April 27, 2020

World Outlook now and after COVID-19

Presented by

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Managing Director, Marmore
Agenda

1. COVID-19 Crisis – Where do we stand?

2. What has been its impact on the economy and businesses?

3. What has been its impact on Capital Markets?

4. How good and how fast would the recovery be?
COVID-19 Crisis – Where do we stand?
Global snapshot of COVID-19 cases (As of April 26, 2020 Close)

**Confirmed Cases**: 2,897,645

**Deaths**: 202,846

**Recovered**: 816,685

**# of Covid-19 Test**: 23,683,021

**Global Distribution of COVID-19 Cases, current status**

<table>
<thead>
<tr>
<th>Country</th>
<th>Deaths</th>
<th>Unresolved</th>
<th>Recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>473</td>
<td>23,561</td>
<td>84,722</td>
</tr>
<tr>
<td>Iran</td>
<td>3</td>
<td>4,394</td>
<td>26,389</td>
</tr>
<tr>
<td>Germany</td>
<td>25</td>
<td>5,979</td>
<td>72,979</td>
</tr>
<tr>
<td>Spain</td>
<td>33</td>
<td>2,346</td>
<td>111,946</td>
</tr>
<tr>
<td>Italy</td>
<td>15</td>
<td>1,974</td>
<td>103,831</td>
</tr>
<tr>
<td>France</td>
<td>34</td>
<td>98,872</td>
<td>112,832</td>
</tr>
<tr>
<td>Turkey</td>
<td>9</td>
<td>1,273</td>
<td>115,433</td>
</tr>
<tr>
<td>USA</td>
<td>10</td>
<td>1,074</td>
<td>111,663</td>
</tr>
<tr>
<td>UK</td>
<td>0</td>
<td>2,832</td>
<td>115,942</td>
</tr>
</tbody>
</table>

**Total Cases of COVID-19**

<table>
<thead>
<tr>
<th>No: of cases Per million persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>83,909</td>
</tr>
<tr>
<td>89,328</td>
</tr>
<tr>
<td>156,513</td>
</tr>
<tr>
<td>223,759</td>
</tr>
<tr>
<td>195,351</td>
</tr>
<tr>
<td>161,644</td>
</tr>
<tr>
<td>107,773</td>
</tr>
<tr>
<td>939,053</td>
</tr>
<tr>
<td>149,569</td>
</tr>
</tbody>
</table>

**Case Fatalities**

<table>
<thead>
<tr>
<th>Case Fatalities per million persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,637</td>
</tr>
<tr>
<td>5,710</td>
</tr>
<tr>
<td>5,976</td>
</tr>
<tr>
<td>23,190</td>
</tr>
<tr>
<td>26,644</td>
</tr>
<tr>
<td>22,890</td>
</tr>
<tr>
<td>2,805</td>
</tr>
<tr>
<td>54,876</td>
</tr>
<tr>
<td>20,795</td>
</tr>
</tbody>
</table>

**Source**: Johns Hopkins University, Refinitiv, *Ourworldindata, note data is not available for all the countries and is not updated frequently*
Coronavirus Cases in GCC (As of April 26, 2020 Close)

<table>
<thead>
<tr>
<th>Confirmed Cases</th>
<th>Deaths</th>
<th>Recovered</th>
<th># of Covid-19 Test*</th>
</tr>
</thead>
<tbody>
<tr>
<td>42,855</td>
<td>254</td>
<td>7,176</td>
<td>1,424,438</td>
</tr>
</tbody>
</table>

Global Distribution of COVID-19 Cases, current status

Source: Johns Hopkins University, Refinitiv, Ourworldindata, note data is not available for all the countries
Coronavirus Cases in Saudi Arabia (As of April 26, 2020 Close)

**Confirmed Cases**: 16,299

**Deaths**: 136

**Recovered**: 2,215

**# of Covid-19 Test**: 180,000

Source: Johns Hopkins University, Refinitiv, * As of April 19th

Note: 5 day trend chart- Derived from the difference in the cumulative cases over the latest 5 subsequent day
Coronavirus cases in India (As of April 26, 2020 Close)

**Confirmed Cases**: 26,496  |  **Deaths**: 826  |  **Recovered**: 5,914  |  **# of Covid-19 Test***: 625,309

Source: EU open data portal, * - Indian Council for medical research
How does it compare with previous outbreaks?

