

PAM Secular Outlook 2020

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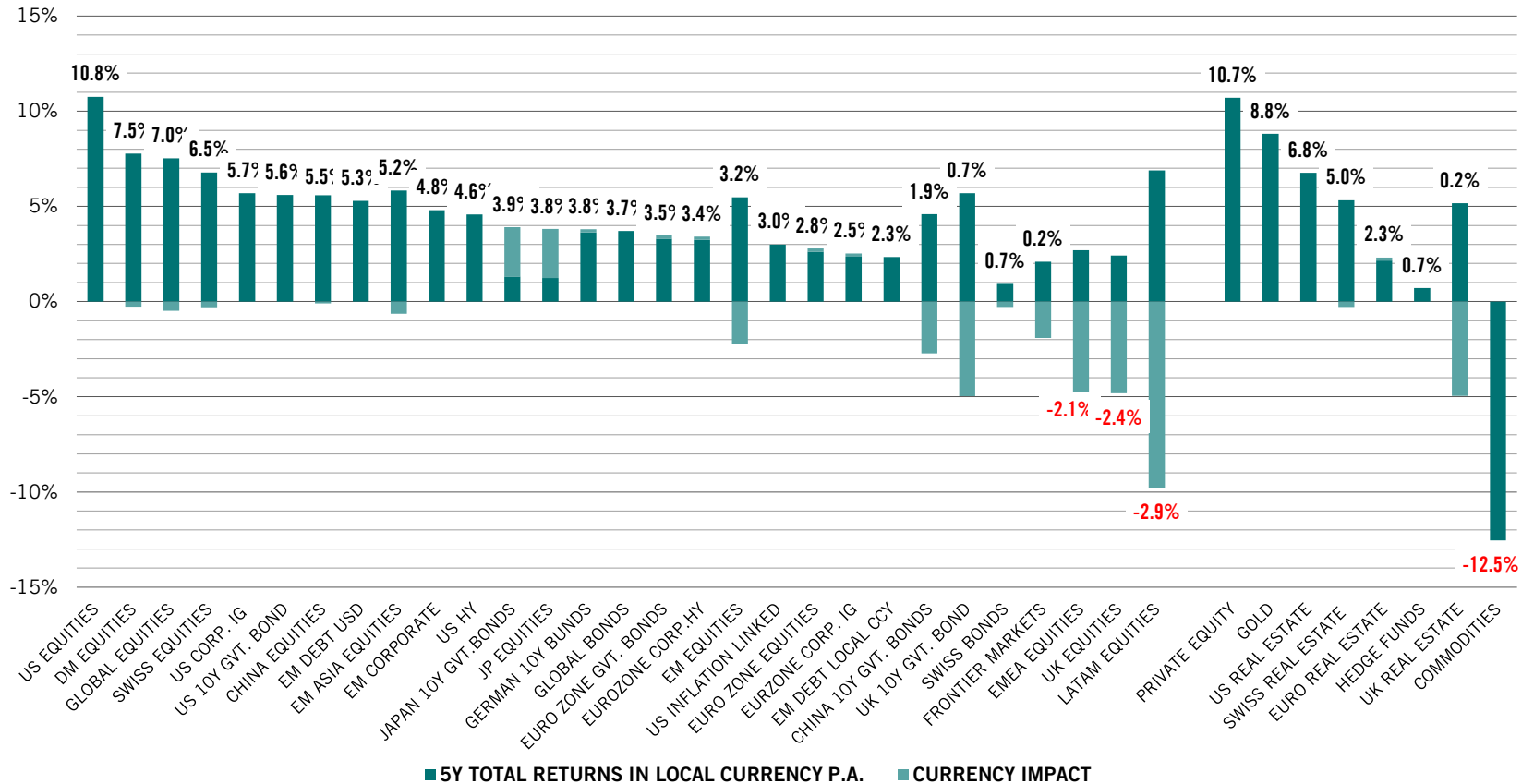
September 2020

London/Geneva



THE LAST 5 YEARS: OUTPERFORMANCE OF US ASSETS

Selected asset classes: total return p.a. over the past 5 years (in USD and local currency)



Source: Refinitiv Datastream, Pictet Asset Management. As at 30th June 2020. Benchmarks: MSCI indices for equities, Bofa indices for DM corporate bonds, JP Morgan indices for EM bonds and Euro-zone govt bonds, SBI for Swiss bonds, Bloomberg indices for commodities, Burgiss index for private equity, HFRI for hedge funds, NCREIF/IPD/SXI for US, UK, Swiss & Europe closed ended funds for real estate markets, ICE Bullion for gold.

