

Sarasin six minute strategy

Brexit & UK Financial Markets – how to manage the cliff edge

September 2020



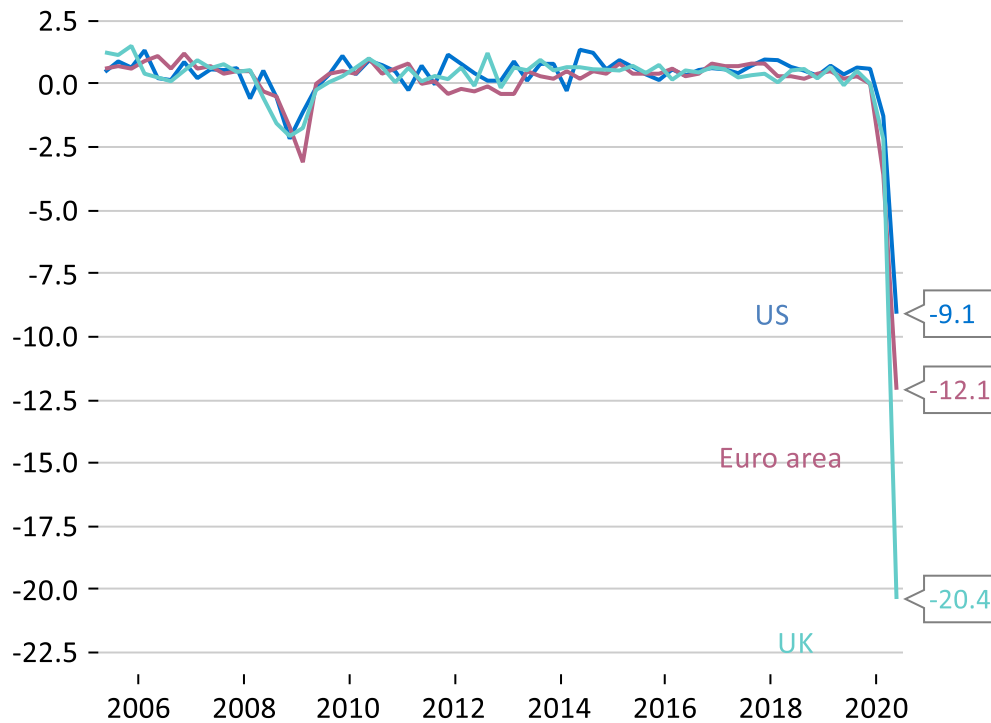
UK update: Re-opening mechanically boosts data...