- On an average, each person with COVID-19 infects 2-3 people
- High incubation period make carriers asymptomatic for a long time
- The virus strain continues to evolve; Still a lot of unknowns

Incubation Timeline

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flu</td>
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<tr>
<td>H1N1</td>
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<tr>
<td>Spanish Flu</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SARS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>Measles**</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>COVID-19***</td>
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<td></td>
</tr>
</tbody>
</table>

*All but SARS have the potential for asymptomatic transmission
**Symptoms most commonly appear on Days 10-14
***The median incubation period for COVID-19 is 5.5 days, but symptoms can develop as late as 14 days post exposure

Source: Oliver Wyman
What are the key unknowns?

- **Current death rate is 7%** and it compares with a death rate of around 0.1% for seasonal flu and 0.2% for pneumonia in high-income countries.

- **Four factors** that might contribute to the differing mortality rates:
  1. who becomes infected,
  2. what stage the epidemic has reached in a country,
  3. how much testing a country is doing, and
  4. how well different healthcare systems are coping.

- **Biggest unknown** about Covid-19 is the true number of people worldwide who have contracted the virus.

- Many infected people will display either mild or no symptoms and will remain absent from the data unless they are tested.

- We don’t know if we are failing to capture infections by a factor of three or 300.

- Proportion of COVID-19 victims who would have died anyway could be “as many as half or two-thirds”.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>POP.</th>
<th># TESTED (AS OF)</th>
<th>TESTS PER MILLION PEOPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>62.4M</td>
<td>1,305,833 (Apr. 18)</td>
<td>20,926</td>
</tr>
<tr>
<td>United States</td>
<td>329.4M</td>
<td>3,893,815 (Apr. 20)</td>
<td>11,821</td>
</tr>
<tr>
<td>South Korea</td>
<td>51.8M</td>
<td>563,035 (Apr. 20)</td>
<td>10,862</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>65.8M</td>
<td>501,379 (Apr. 20)</td>
<td>7,624</td>
</tr>
<tr>
<td>Turkey</td>
<td>84.2M</td>
<td>634,277 (Apr. 19)</td>
<td>7,537</td>
</tr>
<tr>
<td>Japan</td>
<td>125.5M</td>
<td>116,725 (Apr. 20)</td>
<td>930</td>
</tr>
</tbody>
</table>
What has been its impact on the economy and businesses?
**COVID-19 impact on Global GDP**

**IMF Declares Global Recession**

- The coronavirus crisis will exact the biggest toll on the global economy since the 1930s Great Depression.

- IMF expects advanced economies to contract by 6.1 per cent and emerging economies by 1 per cent this year.

- Positive growth is still expected in India and China.

- This is a deep recession. It is a recession that involves solvency issues and unemployment going up substantially and these leave scars,” said Gita Gopinath, the fund’s chief economist.

- Emerging economies are predicted to perform better as a whole, boosted significantly by China.
**Oil market becomes the first major victim**

Oil fell below to its lowest level in 18 years

- Simultaneous demand and supply shocks hurting oil prices.
- WTI May futures sink into negative price territory.
GCC less able to withstand low oil prices than earlier

Source: Bloomberg
How will it affect businesses?

