

SARASIN  
& PARTNERS

# Sarasin Six Minute Strategy

COVID and the Markets - Q4 Strategy Outlook

2 October 2020

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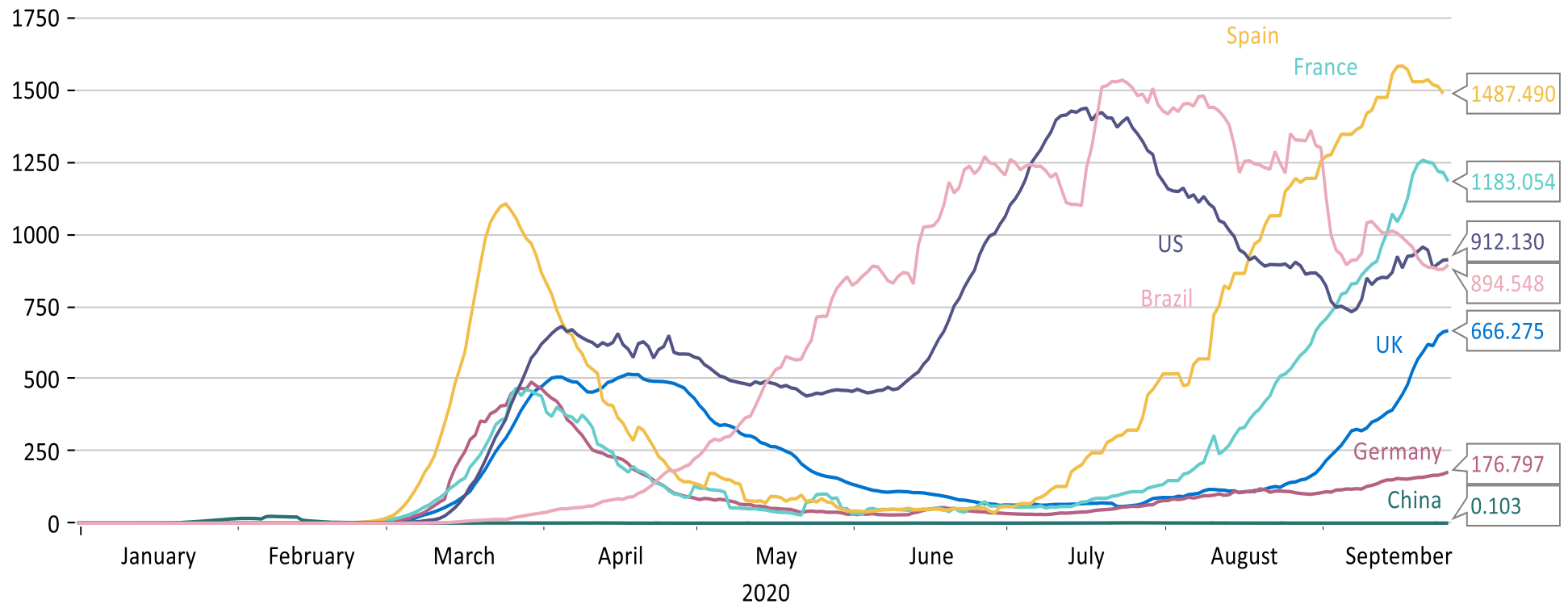


# COVID-19: Infection rates have climbed sharply in Europe...



## Global COVID-19 cases

Rolling Weekly Confirmed COVID-19 Cases (per 1mn people)