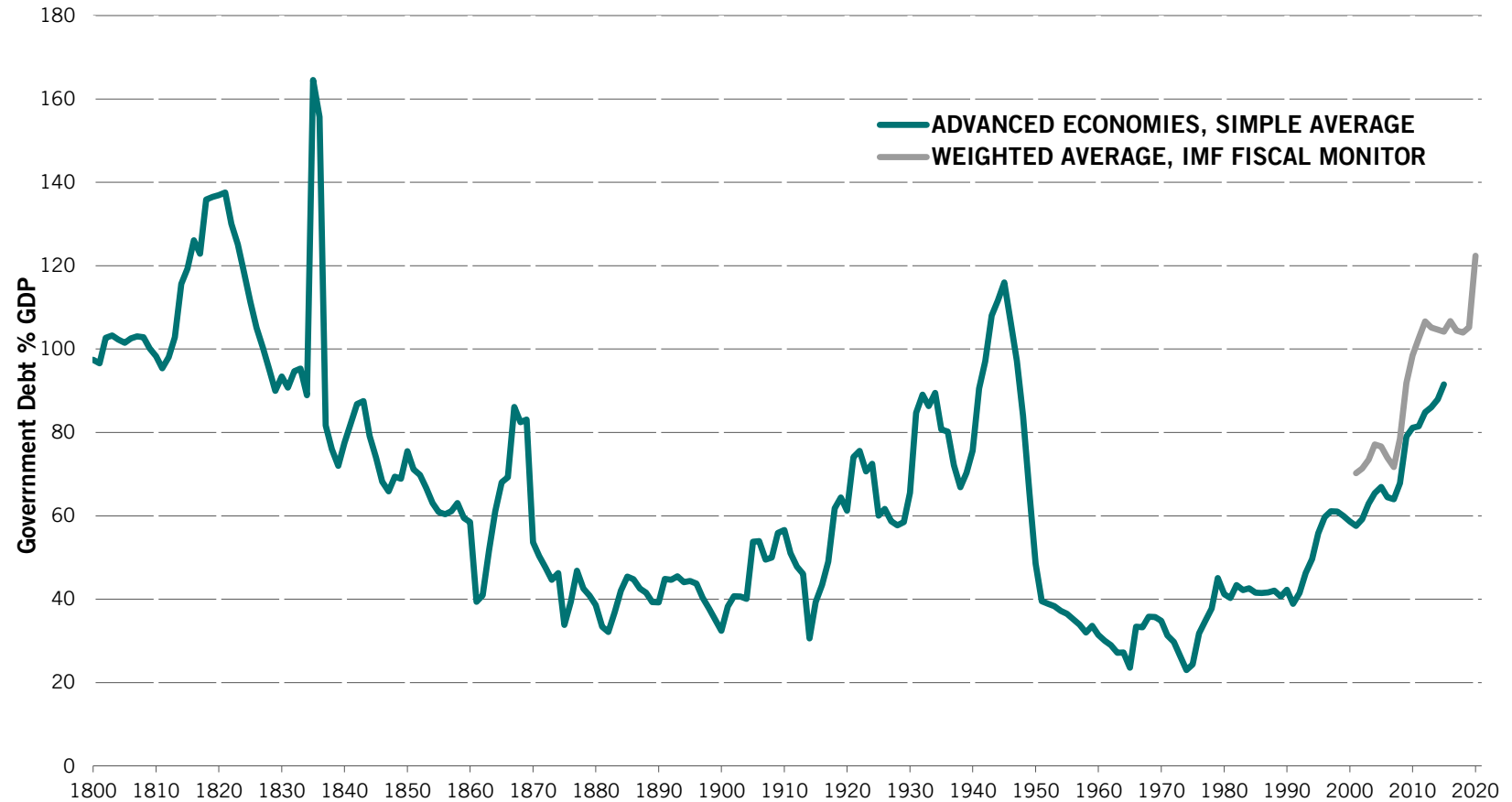
THE POST-COVID WORLD? MORE DEBT, MORE GOVERNMENT, MORE ASIA

	PRE-COVID	POST-COVID
Economy	Low growth, low inflation	Low growth, low but rising inflation
Savings ratios	In line with fundamentals	High precautionary savings
Labour	Under-paid, low security, daily commute	Minimum wage, working from home, automation
Welfare state	Means-tested, less generous, reduced scope	Extensive income support, UBI, universal healthcare
Business	Low-tax, winner takes all	Zombification, National Champions, government backstop
Inventory management	"Just in time"	"Just in case"
Government	Regulation, privacy, private interest	Dirigistic, priority of public interest
Politics	Populism, polarization	"smart" populism (technocratic)
Economic system	Shareholder capitalism	Stakeholder capitalism
Industrial policy	Government support/stakes in few strategic industries	Nationalizations, all major industries deemed "strategic"
Fiscal Policy	Fiscal responsibility, budget rules	MMT, deficit spending; "print and spend"
Taxes	On income, focussed on households	Focus on wealth/capital
Monetary Policy	"Lower for longer", "data dependent"	"Lower forever"; "opportunistic reflation"
Economic power	US global leadership	Regional blocks, power shifts to the East
Trade	"Slowbalization"	De-globalization, duplication of supply chains
International relations	Fading cooperation	Confrontational, focus on national autonomy/interest
Tech	Global tech titans, linear tech adoption	China-US decoupling, exponential tech adoption
Finance	Short-term, passive, financial engineering	ESG, sustainable investments, active investing
Civic liberties	Extensive, protection of privacy	Restricted in case of emergency
Europe	Fragmentation and reform fatigue	Fiscal integration, Risk mutualisation



THE LEGACY OF COVID-19: SURGING PUBLIC DEBT ... CAN WE PAY IT BACK?