Not all sectors might have the same level of impact

**Indicators to monitor**

- Reluctance to travel
- Spend on consumer durables
- Shift in social interactions

**Indicators to monitor**

- Credit defaults/Late payments
- Purchasing manager index
- Unemployment claims

**Indicators to monitor**

- Recovery of economic activity in countries who were affected early
- Government and policy intervention

Source: Oliver Wyman, McKinsey
What has been its impact on Capital Markets?
COVID-19 Impact on Global Capital Markets (As of April 24, 2020 Close)

Global Market Indices

<table>
<thead>
<tr>
<th>Country</th>
<th>Current</th>
<th>52w High</th>
<th>52w Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>-28.1</td>
<td>151</td>
<td>84</td>
</tr>
<tr>
<td>France</td>
<td>-26.5</td>
<td>139</td>
<td>83</td>
</tr>
<tr>
<td>India</td>
<td>-24.6</td>
<td>136</td>
<td>82</td>
</tr>
<tr>
<td>U.K.</td>
<td>-23.7</td>
<td>134</td>
<td>85</td>
</tr>
<tr>
<td>MSCI EM</td>
<td>-21.1</td>
<td>130</td>
<td>86</td>
</tr>
<tr>
<td>Japan</td>
<td>-17.4</td>
<td>123</td>
<td>84</td>
</tr>
<tr>
<td>MSCI World</td>
<td>-15.7</td>
<td>123</td>
<td>79</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-12.1</td>
<td>120</td>
<td>77</td>
</tr>
<tr>
<td>China</td>
<td>-7.8</td>
<td>111</td>
<td>94</td>
</tr>
</tbody>
</table>

Global Sector Indices

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current</th>
<th>52w High</th>
<th>52w Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>-40.0</td>
<td>176</td>
<td>100</td>
</tr>
<tr>
<td>Financials</td>
<td>-31.0</td>
<td>146</td>
<td>105</td>
</tr>
<tr>
<td>Industrials</td>
<td>-25.1</td>
<td>137</td>
<td>85</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>-21.5</td>
<td>128</td>
<td>82</td>
</tr>
<tr>
<td>Cyclical</td>
<td>-18.3</td>
<td>152</td>
<td>79</td>
</tr>
<tr>
<td>Telecom</td>
<td>-14.2</td>
<td>118</td>
<td>80</td>
</tr>
<tr>
<td>Utilities</td>
<td>-14.0</td>
<td>125</td>
<td>80</td>
</tr>
<tr>
<td>Non Cyclical</td>
<td>-10.4</td>
<td>114</td>
<td>84</td>
</tr>
<tr>
<td>Tech</td>
<td>4.9</td>
<td>116</td>
<td>78</td>
</tr>
<tr>
<td>Healthcare</td>
<td>1.8</td>
<td>105</td>
<td>75</td>
</tr>
</tbody>
</table>

Fixed Income & Credit Spreads

Gold, Oil & Currency

<table>
<thead>
<tr>
<th>Asset</th>
<th>Current</th>
<th>52w High</th>
<th>52w Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>+13.9</td>
<td>347</td>
<td>100</td>
</tr>
<tr>
<td>IPE Brent</td>
<td>-67.5</td>
<td>90</td>
<td>74</td>
</tr>
<tr>
<td>Bitcoin</td>
<td>-6.2</td>
<td>169</td>
<td>65</td>
</tr>
<tr>
<td>U.S Dollar Index</td>
<td>+3.3</td>
<td>843</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: Refinitiv. Note: Thomson Reuters indices have been considered for Global Sectors; YTD performance have been reported.
COVID-19 Impact on GCC Capital Markets  
(As of April 23, 2020 Close)

GCC Market Indices

GCC Sector Indices

GCC 5yr CDS Spreads (bps)

GCC Volatility

Source: Refinitiv; Note: Thomson Reuters indices have been considered for GCC; YTD performance have been reported
Earnings in Europe and U.S. expected to take a beating

Source: FT research
The optics of cheap Fed leverage fueling capital market

- Central banks have pulled a series of levers. Fed has even pledged to buy riskier credit, helping to lessen the pain for companies that borrowed excessively during the good times — and their owners, such as private equity firms.

- For Wall Street, such actions suggest the worst is behind us, and stocks have rallied accordingly.

- Meanwhile, the real economy is deteriorating.

- Investors need to assess, then, whether the divergence between financial markets and the state of the broader economy implies too much faith in support from central banks and governments.