...but wind down of stimulus measures will unveil vulnerabilities



Q2 decline represents extent of lockdown

GDP Growth to Q2 2020 QoQ

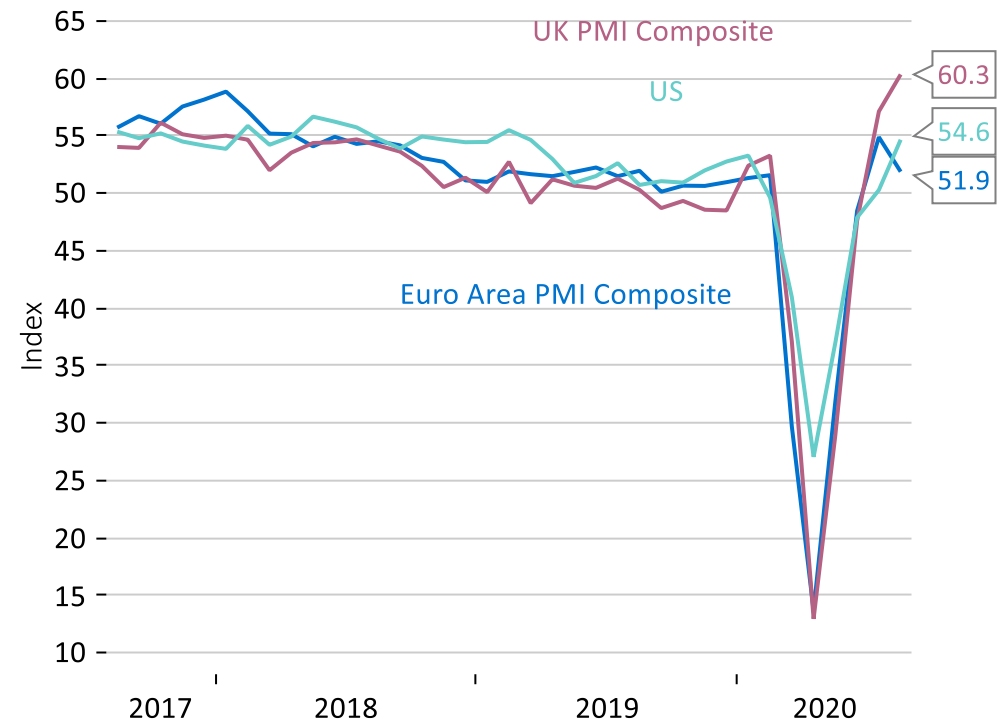


Source: Macrobond, 04.09.20



PMI data choppy due to re-opening of economies

IHS Markit Purchasing Managers Index Composite



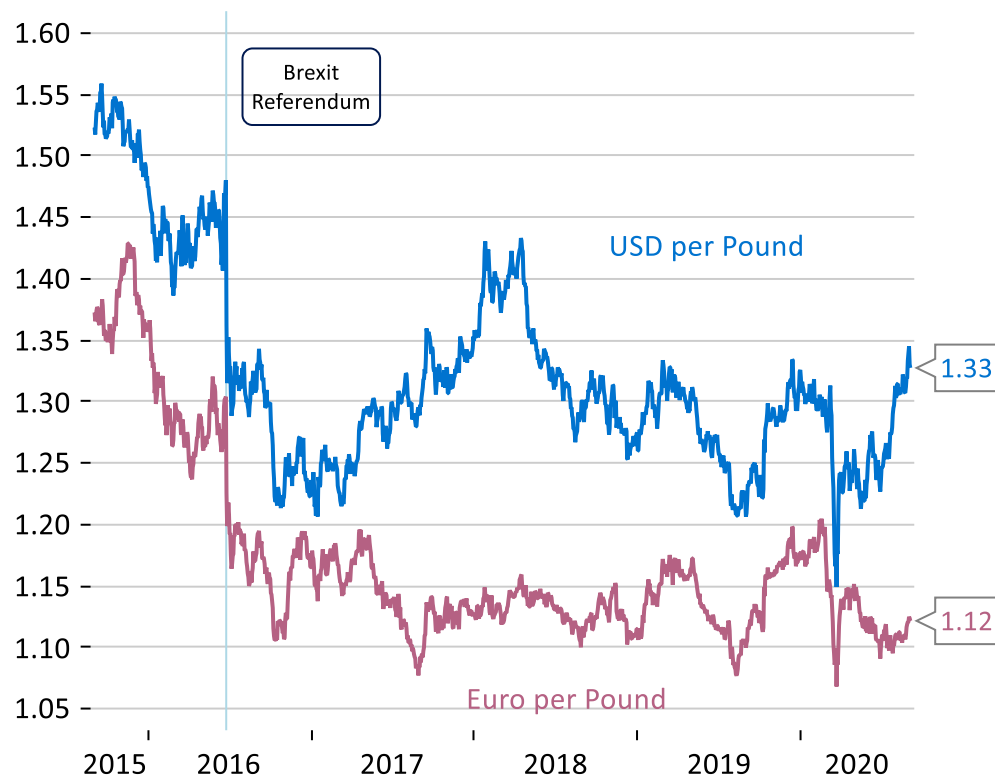
Source: Macrobond, 04.09.20

As expected Brexit negotiations continue to the wire...



