

Six minute strategy One year on...

27 February 2023

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One year on – global asset class returns

Market returns from the start of Ukrainian invasion are negative – except in Europe

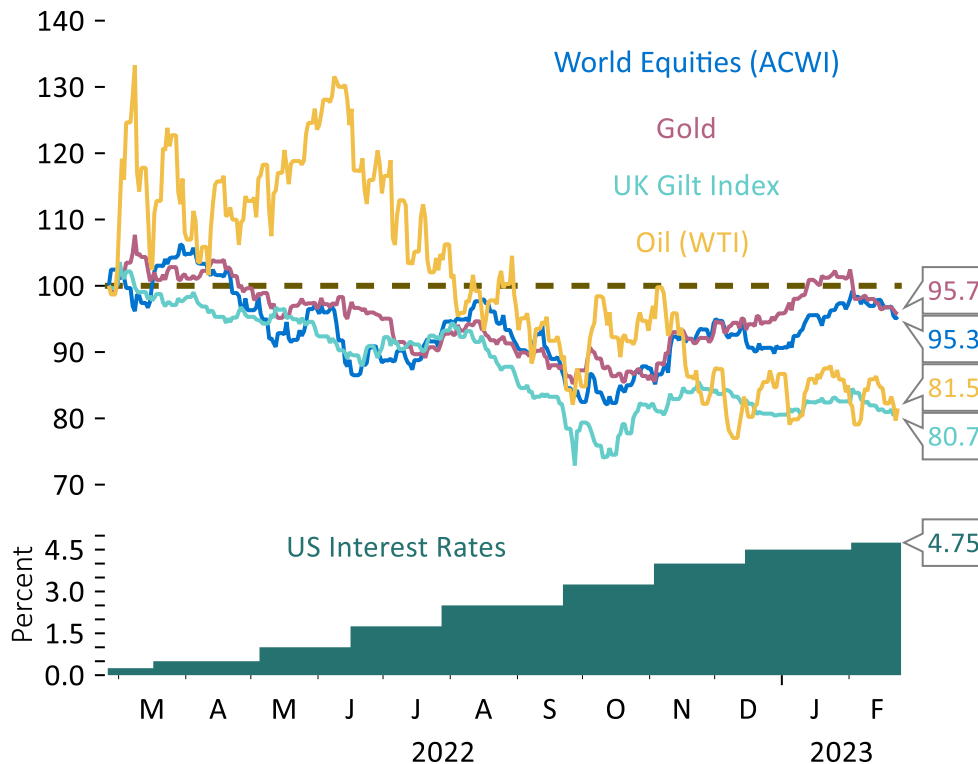


All major asset classes show negative 1 year returns



Extraordinary rally in European equities

Global Asset Performance last 12 months



Source: Macrobond, 24.02.23

Regional Equity Performance 1 year from 24/02/2022



Source: Macrobond, 24.02.23

Past performance is not a guide to future returns and may not be repeated.

1. Why have European equities rallied?

A remarkable pivot away from Russian gas has actually left prices lower than 1 year ago

