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Six minute strategy
So why are equities rallying…?

Guy Monson

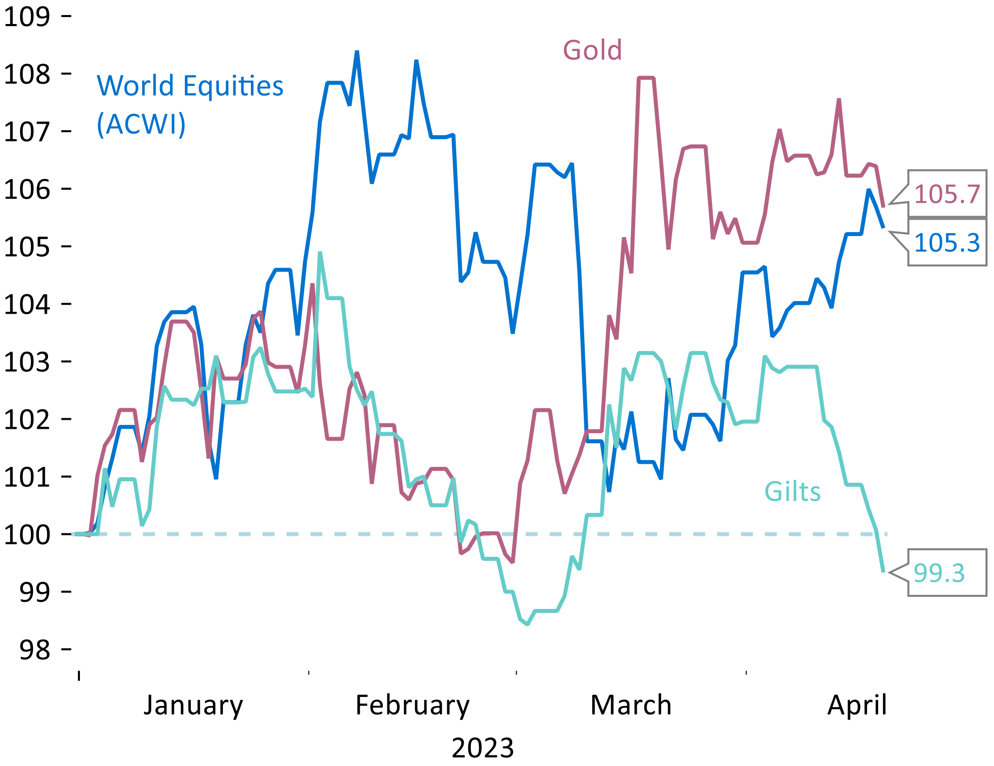
April 2023

2023 global asset performance

Asset markets broadly stable despite global banking risks – equities & gold lead returns

Global asset class returns stable in face of banking crisis

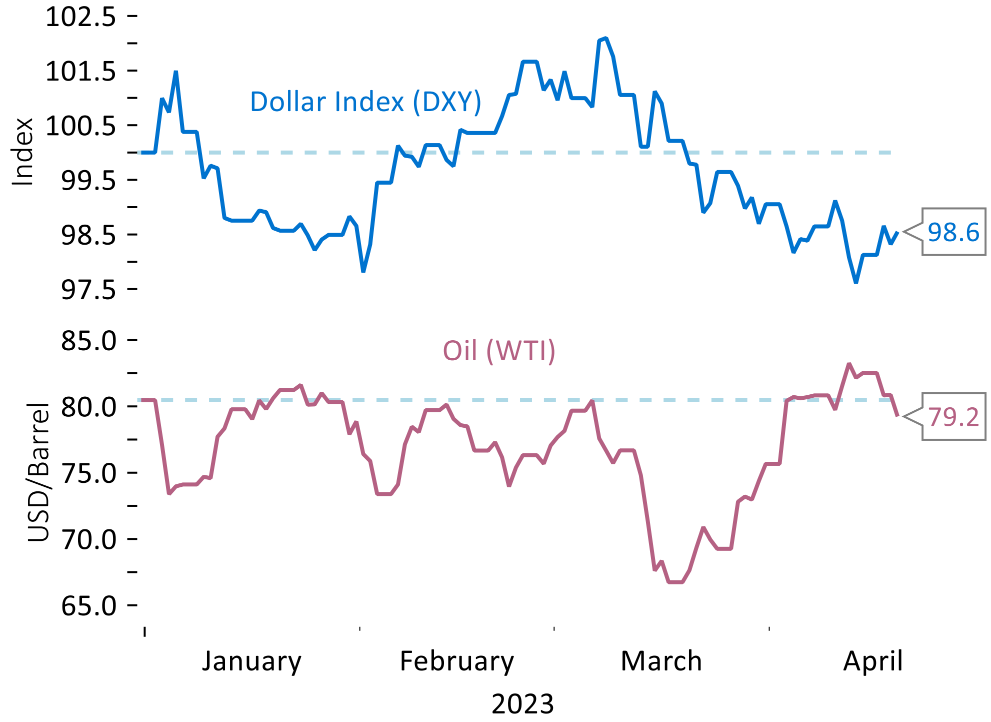
Asset class performance 2023 (STG)