Sterling rallies vs. Dollar - at lows vs. Euro

Sterling



Source: Macrobond, 04.09.20

Brexit Negotiations 7th Round (London)

State of Negotiations

- EU Pre-Conditions
 - Fisheries
 - State Aid
- Barnier: Other areas of disagreement
 - Citizens Rights & Personal Data
 - Road Haulage
 - Social Security Co-ordination
- Frost: EU need for Pre-acceptance of Fisheries & State-Aid has “frozen” progress
 - Presented draft ‘legal text.’
 - “We want a deal ready by September”
- 8th and ‘Final’ round 07.09.20
 - *We need reciprocal concessions...*

Why a partial deal is still most likely...



Expansive trade deal. An expansive deal was always possible...

The Fundamental problem:

- EU will not grant access to such a large and important trading partner without confidence the UK won't diverge from EU rules...
- UK won't sign up to the EU's rules in all these areas as it would hamper their ability to set autonomous policies, and to sign meaningful trade deals with other countries

No deal still less likely ? Both sides largely want the same thing :

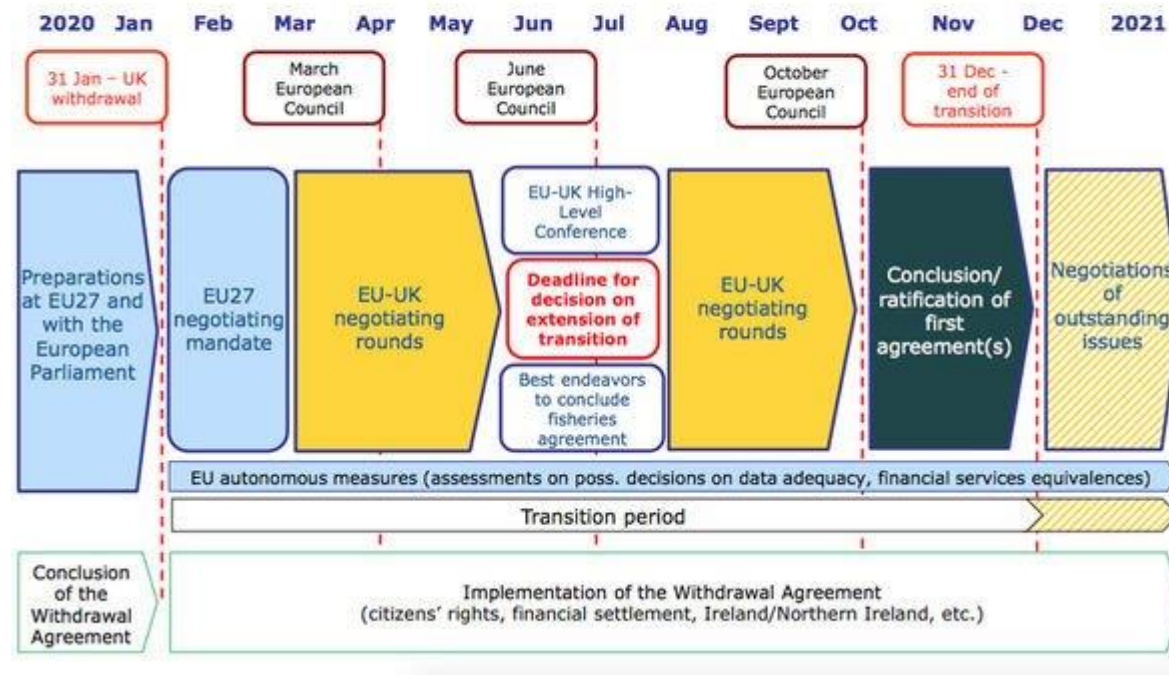
- A deal with no tariffs, quotas, and minimal non-tariff restrictions
- Many non-trade areas where they have found or can find common ground, like security, aviation etc.; As a result an agreement of some kind is highly likely.
- 2020 the end – both sides could agree to keep talking and building on this agreement...

Timetable



Timeline now very short...October the decisive month

Negotiations on EU-UK future partnership:



Source: EU Commission, August 2020

UK equity underperformance extraordinary...