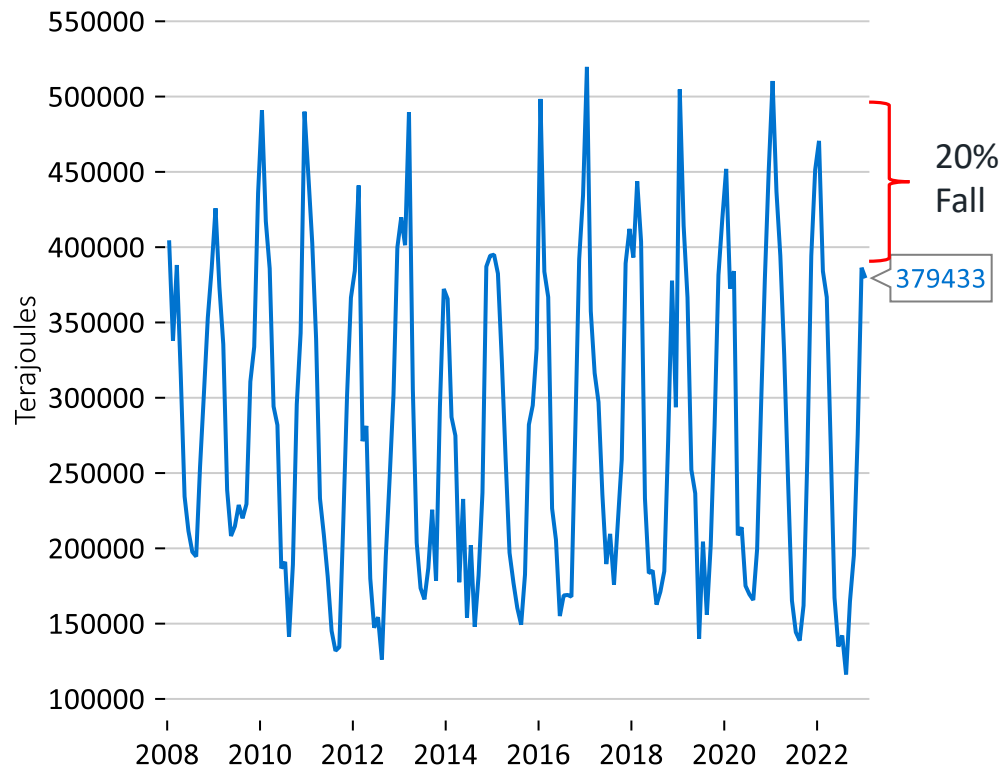


German gas consumption: 20% cut with little impact on GDP



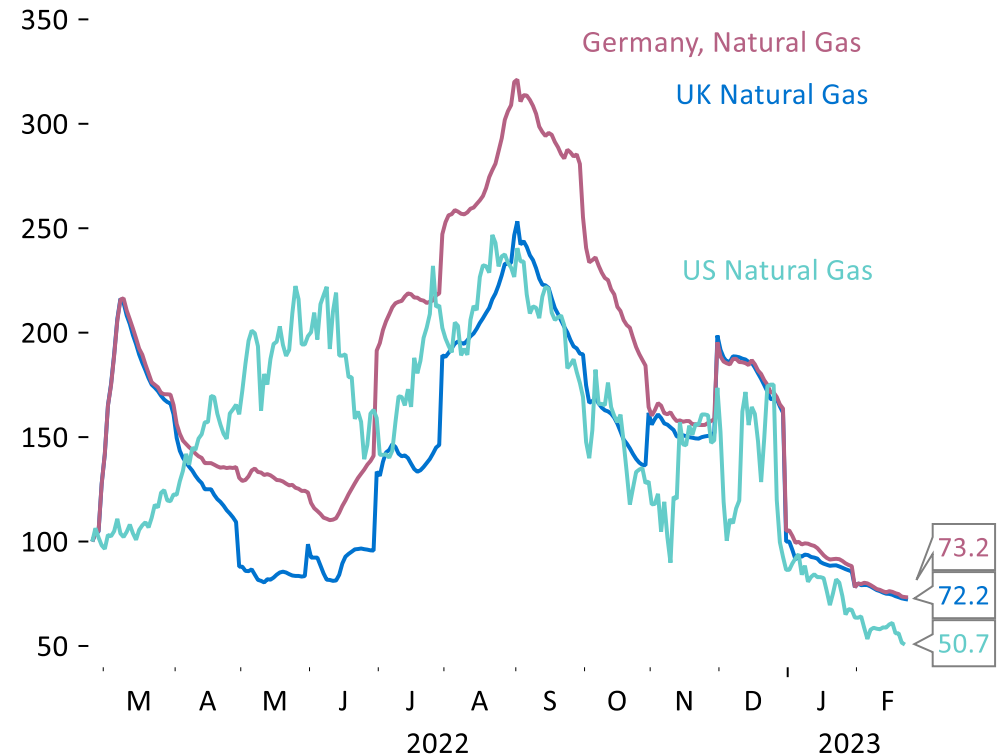
In Europe gas reservoirs are 28% fuller than a year ago