- The next phase of disruption “will probably extend the pain of real-economy deleveraging and financial capital repair, after a decade of low productivity, low yields and high leverage”.

- At this juncture, the broad performance of equity and credit suggests that long-term trends in sales and profits for many companies will remain intact.
How good and how fast would the recovery be?
How deep are we into the crisis?

SARS¹
6 months critical
8,096 infected
774 Deaths

Nov 2002
First
emerges in
China

Feb 2003
Patient A
brings SARS
to HK

Mar 2003
Toronto,
Singapore,
Thailand
outbreaks

Apr 2003
>5,000 cases,
super spreader,
SARS clinically
identified

May 2003
New cases drop
dramatically, WHO
lifts travel bans

July 2003
WHO declares end of
epidemic (though there are
spot cases for next year)

4 months
Global Spread
Viral sequence

5 months
Source country
under control

Ongoing
2.8 million cases;
0.2 million deaths.

COVID-19²

Dec 2019
First
emerges in
China

Jan 2020
WHO declares
state of
emergency

Feb 2020
>80,000 cases and
community spread
outside of China

March, 2020
China’s factories back at
60-70% capacity as
quarantines lifted

1 month
Viral
sequencing

2 months
Global
Spread

3 months
Source country
possibly under
control

4 months
Source country back under control;
U.S., Spain and Italy surpass China in cases

Source: Oliver Wyman
How things could play out?

Can all countries suppress the spread through lockdowns, and can they maintain low cases after easing down regulations?

- Yes
  - Scenario 1
    - 4-6-month impact
  - No
    - Will effects of virus dampened due to external factors like mutation, seasonality or new treatment?
      - Yes
        - Scenario 2
          - 6-12-month impact
      - No
        - Scenario 3
          - 12+ month impact

Source: Oliver Wyman
Things that could change the course

- **The second wave**: China has eased down lockdown; infected cases spike up again.
- **Effectiveness of containment measures**: Most countries (EU and U.S.) are still having exponential growth. Can they get the situation under control?
- **Residual traces**: Patients who have recovered might have residual traces that can infect others
- **Mutation impact**: Viruses could undergo mutation and lose their virility over time
- **Seasonality**: Increase in temperature could slow down outspread as witnessed in the case of other coronaviruses; Norther hemisphere is moving towards summer months.
- **Vaccine/treatment development**: Can companies fast track the development of a vaccine? Will a successful treatment be developed?

Source: Oliver Wyman
## Business impact of each scenario

### Scenario 1
**4-6-month impact**

- **Mild** recessionary phase followed by a recovery.
- **Earnings affected for 2-3 quarters** before recovery in consumer confidence and demand.
- Supply chain shocks for a temporary phase.
- Some industries like **Travel, hospitality face prolonged pain** while others recover.
- **Initial stimulus** measures by Central banks/governments would be implemented.
- Gradual **lifting of quarantine** and travel restrictions.

### Scenario 2
**6-12-month impact**

- **Moderate** to severe **recession** in deeply **affected countries**.
- Continued drop in consumer **demand** and confidence.
- **Supply chains** could have a volatile period of six months before stabilizing.
- **Smaller businesses would not survive** extended shutdowns.
- Government **intervention** like extension of unemployment insurance, credit to SMEs might have to be undertaken.

### Scenario 3
**12+ month impact**

- **Severe global recession** in 2020, moving into 2021.
- Sectors like **Travel, hospitality, Auto and energy** will be badly hit and would need additional liquidity support; will affect dependent sectors as well.
- Governments might have to roll out additional **stimulus measures**
- Governments might be forced to lift suppression measures to revive economy; re-emergence of COVID-19 cases will mean a **cycle of lockdowns and relaxation**

Source: Oliver Wyman
When the global economy could return to pre crisis levels?