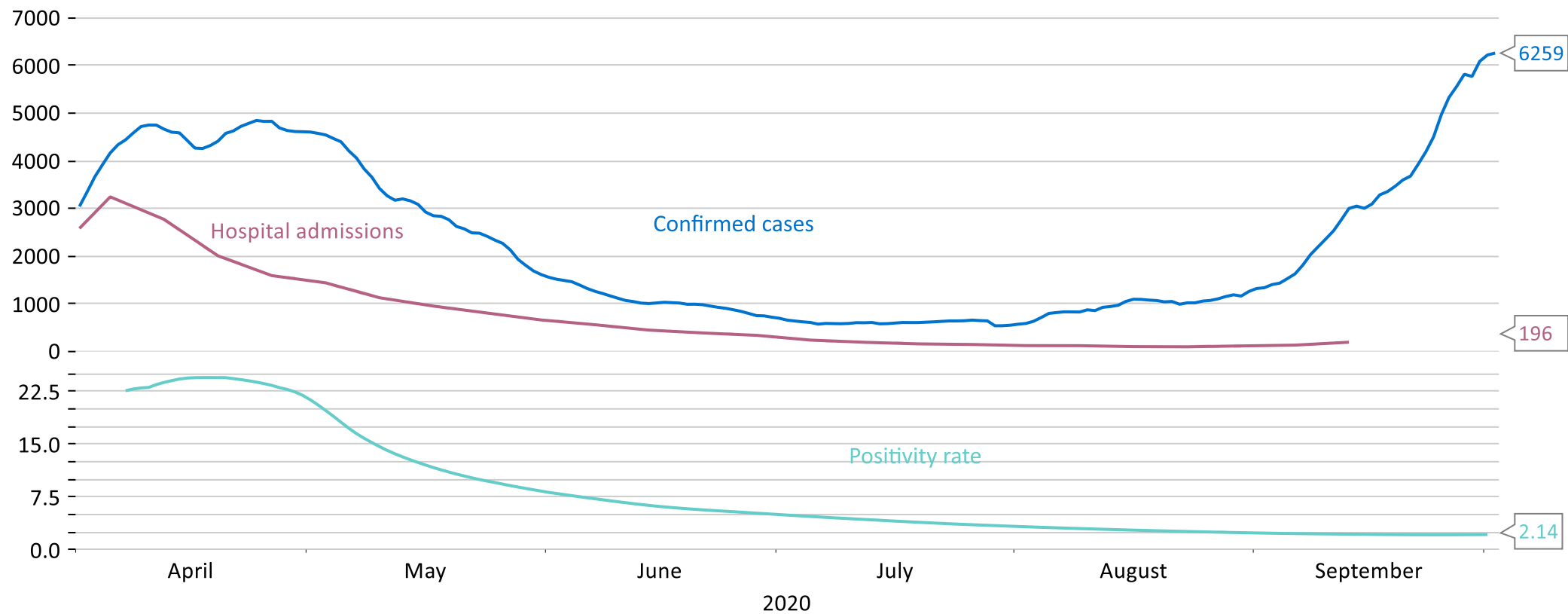


Source: Macrobond, 02.10.20



# UK COVID-19: Cases now exceeded prior peaks but hospitalisations materially lower...

UK coronavirus cases, (smoothed, weekly)



Source: Macrobond, 02.10.20

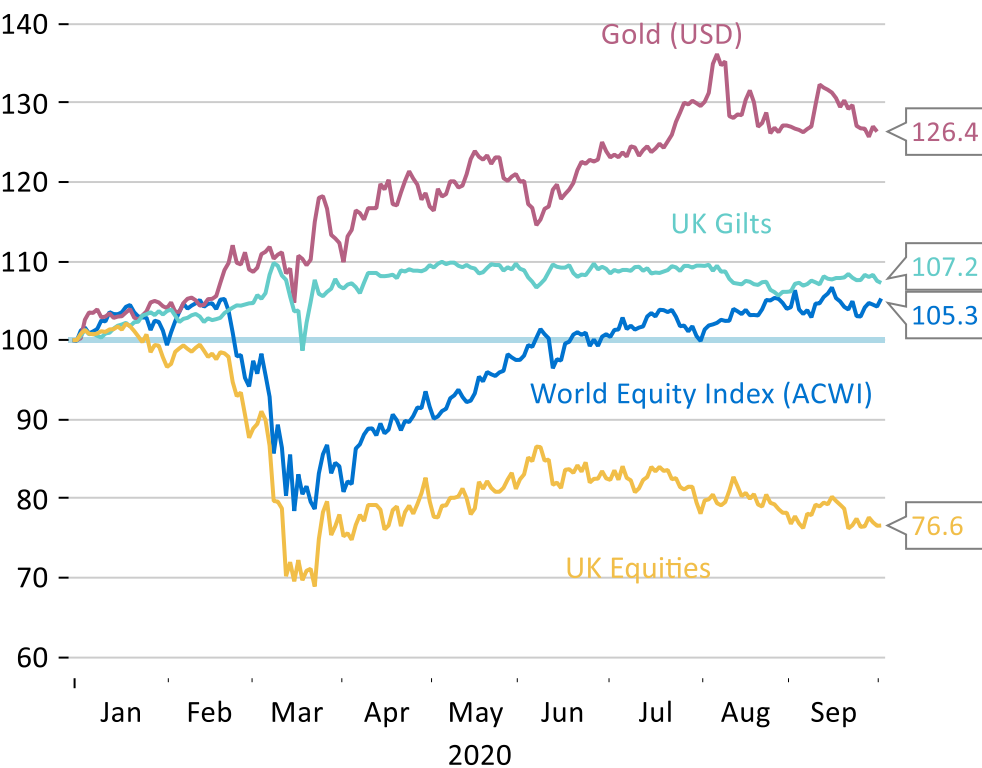
# Markets 2020 & Q3:

Global equity, Gold and Gilt returns all positive for a UK investor

 Equities reverse COVID losses for a Sterling Investor

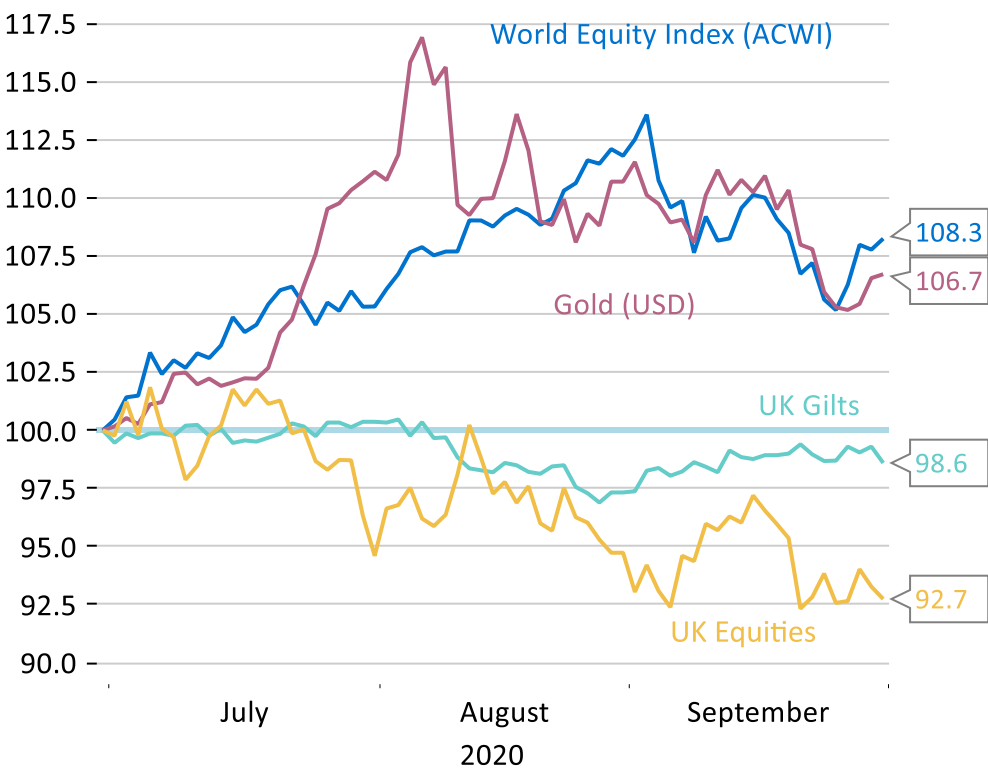
 Q3 2020 sees further gains for Global Equities

Global Asset Class Returns 2020 (GBP)