Germany Total Consumption of Natural Gas



Source: Macrobond, 24.02.23

European Gas Prices last 12 months



Source: Macrobond, 24.02.23

2. Oil prices are now *lower* than on the eve of invasion

Oil prices capped by low Chinese demand until reopening & massive release from SPR



Chinese oil demand should rebound post-reopening



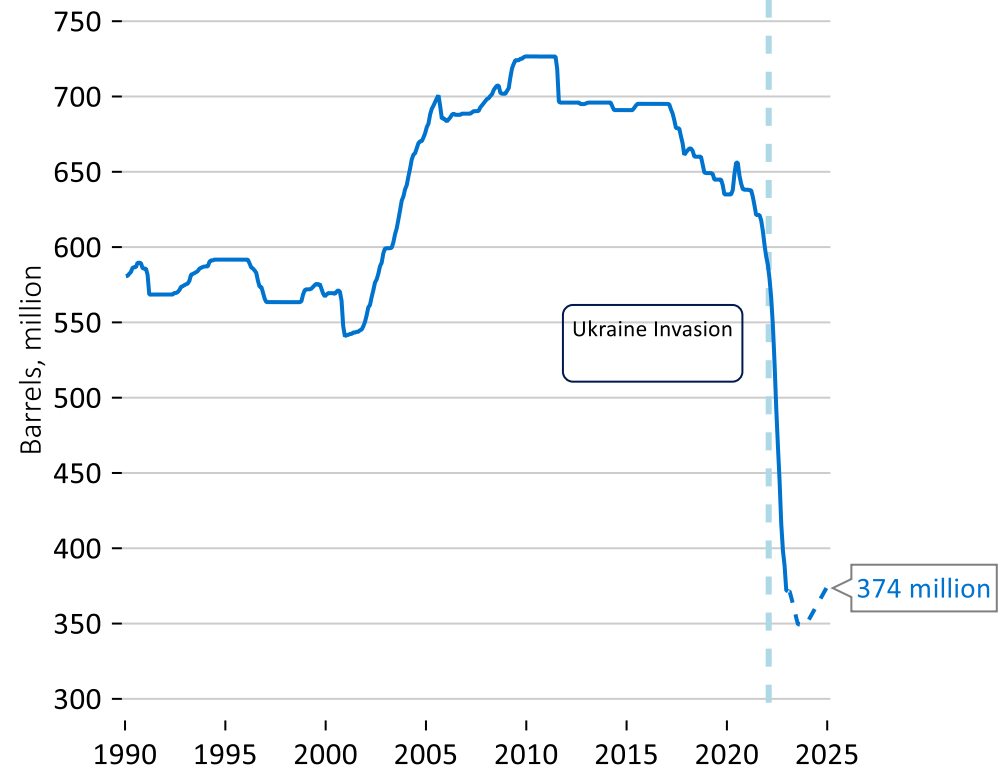
US Energy Dept announced it will rebuild reserves