Source: Macrobond, 20.04.23

No significant dollar safe haven flows – oil recovers

Asset class performance 2023



Source: Macrobond, 20.04.23

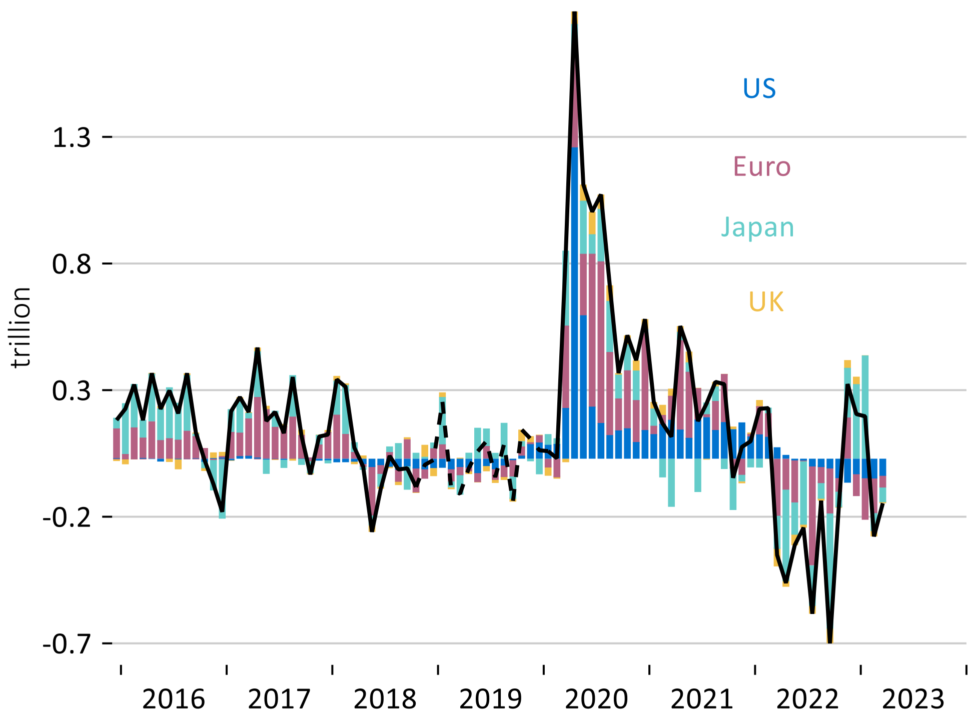
Past performance is not a guide to future returns and may not be repeated

Why have equities risen when liquidity conditions are tightening?

