

SARASIN
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Market Outlook What's keeping me up at night...

November 2022



Fed policy has acted to deflate global asset prices

Easing supply chains, lower gas prices and a stable Dollar help markets rally this quarter

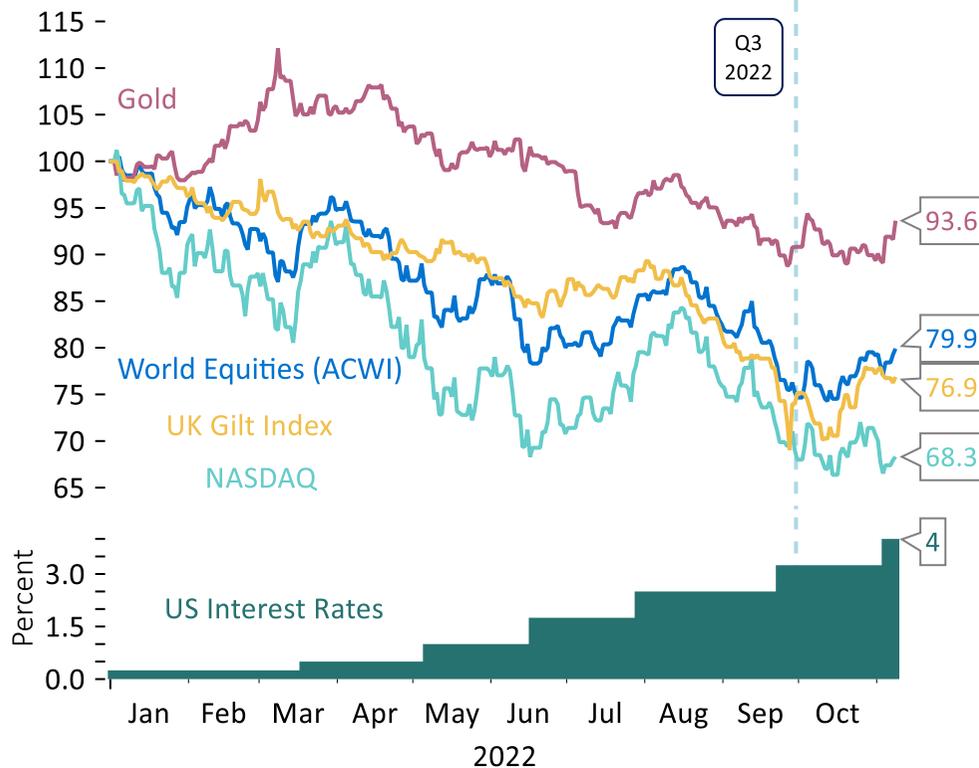


All asset classes show negative returns 2022 to date



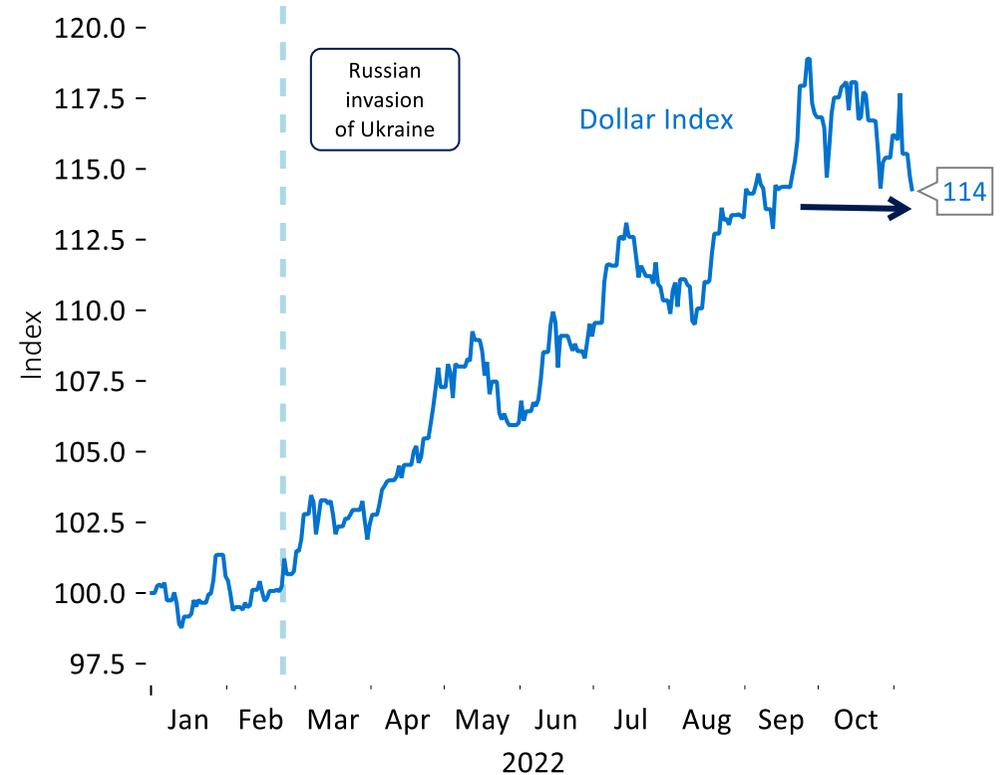
Might the Dollar's ascent be drawing to a close?