China Oil Imports & Brent Crude Price



Source: Macrobond, 24.02.23

US Crude Oil in Strategic Petroleum Reserve, EIA



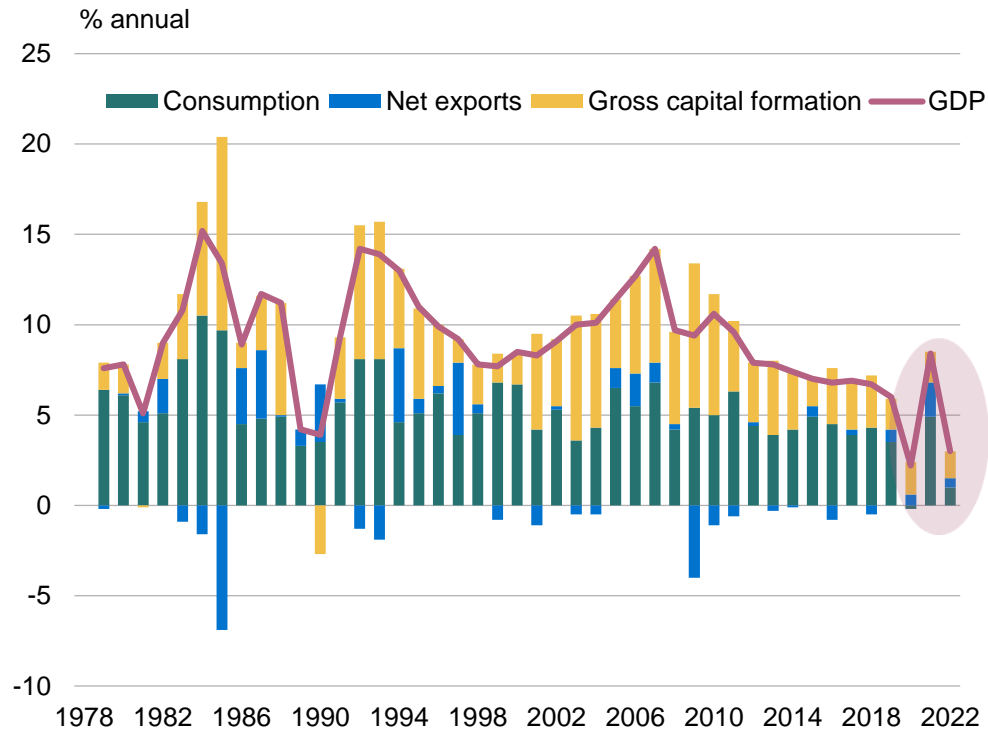
Source: Macrobond, 24.02.23

3. China's removal of covid restrictions & property restrictions

China reopening key to domestic and global growth despite the war



Consumption to drive China's recovery

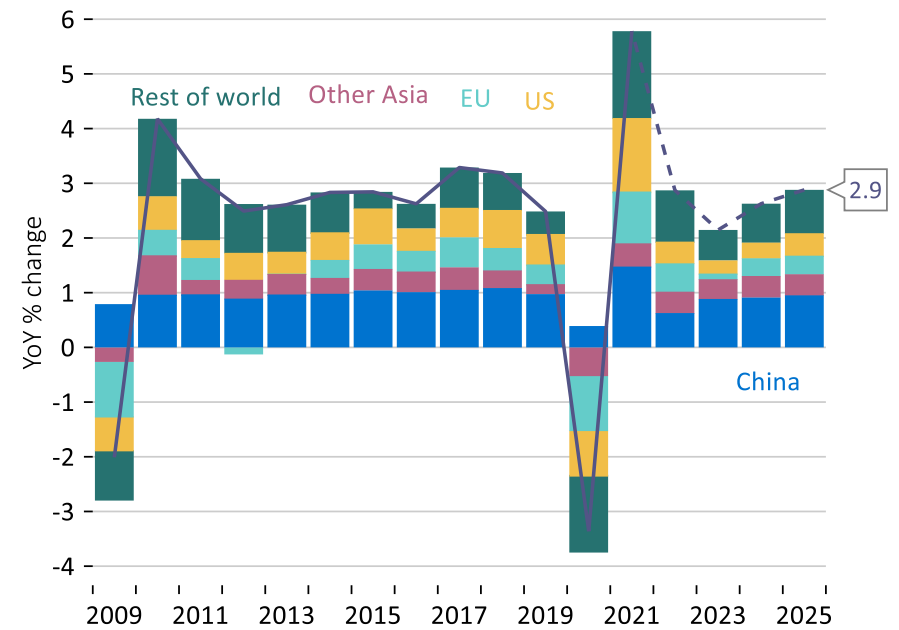


Source: Macrobond, February 2023



Global GDP growth by region

Contribution to global GDP growth at USD shares, IMF estimates



Source: Macrobond, 24.02.23

4. The remarkable resilience of US growth

Service sector sentiment soars while unemployment touches 53-year low in unemployment