Quantitative tightening, global rate rises and tighter loan conditions

Central bank balance are sheets contracting again

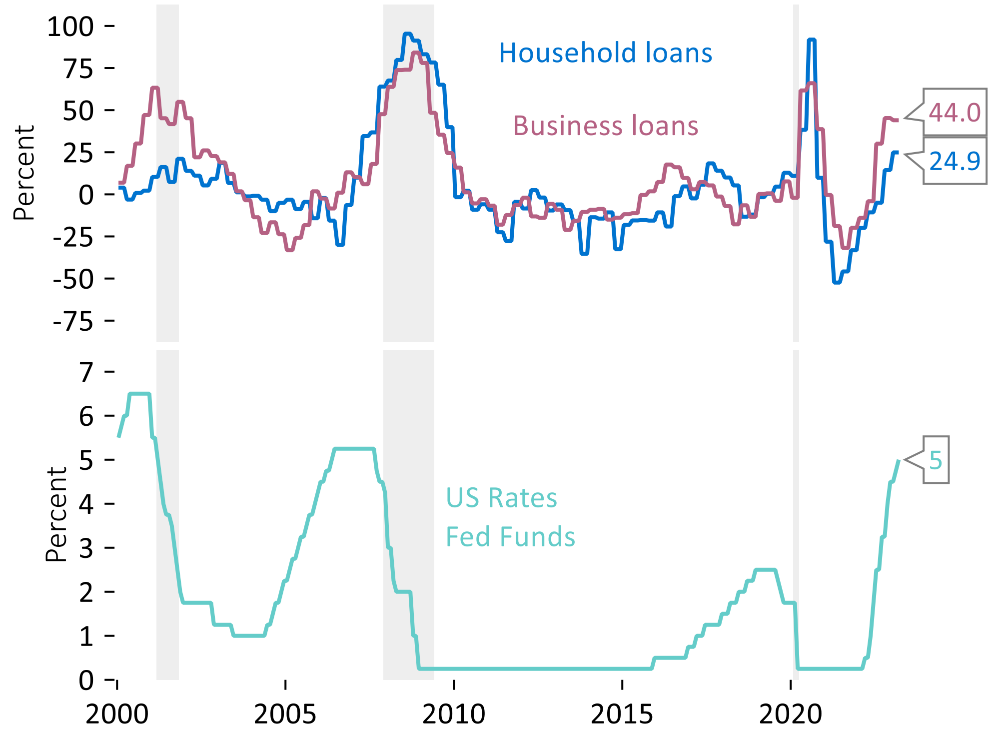
1 month change in Central Bank Assets
USD trillion



Source: Macrobond, 20.04.23

Loan conditions tighten while rates climb fastest in 40 years

Senior Loan Officer Survey & US Rates
Shaded = US Recessions



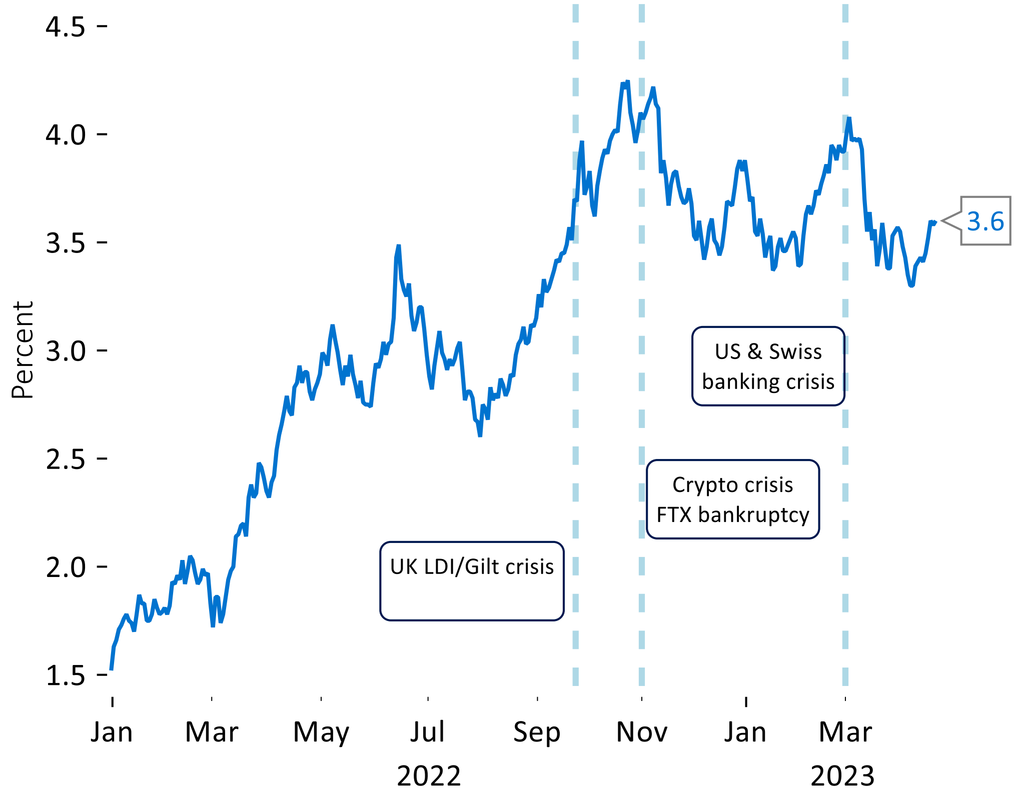
Source: Macrobond, 20.04.23

1. Recent financial shocks have lowered peak rates

Banking shock has lowered expectation of terminal rates in the US – Euro/UK still climbing