Public debt as % of GDP, advanced economies*



Source: Refinitiv Datastream, IMF Historical Public Debt Database, IMF Fiscal Monitor April 2020, Pictet Asset Management . Simple average, weighted average after 2000. As of April 2020 (IMF forecasts for 2020-21)

WHERE NEXT FOR CENTRAL BANKS? NO FREE LUNCH - UNCOMFORTABLE OPTIONS

Policy actions/strategies	FED	ECB	BOE	SNB	BOJ	PBoC	Constraints
Forward Guidance	✓	✓	✓	✓	✓	✓	Communication mishaps/credibility. Reduced flexibility.
Co-ordinated swap lines for USD liquidity	✓	✓	✓	✓	✓	X	Fed's capital losses
Macro-prudential measures	X	X	✓	✓	✓	✓	Operative complexity, shadow markets
QE - government bonds	✓	✓	✓	✓	✓	X	Misallocation capital /distorted market signals
QE – corporate debt/ ETFs	✓	✓	✓	✓	✓	X	Asset bubbles and moral hazard; political backlash (PE bailout)
QE- equities/ETFs	X	X	X	X	✓	X	Legal constraints, asset bubble, political backlash
Negative interest rates	X	✓	X	✓	✓	X	Commercial banks' profitability, more savings
Subsidized lending to banks	✓	✓	✓	✓	✓	✓	Central bank's capital losses
Repo market backstop	✓	X	✓	✓	X	X	Weaker market signals
Regulatory forbearance	✓	✓	✓	✓	✓	✓	Moral hazard, excessive risk taking
FX targeting / QE foreign securities	X	X	X	✓	✓	✓	Central bank's capital losses, loss of policy independence, currency wars
Overhaul Inflation targeting	✓	0	X	X	X	X	Un-anchoring of Inflation expectations
Yield curve control (bond yield cap)	X	X	X	X	✓	X	Size of central bank's balance sheet, functionality of markets, moral hazard
Monetary financing of government	0	X	✓	X	0	X	Central bank's independence, inflation, currency depreciation, digital currencies
Monetization of debt	X	X	X	X	X	X	Central bank's independence, inflation, currency depreciation, digital currencies

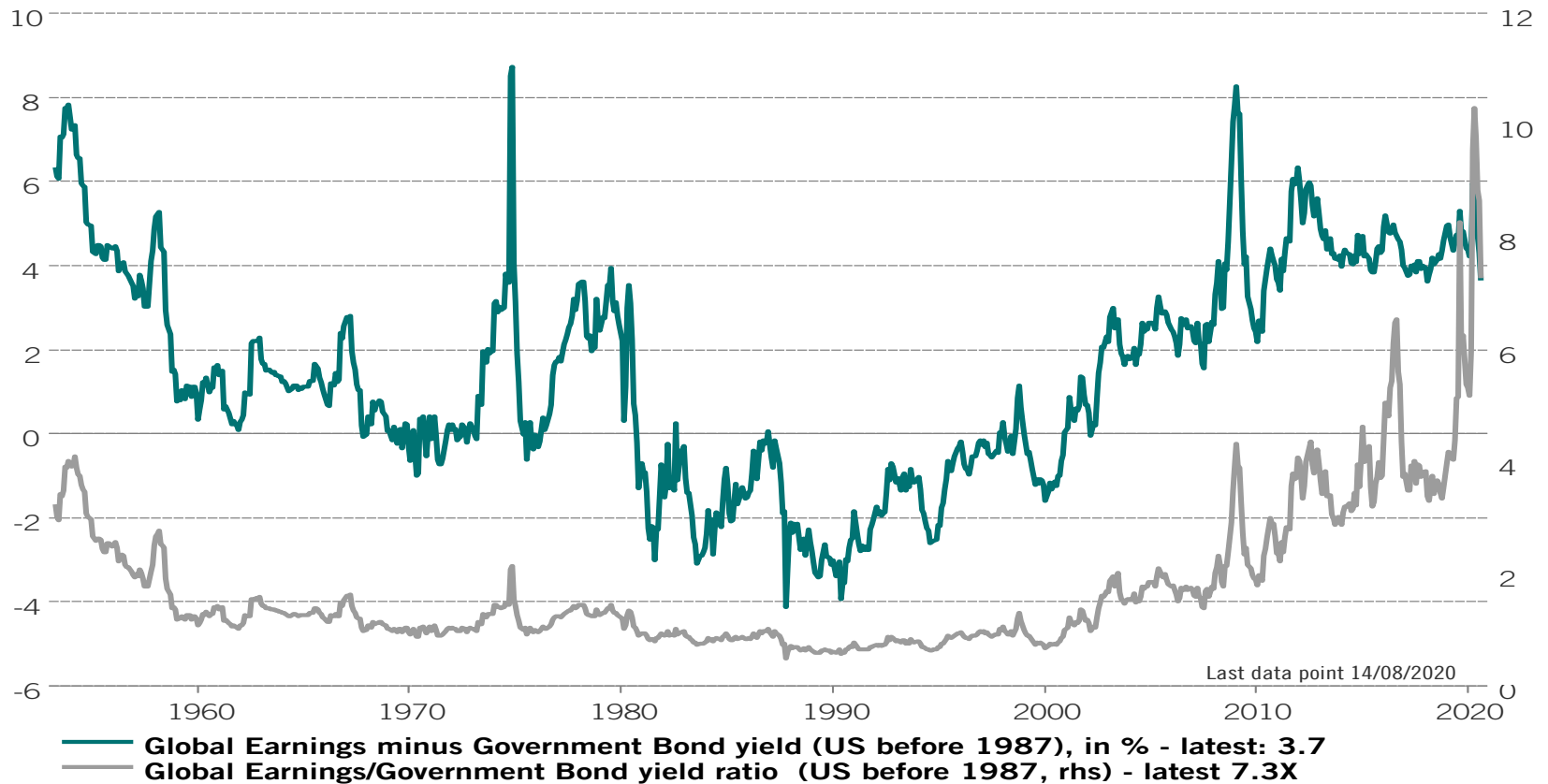
✓ : announced/implemented; 0 : under review/indirect implementation; X: not yet operational

Source: Pictet Asset Management. September 2020.