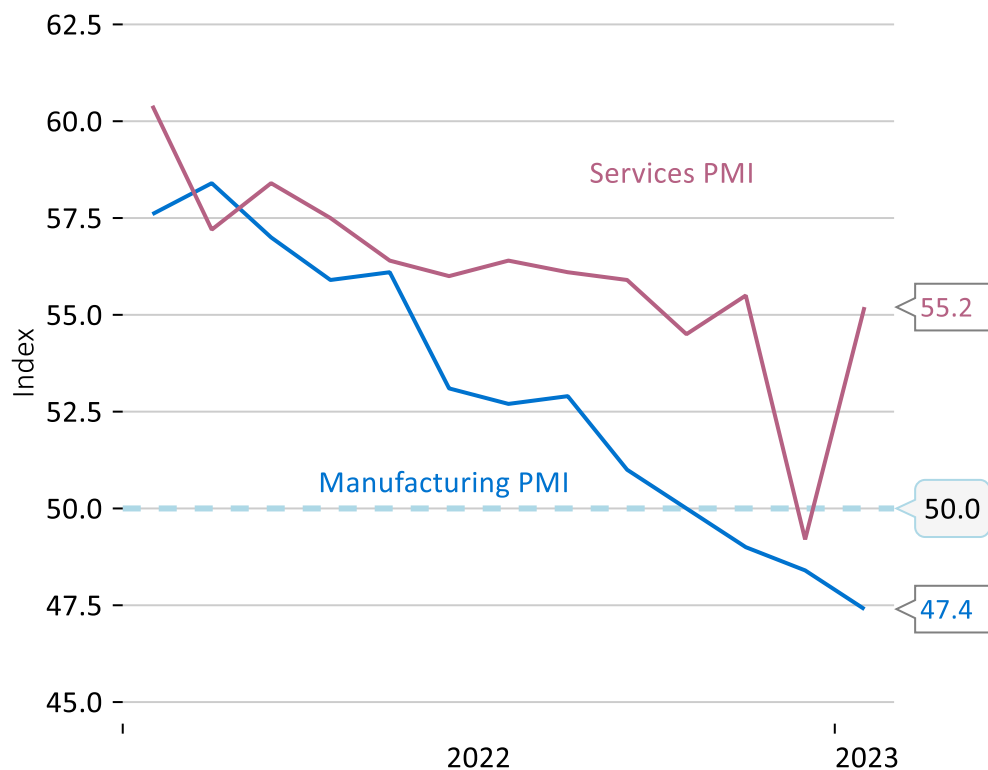


Surge in sentiment across US services industries



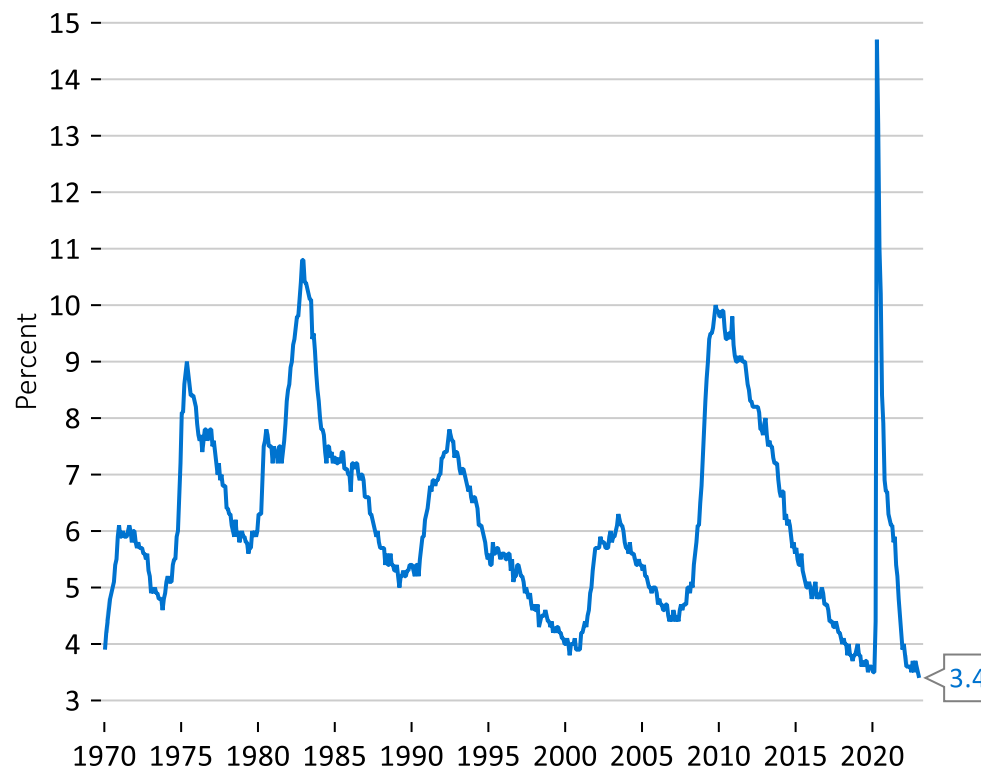
US unemployment at record low

US ISM, Survey on Business last 12 months