Three financial shocks in six months

US 10 year bond yield & financial events

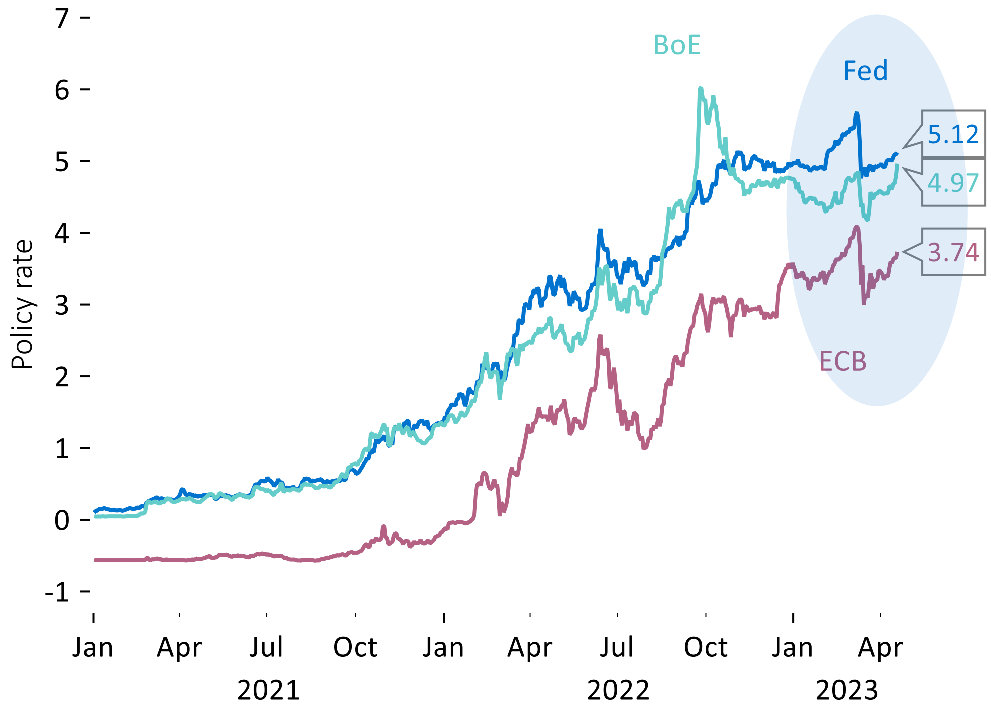


Source: Macrobond, 20.04.23

Terminal interest rate expectations fall on bank shock

Terminal rates: Fed, ECB BoE

The market expected peak of policy rate



Source: Macrobond, 20.04.23

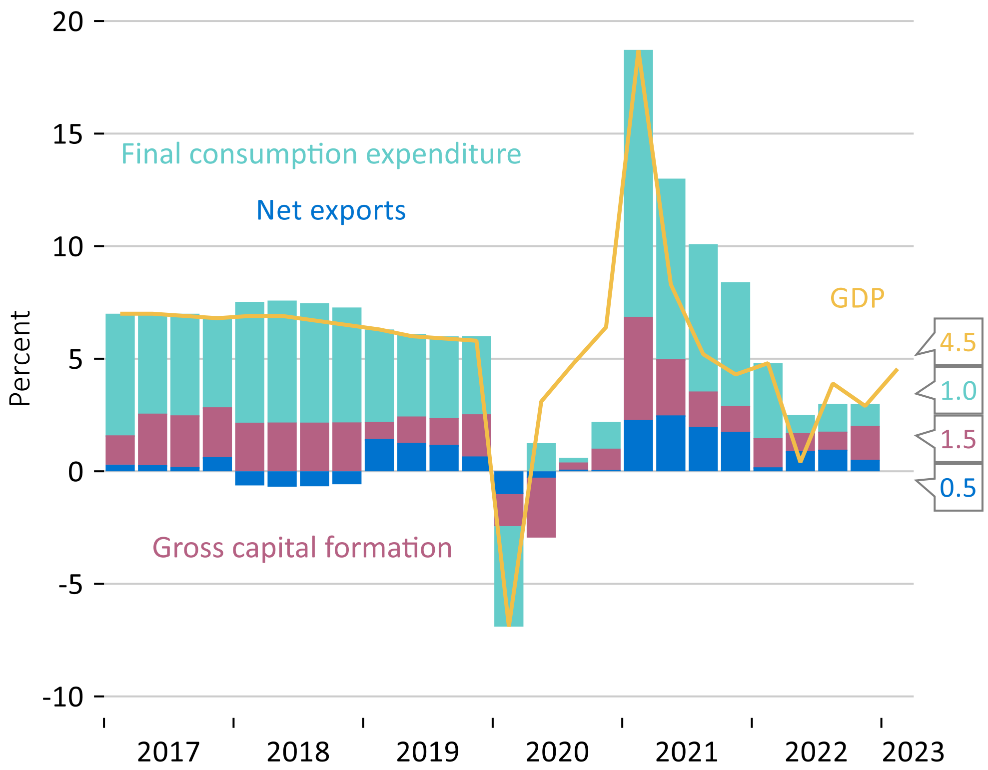
Current Central Bank
Rates: Euro 3%, UK 4.25%, US 5%