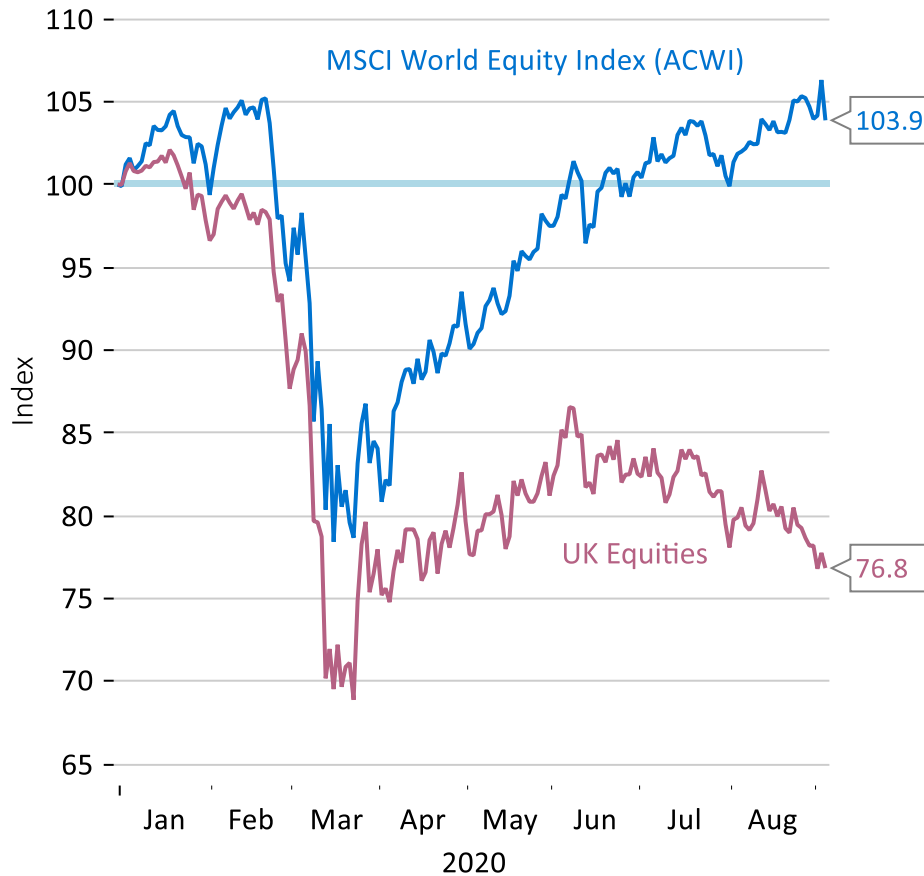


An absence of post-COVID 'growers' across the UK



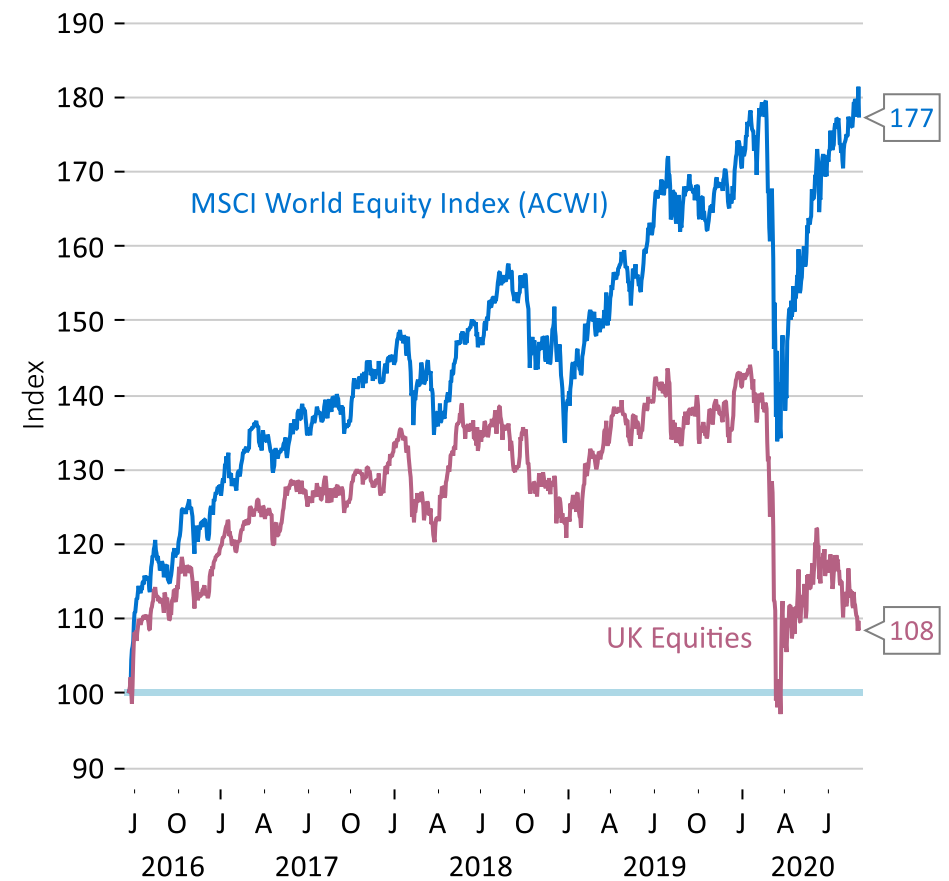
An unprecedented period of UK equity underperformance

UK and Global Equity returns 2020 (GBP)



Source: Macrobond, 04.09.20

UK & Global Equity performance since Brexit (GBP)



Source: Macrobond, 04.09.20

Growth-value trade dominates UK market as it has globally...