If the virus can be contained soon

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP drop 2019 Q4–2020 Q2 % change</th>
<th>2020 GDP growth % change</th>
<th>Time to return to pre-crisis Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-3.3%</td>
<td>-0.4%</td>
<td>2020 Q3</td>
</tr>
<tr>
<td>USA</td>
<td>-8.0%</td>
<td>-2.4%</td>
<td>2020 Q4</td>
</tr>
<tr>
<td>World</td>
<td>-4.9%</td>
<td>-1.5%</td>
<td>2020 Q4</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-9.5%</td>
<td>-4.4%</td>
<td>2021 Q1</td>
</tr>
</tbody>
</table>

If recovery is muted

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP drop 2019 Q4–2020 Q2 % change</th>
<th>2020 GDP growth % change</th>
<th>Time to return to pre-crisis Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-3.9%</td>
<td>-2.7%</td>
<td>2021 Q2</td>
</tr>
<tr>
<td>USA</td>
<td>-10.6%</td>
<td>-8.4%</td>
<td>2023 Q1</td>
</tr>
<tr>
<td>World</td>
<td>-6.2%</td>
<td>-4.7%</td>
<td>2022 Q3</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-12.2%</td>
<td>-9.7%</td>
<td>2023 Q3</td>
</tr>
</tbody>
</table>

Source: McKinsey
How will the path to recovery be?

Four scenarios for economic development

- **V shape**: Quick recovery, immediate growth decline, followed by quick global recovery (within 2-3 months)
- **U shape**: Global slowdown, A shrink in growth, with slow return to trend growth
- **W shape**: Multiple waves, Multiple rebounds, preventing overall long-term economic stabilization but allowing targeted recoveries
- **L shape**: Recession, Severe decline without any return to growth for many years

Source: Arthur D. Little analysis

- It will not be an elegant choice of V or U or W or L. Rather it will be an ugly combination of U and L.
- We should remember that we still haven’t figured out how deep the economic impact is since the Virus is still playing out.
- Also, from an experience point of view, there is no parallel to draw some lessons as this is a unique crisis that has affected both the demand and supply side of the equation.
- While the comeback of demand is contingent on jobs and confidence about future, the comeback of supply is dependent on government support and business confidence. As you can see, there are too many unknown unknowns.
What should investors do?

- Current projections still underestimate the severity of the shutdown of the global economy, an inherently messy restart process.
- Big companies lack visibility on what lies ahead and are suspending guidance on earnings.
- Many companies have also rushed to raise precautionary cash, including by issuing more debt.
- An alarming rise in unemployment is encouraging households to be more cautious on spending.

**What should investors do?**

- Investors should move out of companies and sovereigns with weak balance sheets and into those with large cash buffers, limited short-term debt and, if possible, positive cash generation.

- Investors should also sell exposure to companies that will find it hard to rebound fully in the post-crisis world and buy beneficiaries of what are likely to be durable themes — opting more for self insurance and less for the efficiency of global supply chains and massive outsourcing; physical to virtual; and greater deglobalisation.

- Investors should also keep cash on hand for attractive opportunities in collateralised credit, distressed and “special situations” that take advantage of a big but reversible market failure.

Source: Financial Times
Final thoughts

- **Where we stand** – Many nations still have exponential growth in cases reported; Still a lot of unknowns – no great clarity on how things would pan out; Oil price war coming at a bad time; Next few weeks could be critical in determining the course.

- **Business impact** – Global supply chains heavily affected; Companies need to find alternatives to sustain; Transport, Manufacturing and Tourism sectors to face the grunt; Healthcare, Digital Technology and Telecom may benefit from the new normal.

- **Road to recovery** – Social distancing and lockdowns are showing positive results. Aggressive testing and isolation is critical at this stage to keep pressure on healthcare systems low. Stimulus measures key to economic recovery.

- **Economic impact** – Global economies with the exception of China and India are likely to go into recession; A pessimistic scenario would mean a recovery could be in Q3 2020 for the world and Q1 2023 for the U.S.

- **Capital market impact** – Be patient and stay invested; Markets are fuelled by Central Bank action and not by economic factors; Pandemic crisis is much different from what we have seen earlier.
THANK YOU