revenues
- The collapse of export markets in advanced economies
- Large rate cuts from several large and smaller emerging market central banks

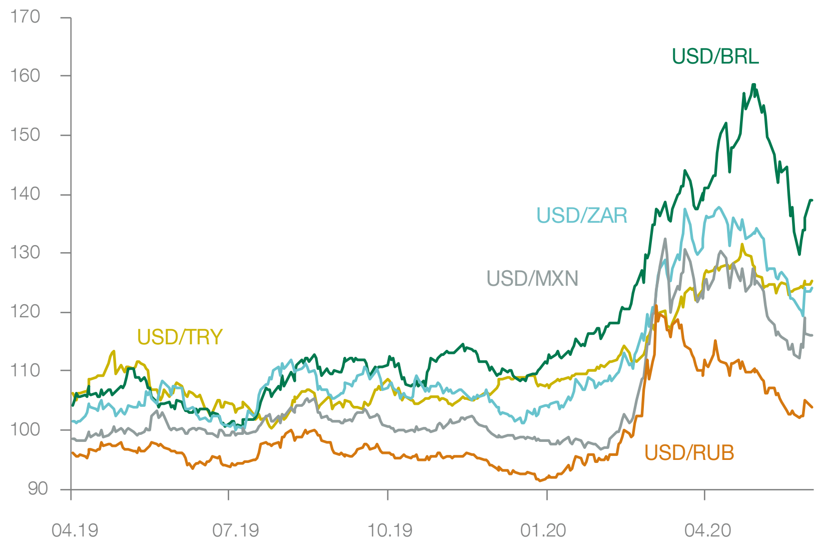
Emerging market currencies tend to rally during global economic recoveries, and especially during recoveries from deep economic crises. The usual catalyst is USD weakness and investors seeking to enter into cheap and heavily oversold emerging market currencies, which are cheap according to most standard valuation metrics.

However, there are a number of reasons to maintain a cautious stance regarding emerging market currencies. First, rate cuts from a number of central banks have significantly reduced the carry advantage of those currencies; interest rates in those markets are now very low, not only compared to developed market equivalents, but also in absolute terms.

Second, the real interest rate profiles in emerging markets will remain challenging; this is particularly relevant for TRY, ZAR and BRL. Third, many emerging market economies were growing slowly even before the COVID-19 pandemic, and there are no prospects of a material improvement in the months and years ahead. The bottom line is that emerging market currencies are likely to trade with a relatively weak bias over the coming months.

In sum, we anticipate modest USD weakness over the remainder of the year and appreciation pressures for high-beta G10 currencies. Gold will perform well and offers superb protection from tail risks.

EM CURRENCIES WEAKENED CONSIDERABLY (100 = JAN 2019)



Sources: UBP, Bloomberg Finance L.P.

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Group CIO and Co-CEO Asset Management

Michaël Lok, who has over twenty years of experience in wealth and asset management, joined UBP in 2015 as Head of Investment Management. Previously, he was Global Head of Asset Management with Indosuez Wealth Management (Crédit Agricole Group), where he developed a range of UCITS funds for Private Banking and a set of UHNWI mandates and dedicated investment solutions with a focus on Asia and Latin America. This followed his roles as Head of Investment and Head of Risk and Quantitative Portfolio Management. Before that, he was Portfolio Manager at Banque Martin Maurel and HSBC France (ex-CCF). Michaël Lok holds two Master's degrees, one in Finance (DESS) and one in Banking and Finance (DEA), from the University of Aix-en-Provence.

NORMAN VILLAMIN

CIO Wealth Management

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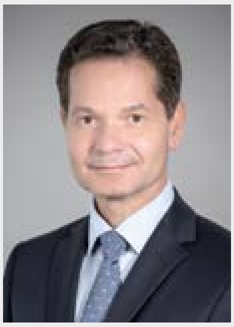

PATRICE GAUTRY

Chief Economist

Patrice Gautry joined UBP in Geneva in February 2000 and heads the Bank's Economic and Thematic Research department. Prior to that, from 1991 to 1999, he worked in the Institutional Asset Management department of HSBC Group in Paris as head of economics and investment strategy. From 1988 to 1991, he was a manager of European diversified SICAV and mutual fund portfolios for the Ecofi-Finance Group. Patrice Gautry holds a Research Master's degree (Diplôme d'Etudes Approfondies) in economics from the HEC-CESA Paris and the University of Orléans, with specialisations in currency, finance and banking.

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