Source: Macrobond, 24.02.23

US Unemployment Rate



Source: Macrobond, 24.02.23

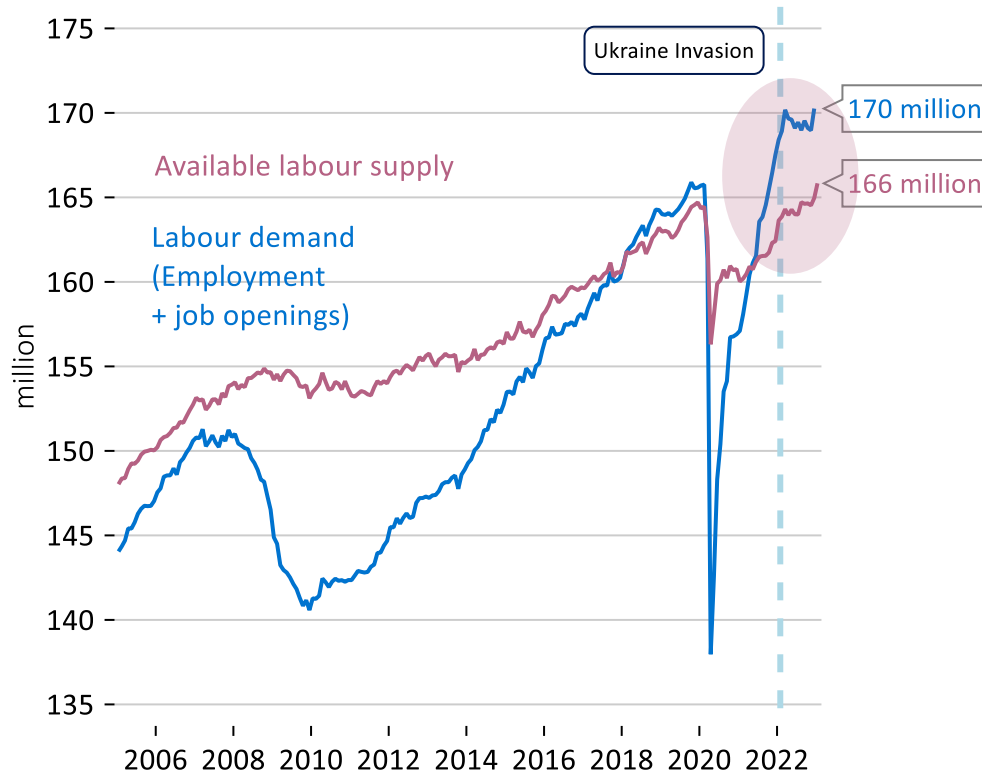
For investors ironically the risk is an economy that is too hot...