Global Asset Performance, year-to-date



Source: Macrobond, 09.11.22

US Dollar (DXY)



Source: Macrobond, 09.11.22

Risk 1. The collapse in discretionary income is unprecedented

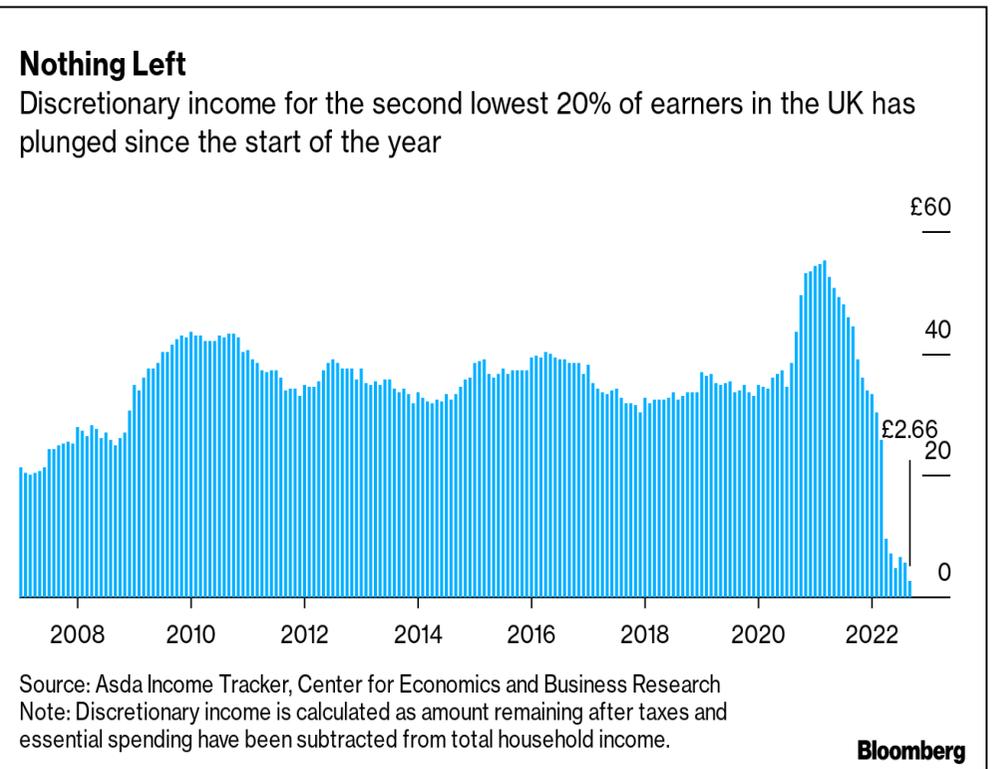
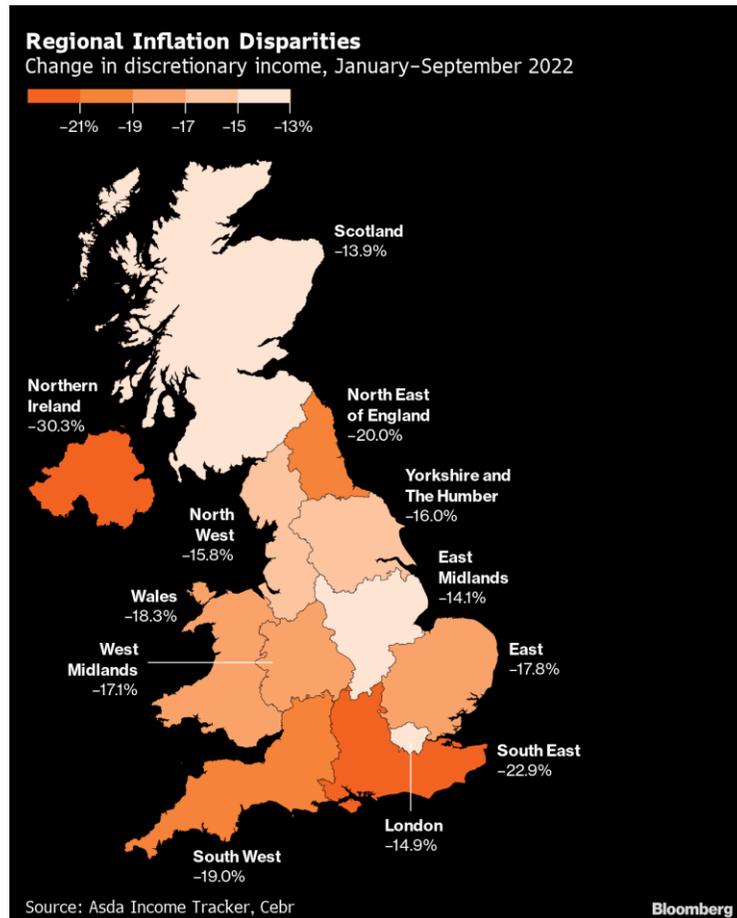
UK discretionary income – a UK wide phenomenon – impacting workers & unemployed