EQUITIES STILL MORE ATTRACTIVE THAN GOVERNMENT BONDS

Global earnings vs Global bond yield – spread and ratio* (US before 1987)



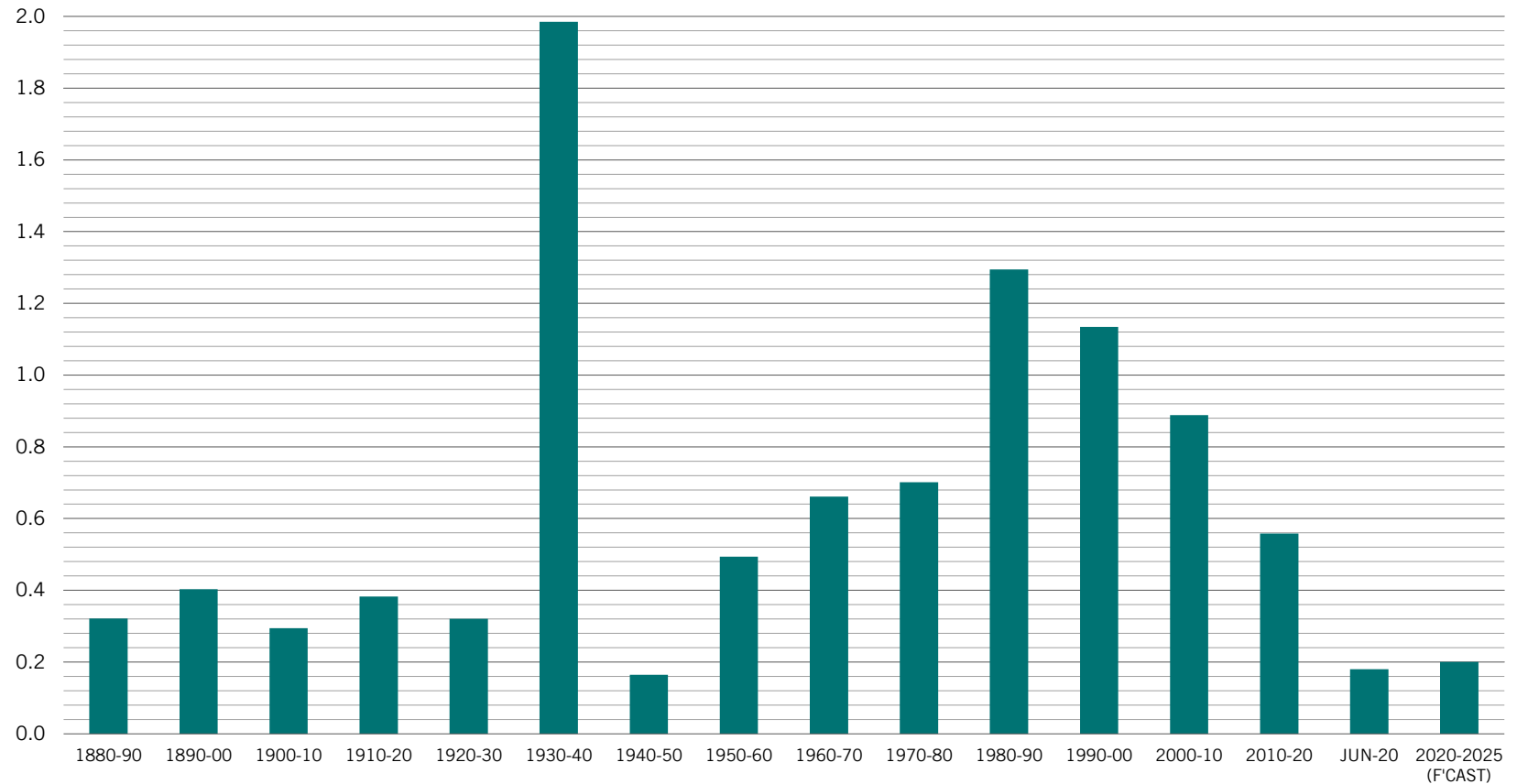
Source: Refinitiv Datastream, BofA, Pictet Asset Management.

*trailing 12m earning yield for DJ Index until 1987, DS World index thereafter. For bonds: US 10Y before 1987, ICE BofA Global government index thereafter.