2. China GDP accelerates - consumption recovery taking hold

Consumption led recovery typical of other COVID re-openings

China GDP accelerates to 4.5% year on year in Q1

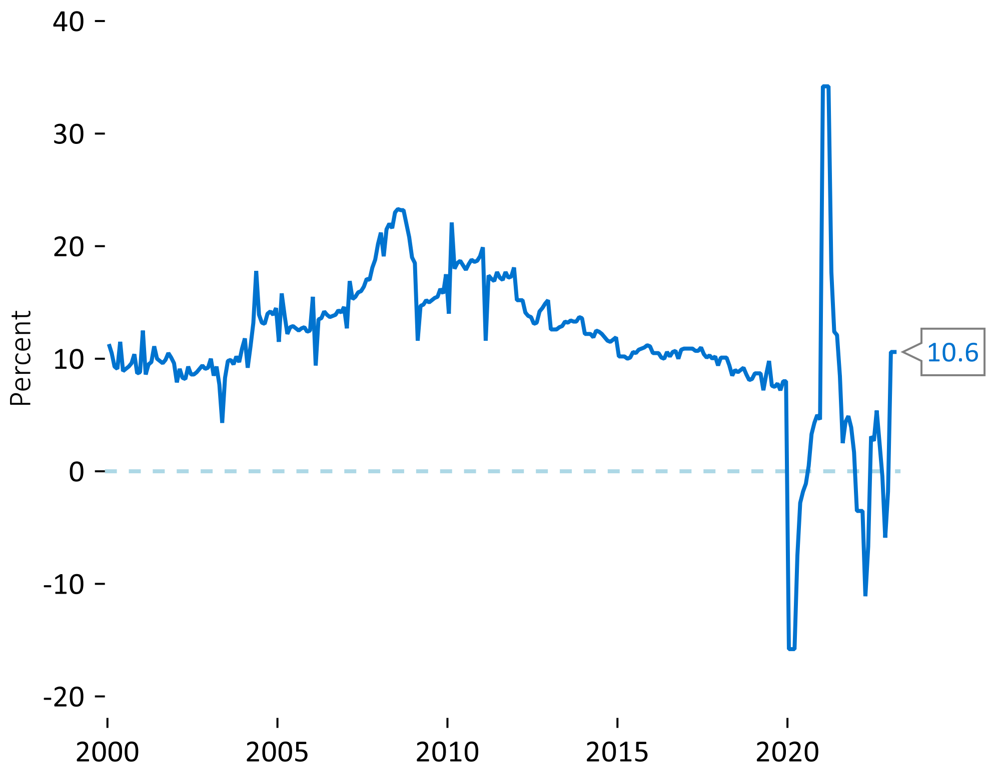
China GDP Components



Source: Macrobond, 20.04.23

A ‘typical’ post-COVID consumption-led recovery

China Retail Sales



Source: Macrobond

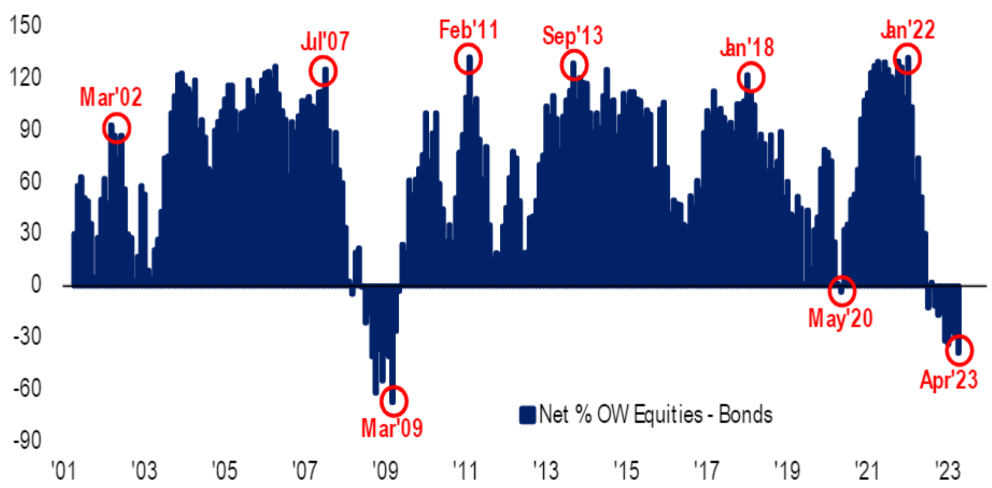
Note: Chinese New Year adjustment to January and February data.