UK discretionary income – London & the South not spared



Squeeze in discretionary income for the working low-paid



Source: Asda/Bloomberg Economics October 2022

Source: Bloomberg, 2022

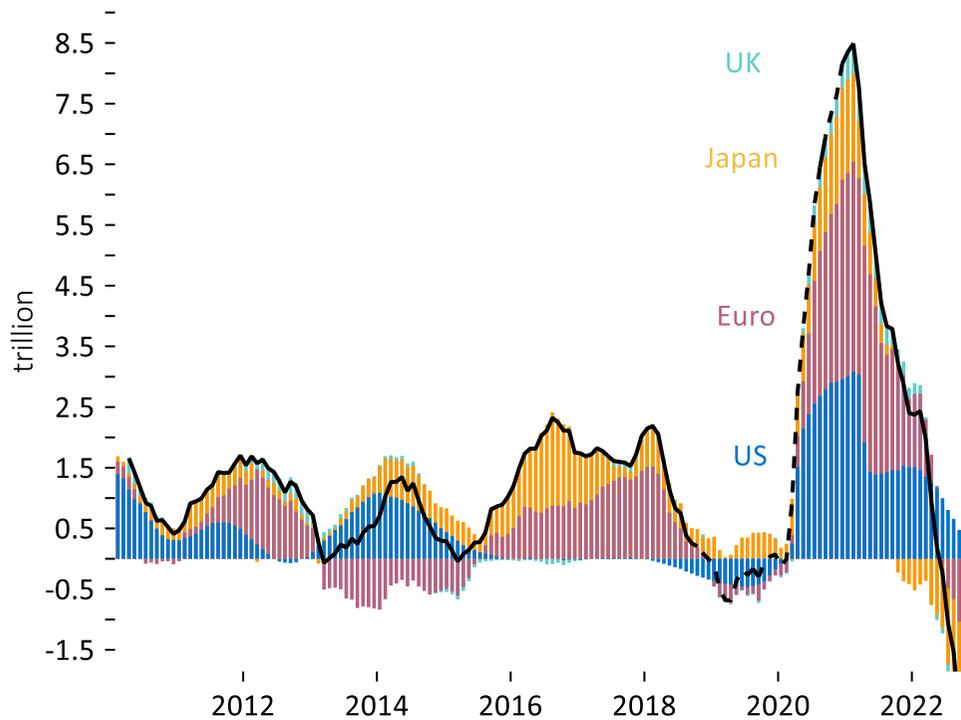
Risk 2: Quantitative tightening remains largely untested