Source: Macrobond, 02.10.20

Global Asset Class Returns Q3 2020

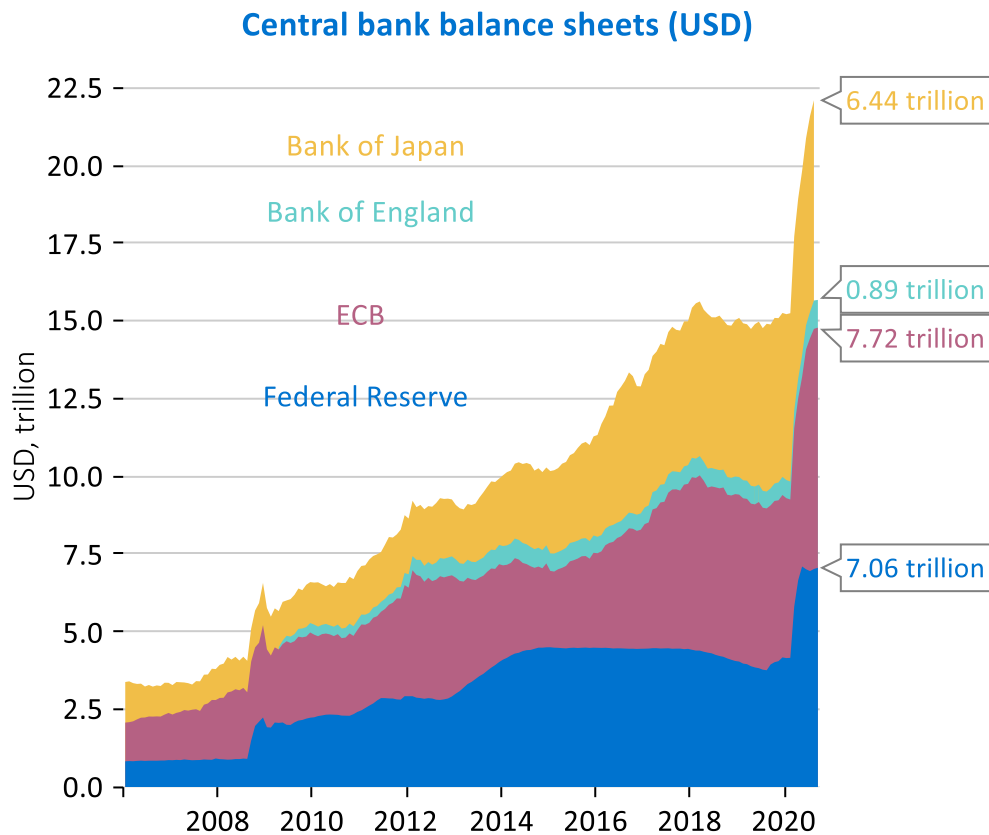


Source: Macrobond, 02.10.20

# Markets 2020: Central bank buying continues – political challenges limit falls in volatility



## Massive central bank support continues

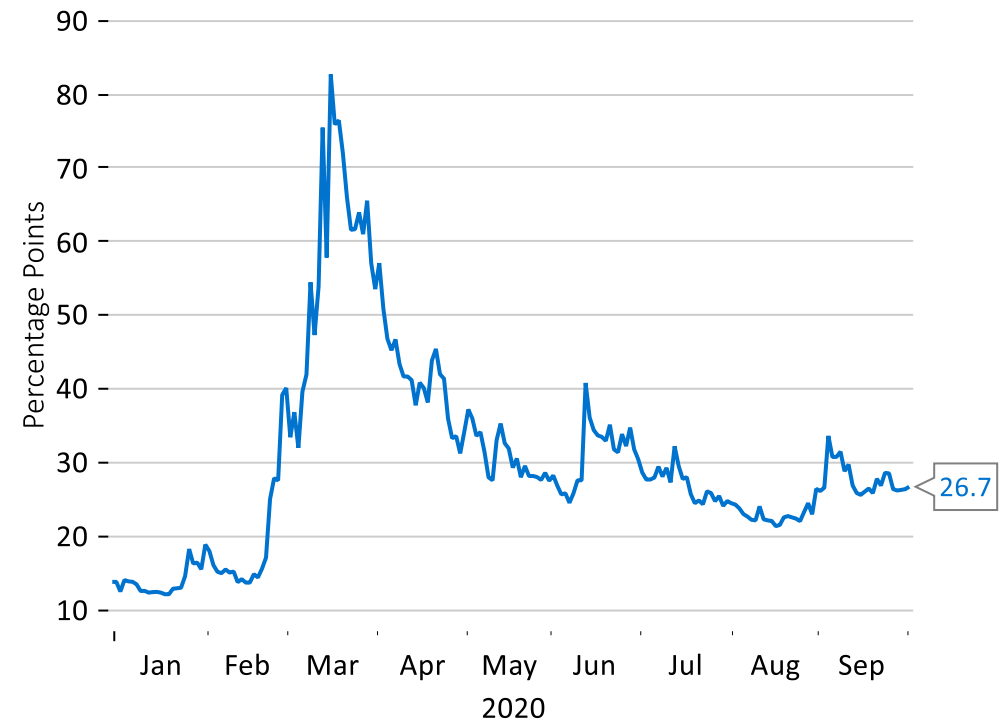


Source: Macrobond, 02.10.20



## Volatility declines moderate in Q3

### US Equity Volatility Index (VIX) 2020 to date

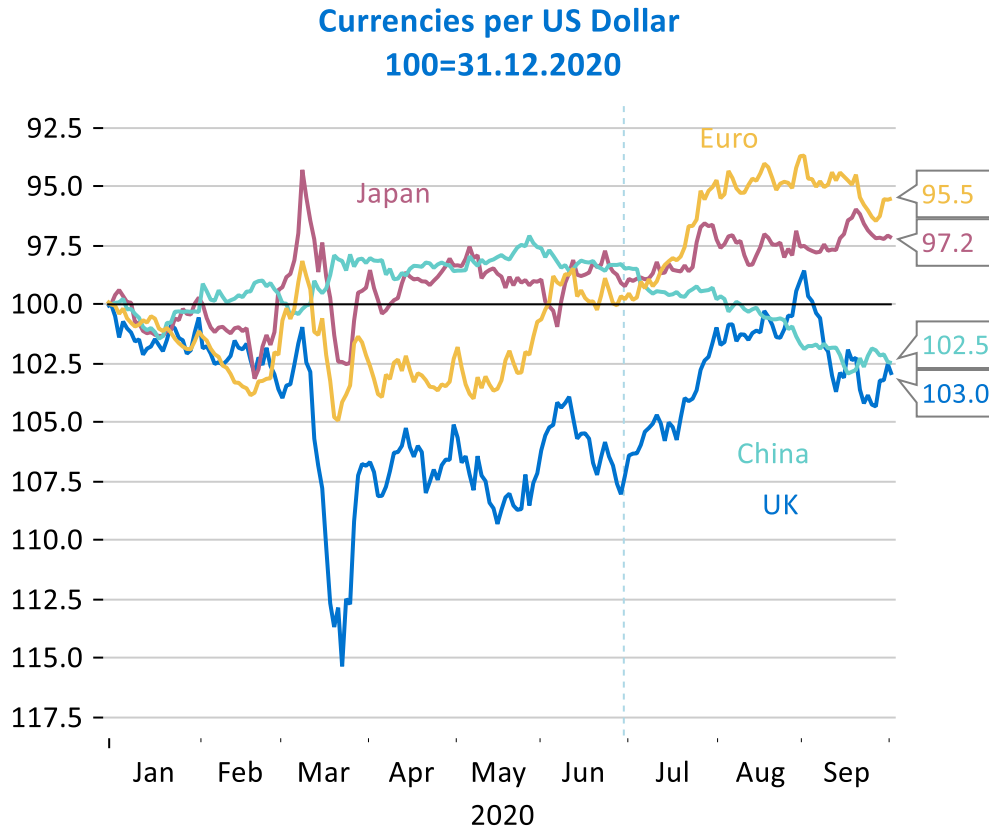


Source: Macrobond, 02.10.20

# Markets 2020: Currency moves limited – most commodities stronger on the year



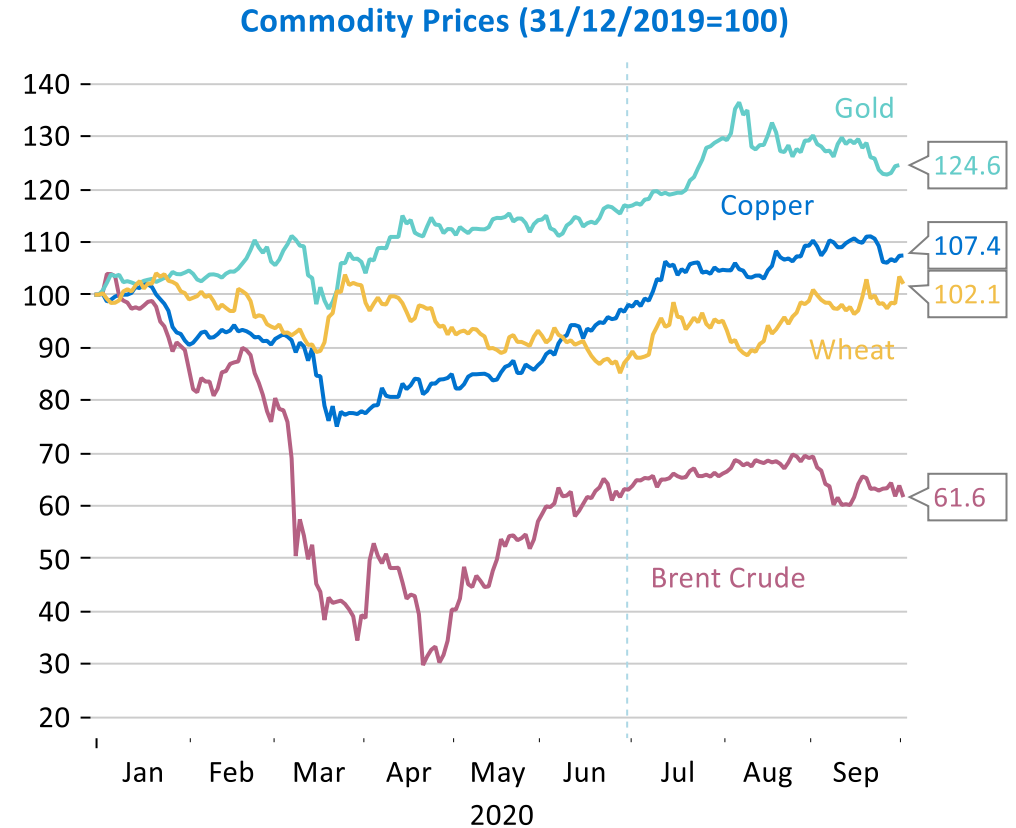
## Currency moves modest – Euro leads



Source: Macrobond, 02.10.20



## Most commodities show positive returns YTD



Source: Macrobond, 02.10.20

# Our Q4 2020 Macro outlook

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- **A stronger summer rebound** as income support measures shored up consumer spending in US and Europe. China has rebounded earlier and faster. Japan's rebound has been pushed back. UK macro poor.
- **Fed policy shift** will keep interest rates at 0% for at least 3 years. This shift opens the door for other central banks to push the envelope.