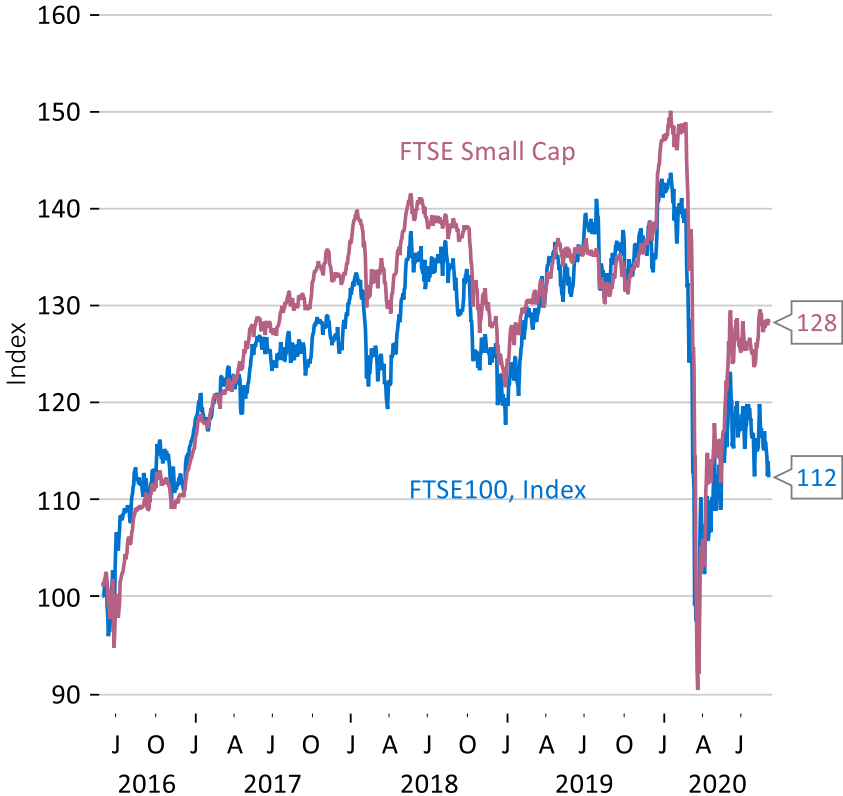


Small cap versus FTSE100



Growth versus value

UK FTSE 100 and Small Cap performance since Brexit



Source: Macrobond, 04.09.20

MSCI UK Value & Growth performance since Brexit



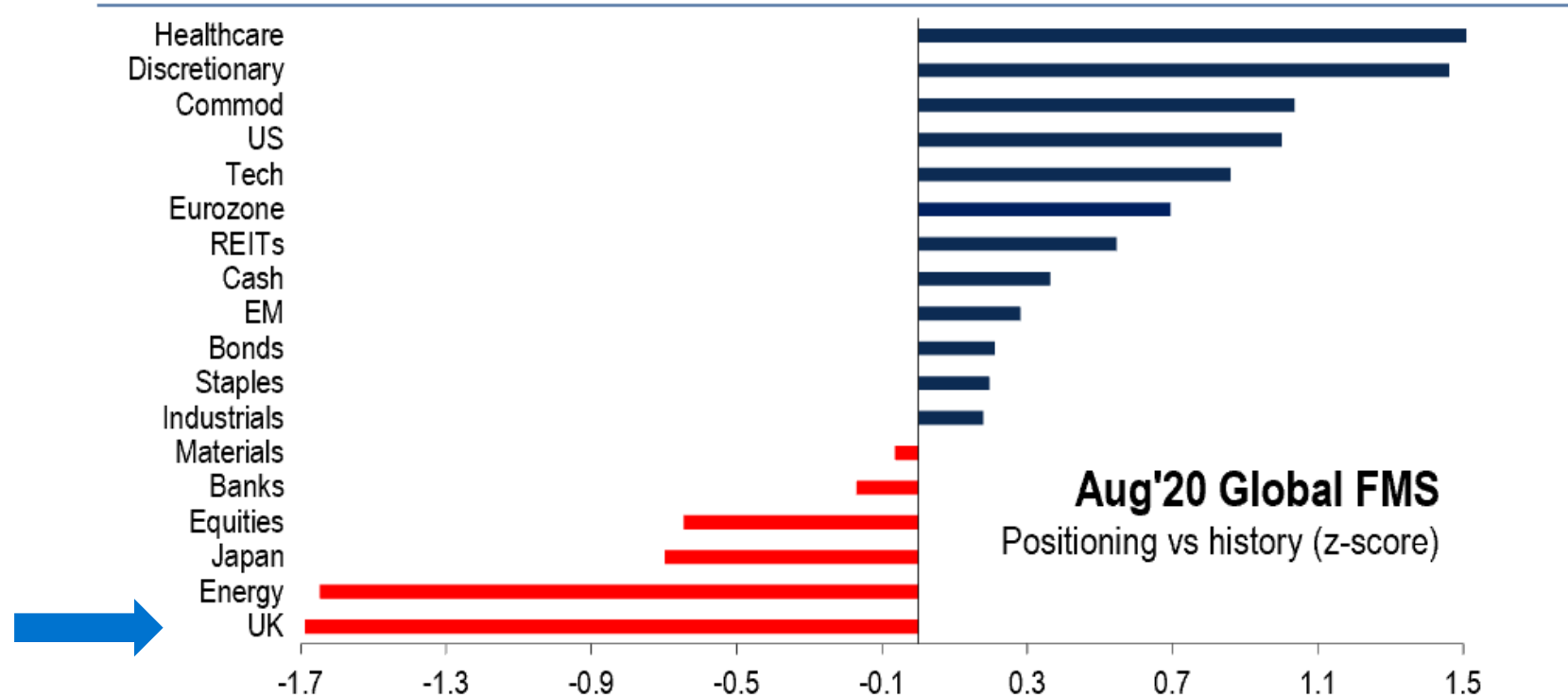
Source: Macrobond, 04.09.20

UK assets still shunned by global investors, suggesting a last minute 'signing' could deliver strong flows back...



Bank of America Merrill Lynch Fund Manager Survey August 2020

Exhibit 11: FMS positioning vs. history



Source: BofA Global Fund Manager Survey

Bank of America Fund Manager Survey August 2020

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