FINANCIAL REPRESSION (1): BOND YIELD < TREND GDP GROWTH

Ratio of US 10Y bond yields to US nominal GDP growth, by decade*

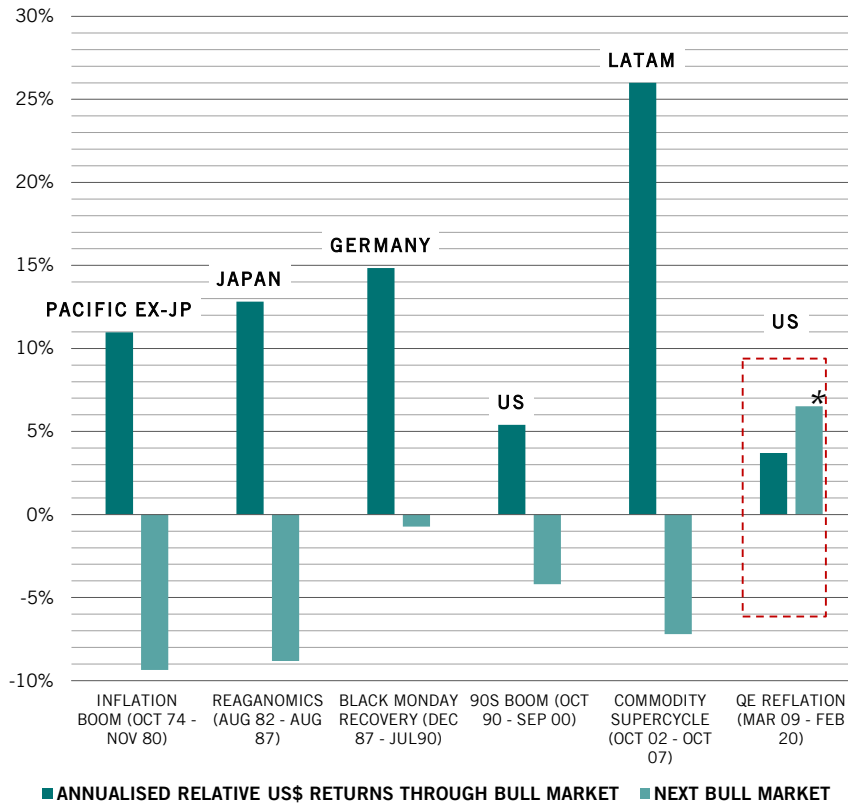


Source: Refinitiv Datastream, BEA, Federal Reserve. 1881-1930 :IMF. Pictet Asset Management. *median value by decade of nominal bond yield/nominal GDP. **for Jun-20, bond yield at 30th June / median nominal GDP of 2010-2020



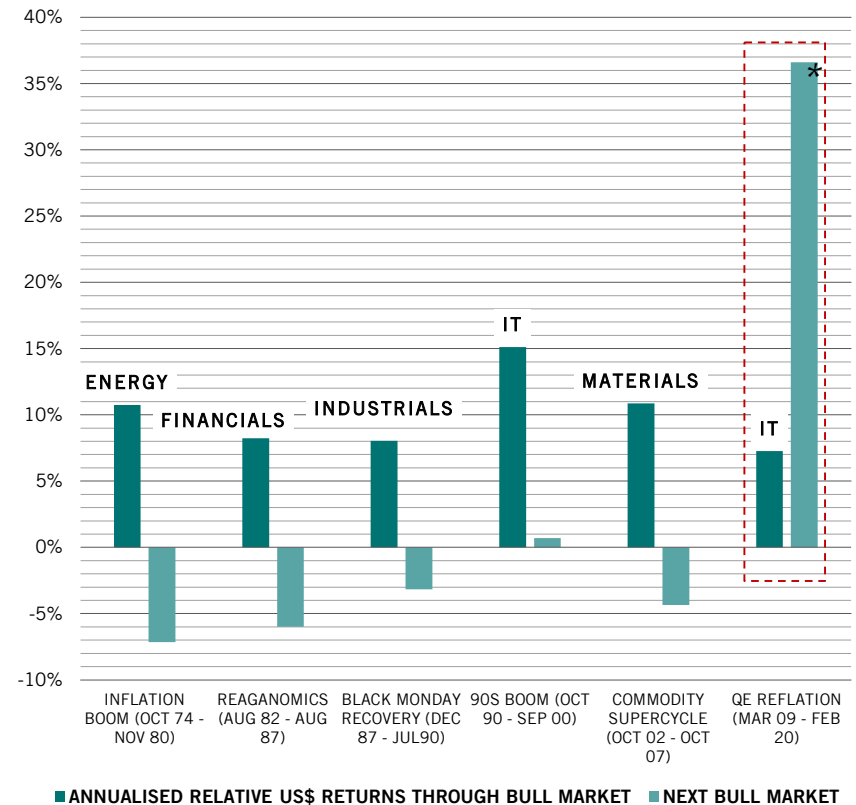
LEADERSHIP ROTATES IN THE NEXT CYCLE – US EQUITIES TO UNDERPERFORM

Regional leaders in bull markets (annualised relative US\$ performance versus performance in the following bull market*)



Source: Refinitiv Datastream, MSCI, Pictet Asset Management. *Current bull market (23rd March to 31st August)

Sector leaders in bull markets (annualised relative US\$ performance versus performance in the following bull market*)