Shortage of US jobs still a risk for US inflation – loosening financial conditions are not helping



US labour shortage still needs to be addressed

US Labour Demand & Supply

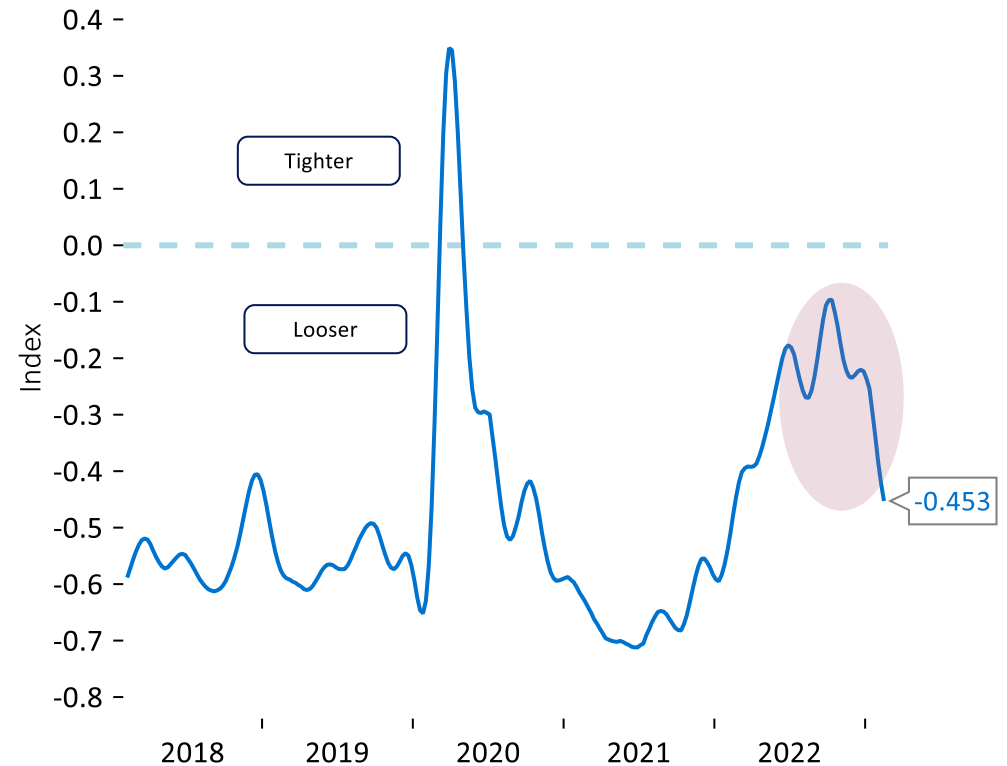


Source: Macrobond, 24.02.23



As the Fed tightens overall financial conditions loosen

National Financial Conditions Index (NFCI)



Source: Macrobond, 24.02.23

Patience please – Central banks are not quite finished

Global equity opportunities are clear but over-zealous central-bankers are still a risk



Global strategy update – February 2023

Bonds	<p>Neutral</p> <ul style="list-style-type: none">• Neutral Government Bonds – global inflationary pressures remain elevated but rates are close to peaking• Neutral Investment Grade Credit – yields attractive – corporate balance sheets healthy
Equities	<p>Underweight</p> <ul style="list-style-type: none">• Near record corporate margins clearly exposed in a global recession – a strong thematic overlay needed• Equity valuations are vulnerable if inflation is stickier than the market expects• Emerging markets offer opportunities in 2023 as China reopens and US Dollar weakens• Equity insurance attractive as alternative to equity reduction
Alternatives	<p>Overweight</p> <ul style="list-style-type: none">• Underweight Correlated Alternatives – higher discount rates and worries over liquidity argues for caution on private equity, infrastructure and renewables• Strong Overweight Uncorrelated Alternatives as effective diversification• Overweight positions in Gold as Dollar surge fades
Cash (tactical)	Neutral – no currency preference
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. Earnings risk not priced into equity valuations : Recession triggers sharp fall in global earnings & margins3. Military challenges worsen: Putin escalates nuclear risk - China-Taiwan reunification risks rise — North Korean missile tests

Source: Sarasin & Partners, February 2023

Important information

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