After more than a decade of abundant liquidity & relative calm *expect greater volatility & reduced liquidity*



Central bank balance assets – annual change

12 month change in Central Bank Assets
USD trillion



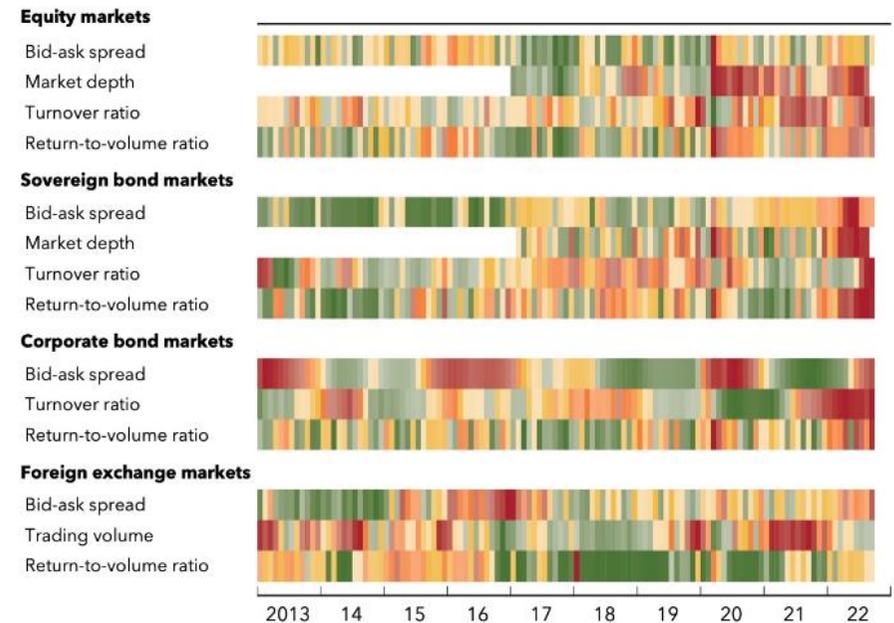
Source: Macrobond, 09.11.22



Market liquidity has worsened across asset classes

Market liquidity conditions

Standard metrics are showing some signs of deterioration. (red shows low liquidity, green is high)



Sources: Bloomberg Finance L.P.; Haver Analytics; Japan Bond Trading; JPMorgan Big Data and AI Strategies; MarketAxess; Reuters; Securities Industry and Financial Markets Association; and IMF staff calculations. Note: Indicators are based on the maximum z-score among regions. Regions are the euro area, Japan, and the US for equity markets and Germany, Italy, Japan, the UK, and the US for sovereign bond markets—except for market depth, which is for the US.