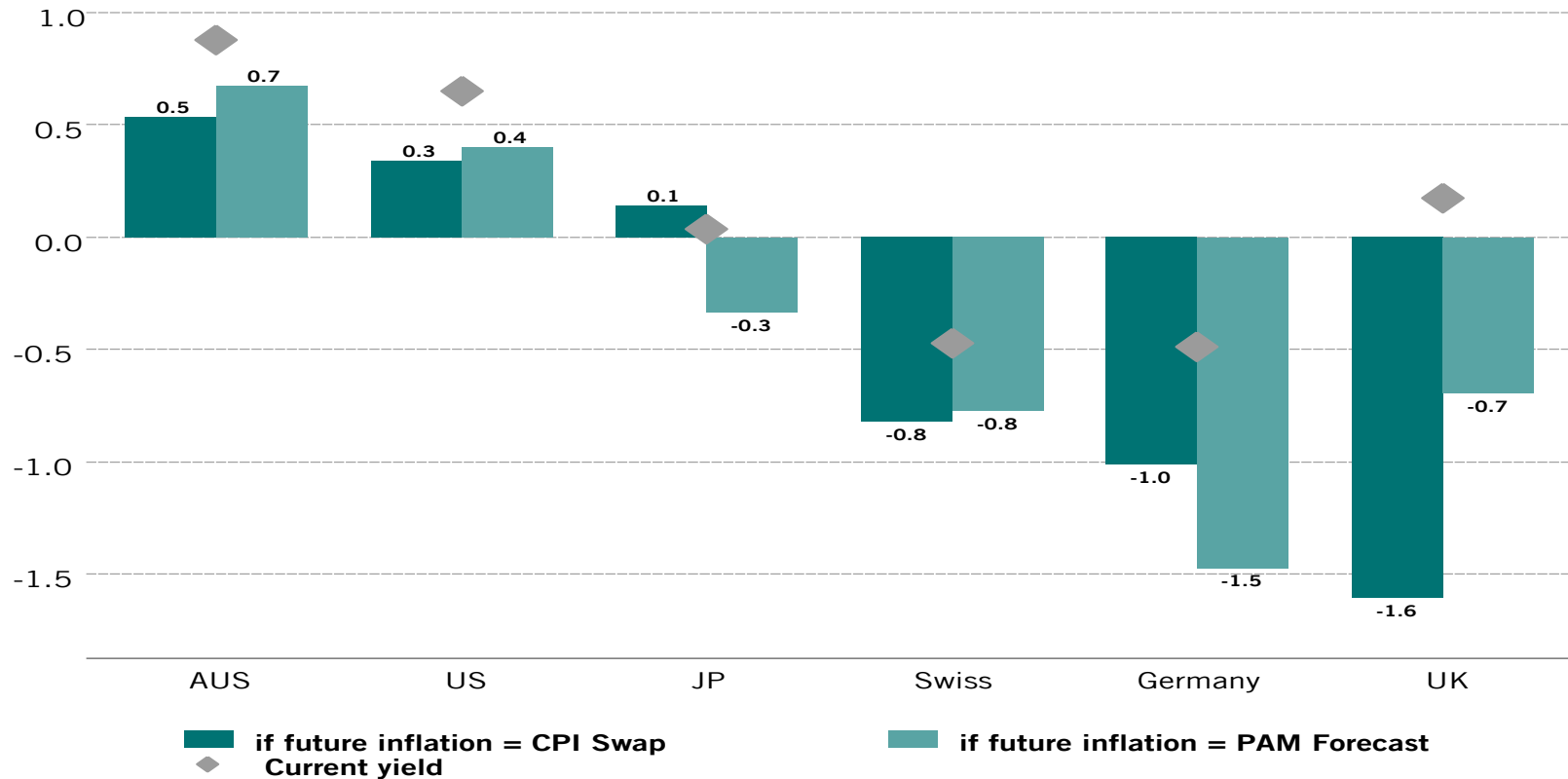


Source: Refinitiv Datastream, MSCI, Pictet Asset Management. *Current bull market (23rd March to 31st August)



... POSITIVE REAL RETURNS IN MOST DM BONDS VERY UNLIKELY GOING FORWARD

Level of bond yields in 5 years' time required to generate a positive after-inflation return*



Last Date: 18/08/20

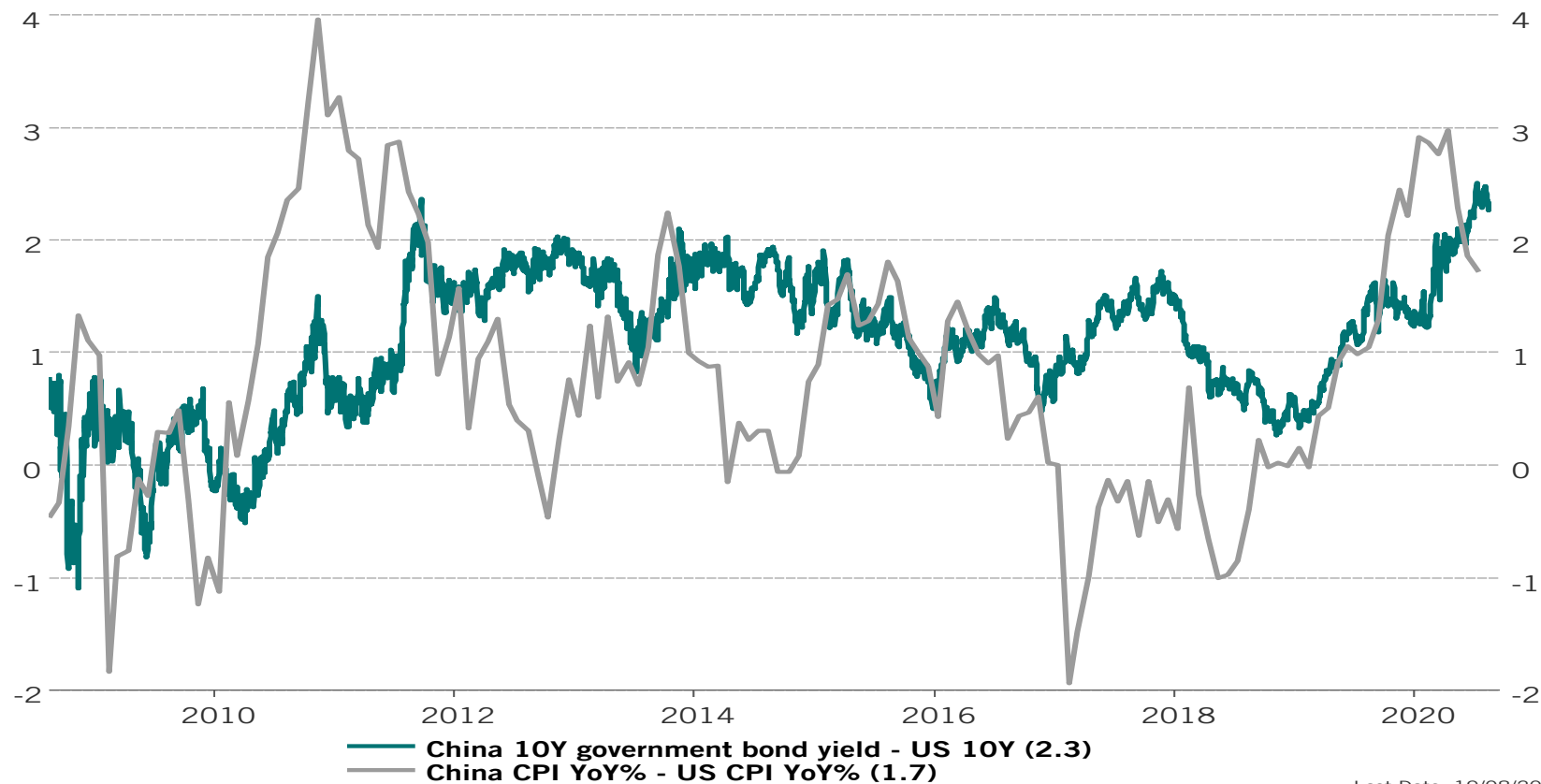
Source: Refinitiv Datastream, Pictet Asset Management.