  - Bank of England likely to take base rate negative.
- **Covid-19 impact on demand (slack) will prevail in the short term – till end 2021.** This will keep inflation low. After that, supply impacts might lead to some firming in prices, particularly in the UK.
- **Risks have increased from:**
  - Tighter stringency measures
  - Political impasse on judicial nominations leading to an impasse on an extension on unemployment insurance leading to weakness in consumer spending.
  - Disputed US electoral outcome

# Political risks clear but central bank action still supports equities

Fiscal and monetary policy the most expansionary in post-war history



## Global strategy update October 2020

<b>Bonds</b>	<b>Neutral</b> <ul style="list-style-type: none"><li>• UW Government– repression of yields offers little value</li><li>• OW investment grade credit – yield premium still meaningful plus central bank support</li><li>• Caution High Yield and EM debt</li></ul>
<b>Equities</b>	<b>Modest Overweight</b> <ul style="list-style-type: none"><li>• OW Global equities – equity risk premium attractive, thematic earnings recovery expected 2021</li><li>• Neutral UK equities – valuations attractive, flow of funds back to UK likely on any Brexit deal</li><li>• Neutral EM equities – China economic recovery strong, COVID scarring in rest of EM but valuations attractive</li></ul>
<b>Alternatives</b>	<b>Overweight</b> <ul style="list-style-type: none"><li>• Neutral Other Alternatives– infrastructure and renewables returns attractive but liquidity issues remain</li><li>• OW Uncorrelated Alternatives - Gold as hedge against unprecedented policy stimulus &amp; debt build-up</li></ul>
<b>Cash</b>	<b>Strongly Underweight</b> <ul style="list-style-type: none"><li>• Central Bank commitment to zero or negative yields for multi-year period</li><li>• No currency preference</li></ul>
<b>Risks</b>	<b>Current:</b> Resurgence in virus in Q4 2020 accelerates, contested US election, no-deal Brexit <b>Longer-term:</b> Economic and social scarring from lockdowns, volatile retail investment flows, surge in global defence budgets & rising conflict risk



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02.10.20

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