Source: IMF Financial Stability Report October 2022

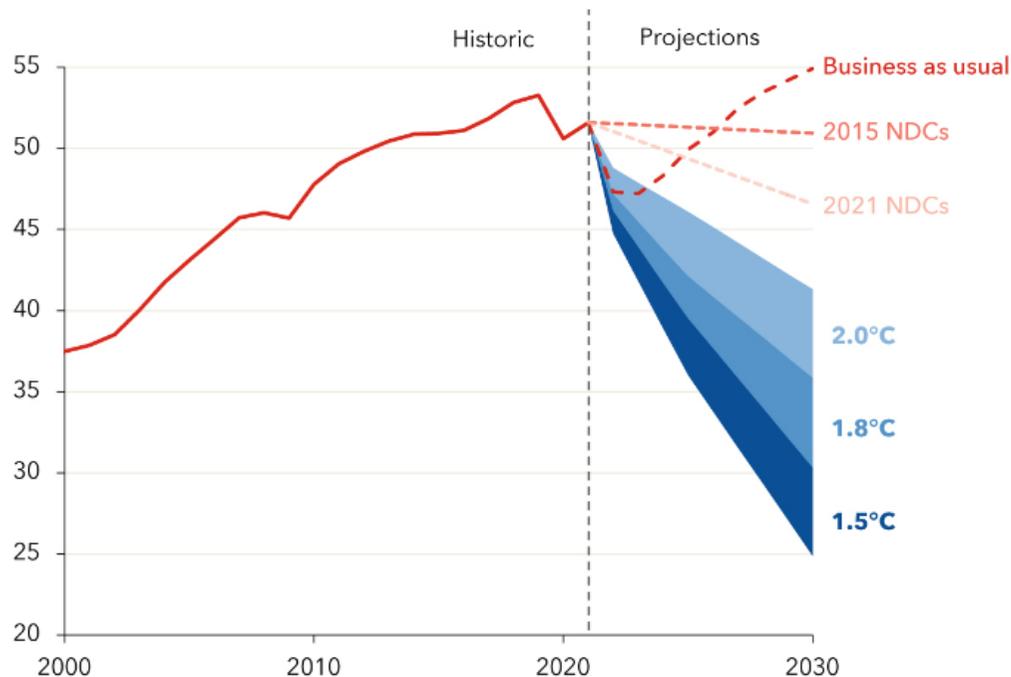
Risk 3: Can we get back on track to Net Zero?

Climate Impact 2022: Typhoons in Bangladesh, flooding in Pakistan, heatwaves in Europe, drought in Africa & China, wildfires in North America

 As world leaders meet at COP27 Net-Zero rhetoric does not yet match reality

Urgent action needed

Current climate commitments will only reduce global greenhouse gas emissions by 11% by 2030.
(global GHG emissions, GtCO₂e per year)



Source: IMF staff calculations.

Note: 11% by 2030 relative to 2019. Though emissions may decline in 2022-23 due to the recent surge in energy prices, such an outcome is highly uncertain. Without new mitigation policies, emissions are projected to keep growing through 2030 under the business-as-usual scenario. Chart excludes emissions from land use and changes to land use.

IMF

Global capital spending in the transition could rise in the short term before falling back.

8.8% of global GDP in 2026–30

6.8%

2021 -25 30 40 2050

2020 spending level

Cumulative spending of around
\$275 trillion
About 7.5% of global GDP across 2021–50

Note: Estimates based on Net Zero 2050 scenario from the Network for Greening the Financial System, which limits warming to 1.5°C, a hypothetical scenario, not a prediction or projection.

Source: *The net-zero transition: What it would cost, what it could bring by* McKinsey

Source: IMF Nov 2022 (NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change) and McKinsey Jan 2022

Finding the light at the end of the tunnel

Improved supply chains, supportive valuations & lower energy prices argue for normalising risk



Global strategy update – November 2022

Bonds	Underweight <ul style="list-style-type: none">• UW Government Bonds – global inflationary pressures remain elevated but rates are close to peaking• Neutral Investment Grade Credit – yields attractive – corporate balance sheets healthy
Equities	Neutral <ul style="list-style-type: none">• Recession will likely be mild limiting deterioration in overall earnings and dividends• Investor sentiment is sharply negative while equity seasonality is positive• Robust corporate balance sheets offer support to defensive & dividend strategies
Alternatives	Overweight <ul style="list-style-type: none">• Neutral Other Alternatives– private equity, infrastructure and renewables will be impacted by higher discount rates• Strong OW Uncorrelated Alternatives as effective diversification• Reduce gold positions as US rates rise
Cash (tactical)	Neutral
Risks	<ol style="list-style-type: none">1. Inflation shock not yet abating: US Core inflation continues to accelerate in 2023 meaning higher rates for longer2. Shrinking central bank balance sheets: QT triggers tighter liquidity and volatility issues. Central bank losses accelerate budget crisis3. Military challenges worsen: China-Taiwan reunification risks accelerate – Putin escalates with tactical nuclear ‘event’

Source: Sarasin & Partners, November 2022

Important information

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