* Total return adjusts for current roll yield. We use the 5Y inflation swap rate as an estimate market expectation of future inflation (0.5% inflation assumed for Switzerland). PAM 5Y average inflation forecast: 1.7% for US, Germany, and UK, 0.1% for Japan, 0.4% for Switzerland and 1.9% for Australia



CHINA'S GOVERNMENT BONDS: SUPERIOR INCOME AND DIVERSIFICATION

China's 10Y bond spread vs US Treasuries and inflation differential

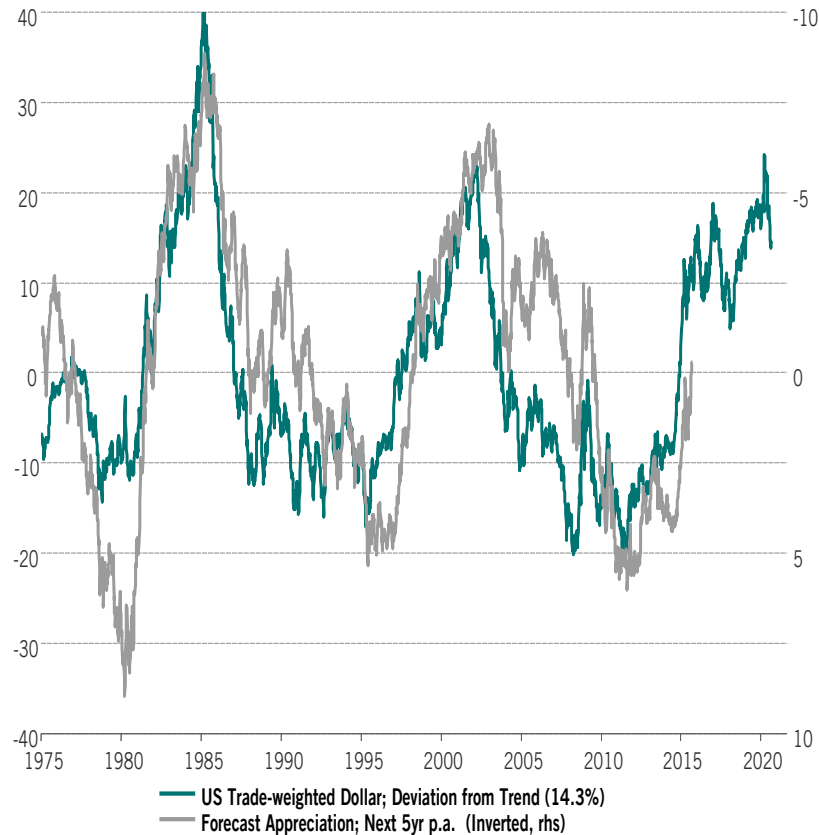


Source: Refinitiv Datastream, Pictet Asset Management.



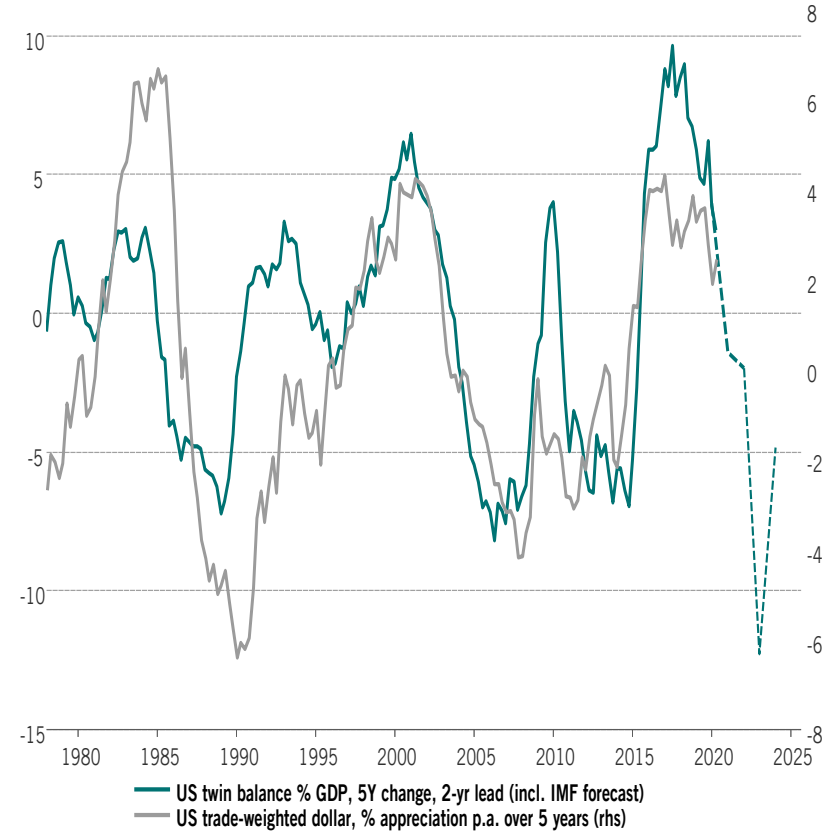
US DOLLAR SECULAR DOWNTREND TO RESUME

USD trade-weighted deviation from trend and future performance



Source: Refinitiv Datastream, Pictet Asset Management, As of August 2020.