3. Global managers are already bearishly positioned

Highest allocation to bonds vs. equities since GFC

Chart 12: …and relative basis

Net % overweight equities vs bonds



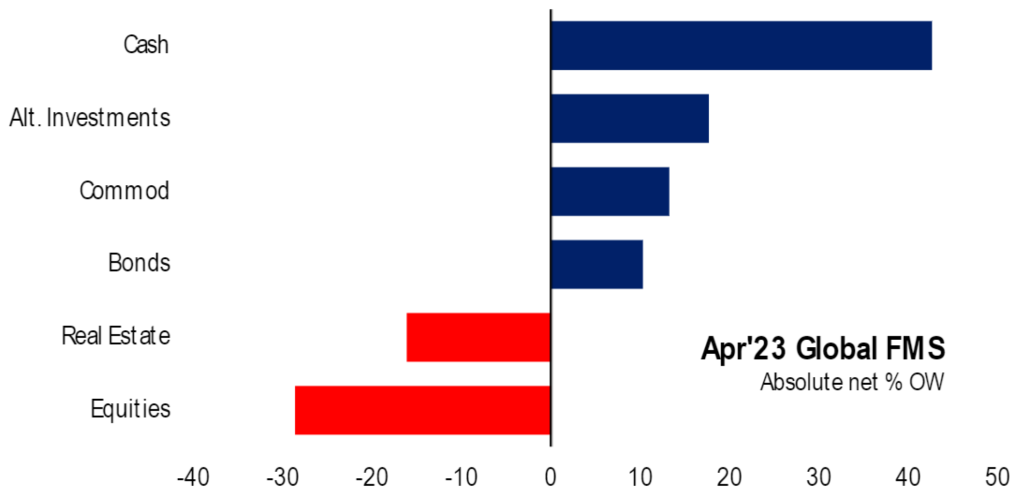
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Asset allocation positioning still very conservative

Chart 22: FMS remains most OW cash, UW equities

Absolute net % overweight (by asset class)



