

## Recession Risk Rising

The crisis in confidence stemming from COVID-19 has become increasingly self-fulfilling, which has brought into question our outlook for global growth as government efforts to contain the virus restricts economic activity and as individuals self-isolate in response to the fast-spreading pandemic.

We have regrettably underestimated both the extent and magnitude of the outbreak as it spreads aggressively across the globe, as well as the unprecedented and abrupt hit to global economic activity that comes with it.

As witnessed across Asia, severe economic pain needs to be assumed in order to ensure that the virus is contained. We are now experiencing this same trade-off across Europe and in North America. While the experience in Asia leads us to believe that the spread of the COVID in the developed world can indeed be contained, the risk prevails that the outbreak lasts longer than we anticipated and sparks a pronounced economic slowdown that extends into 2021. Moreover, the assumption that we return to a normal economic environment hinges on one of two things: An existing drug will prove effective (2-4 months) or a new vaccine is approved (12-18 months), with the latter prolonging the steep contraction through to mid-2021 until a vaccine is available.

With little visibility on the progression of the coronavirus OR the prospect for a treatment/vaccine to stem the pandemic, we have increased the probability of a global recession to 50% and have assumed a neutral stance on equities from an asset

allocation perspective. As recent market gyrations have more or less moved our portfolios closer to these targets, we will refrain from actively rebalancing the portfolios at this time. Considering the extreme levels of volatility and illiquidity in the marketplace, the rebalancing threshold should be wider than usual - though we will be looking to adapt to the environment upon increased clarity on the evolution of COVID-19.

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FROM THE GLOBAL CIO OFFICE

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