US dollar performance and US twin deficit, actual and projected*

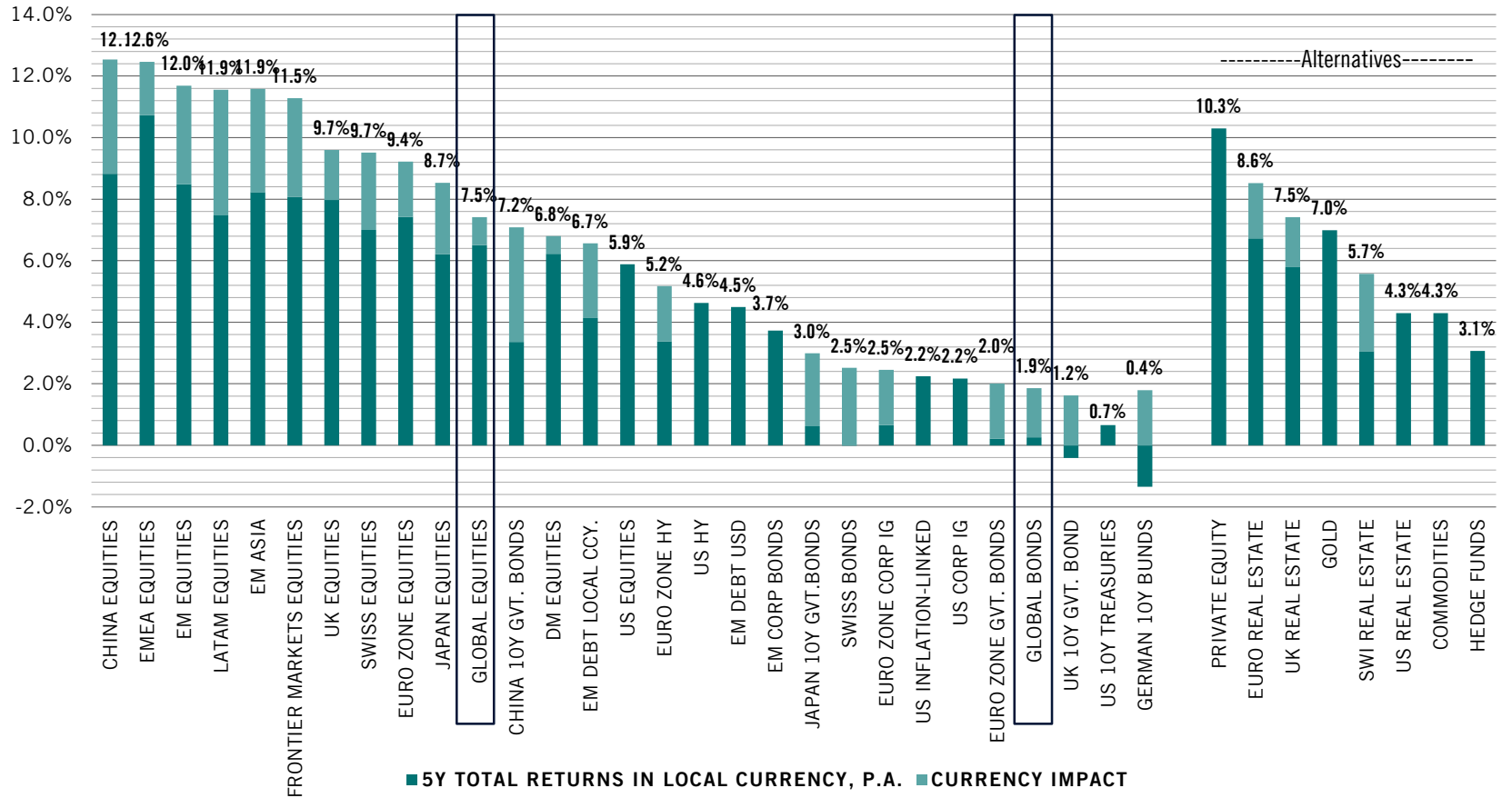


Source: Refinitiv Datastream, Pictet Asset Management, As of August 2020.

* sum of current account and government balance as % of GDP.

LONG-TERM ASSET CLASSES RETURN FORECASTS – JUNE 2020

Asset classes 5Y return forecasts in USD, p.a.



Source: Refinitiv Datastream, Bloomberg, Pictet Asset Management. As of 30th June 2020. Benchmarks: MSCI indices for equities, Bofa indices for DM corporate bonds, JP Morgan indices for EM bonds and Euro-zone govt bonds, SBI for Swiss bonds, Bloomberg indices for commodities, Burgiss index for private equity, HFRI for hedge funds, NCREIF/SXI/Europe & UK closed ended funds for real estate markets, ICE Bullion for gold. MSCI Frontier markets include Kuwait, Vietnam, Morocco, Nigeria, Kenya, Sri Lanka and others.



For more information

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