Source: BofA Global Fund Manager Survey

Source: Bank of America Fund Manager Survey – April 2023

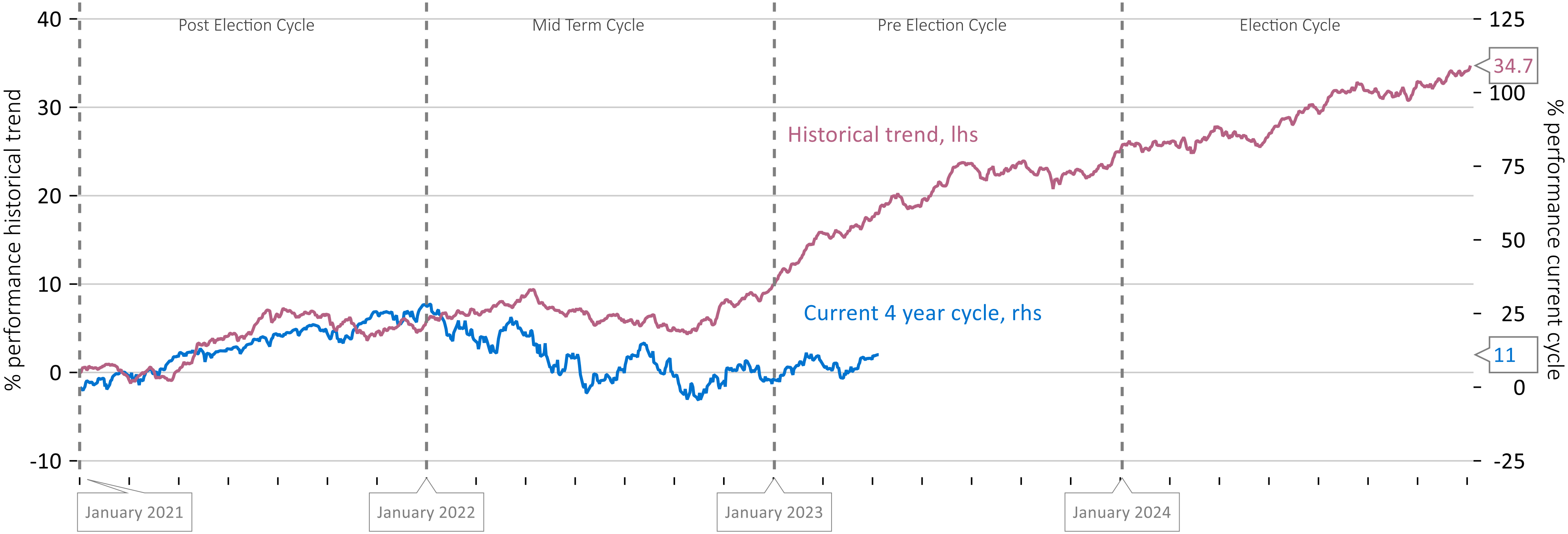
4. US pre-election years typically supportive of equities

Tighter liquidity conditions have interrupted the political cycle of US equity markets

Four year presidential electoral cycle compared to historic trend since 1921

S&P 500: Presidential election cycle

Source: S&P Global



Source: Macrobond, 20.04.23

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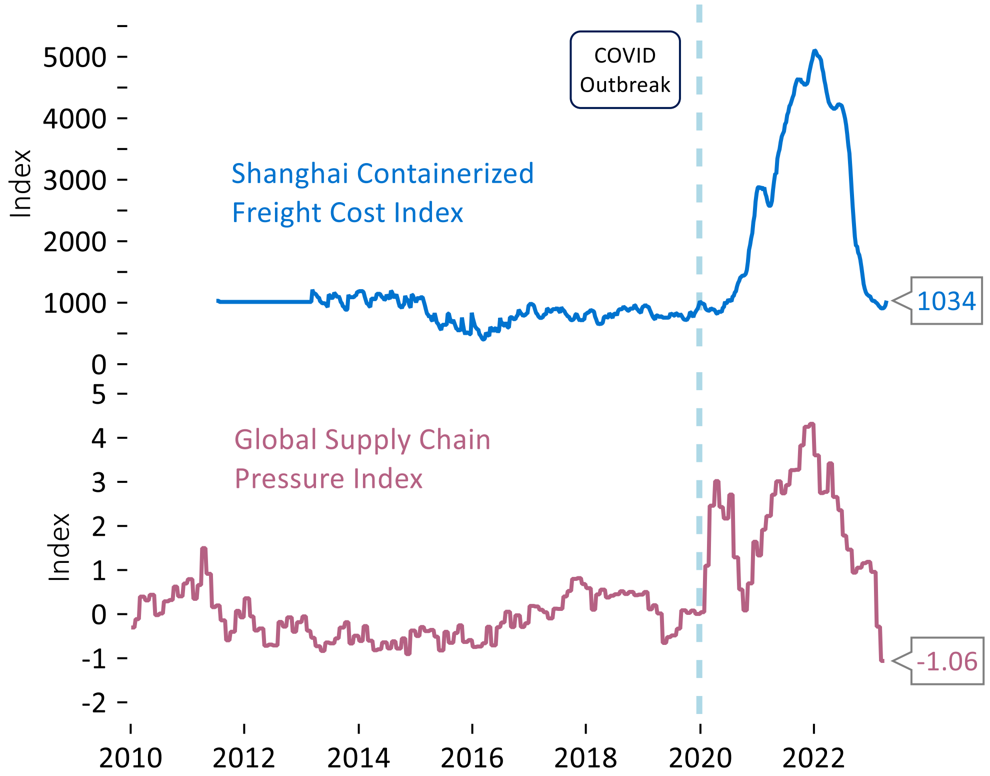
5. Corporate supply chains have largely normalised

Focus: Greater earnings visibility argues for rising dividends/buy-backs

Supply chain pressures fall to pre-COVID levels

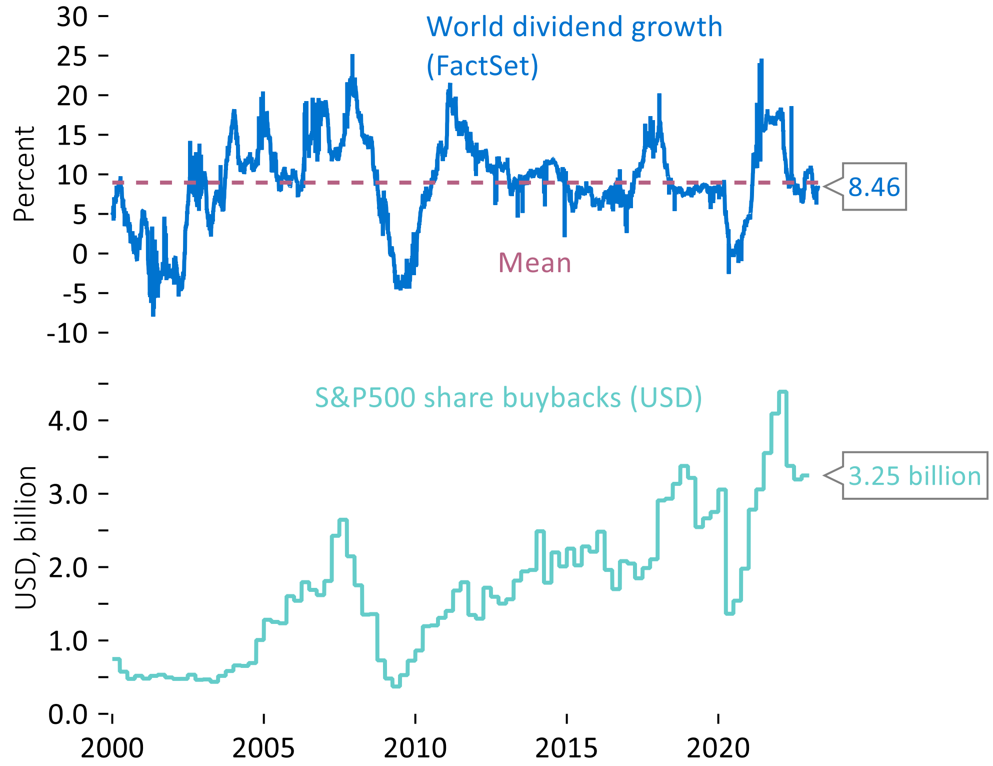
Asian container costs and global supply chains



Source: Macrobond, 20.04.23

Greater earnings visibility = stronger dividends/buybacks

Global dividend growth & US stock buybacks



Source: Macrobond, 20.04.23

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Policy summary

Cautiously adding to risk through corporate bonds & emerging market equities

Global strategy update – April 2023

Bonds	Overweight • **Neutral Govt** – global inflation pressures remain elevated but rates are close to peaking • **OW Inv. Grade Credit** – yields attractive – corporate balance sheets healthy
Equities	Underweight/Neutral with insurance • Risks to equity market from slowdown/recession in the US & geopolitics globally are increasing • **Emerging markets** offer opportunities in 2023 as China recovery continues reopens and US dollar weakens • **Equity insurance** attractive as alternative to equity reduction
Alternatives	Overweight • **Underweight Correlated** – higher discount rates and worries over liquidity argues for caution • **Overweight Uncorrelated** Gold, carbon, metals for climate capex attractive – rising rates will be challenging
Cash (tactical)	• Overweight Sterling to reflect improvements in GDP and hedge global exposure
Risks	1. Inflation shock not abating: US core inflation continues to accelerate in 2023 meaning higher rates for longer 2. Earnings risk not priced into equity valuations : Recession triggers sharp fall in global earnings & margins 3. Military challenges worsen: Putin escalates nuclear risk - China-Taiwan reunification risks rise — North Korean missile tests

Source: Sarasin & Partners, April 2023

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