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Sarasin Six Minute Strategy

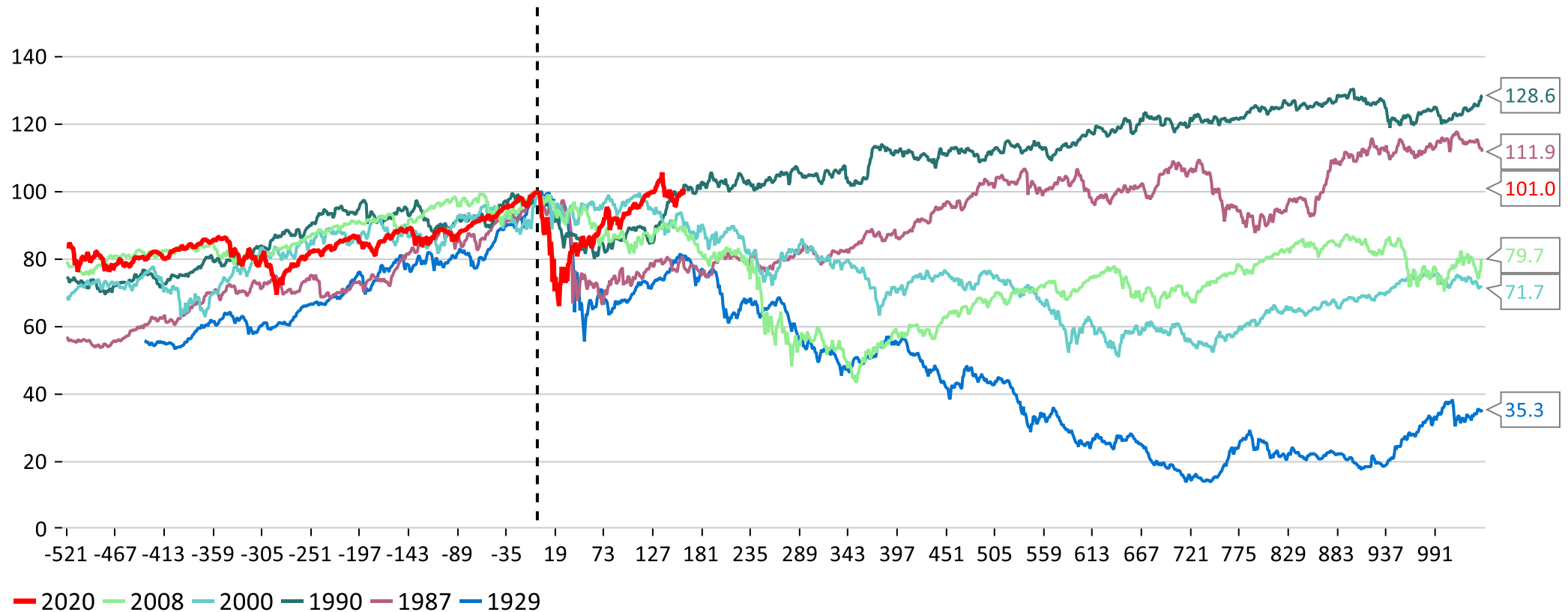
Can asset prices continue to defy economic gravity?

9 October 2020



Historically, equity markets have struggled after deep recessions - the Covid-19 stock market has charted a very different course

 S&P 500 Index during recessions indexed to 100 at the onset of a recession/correction



MACROBOND

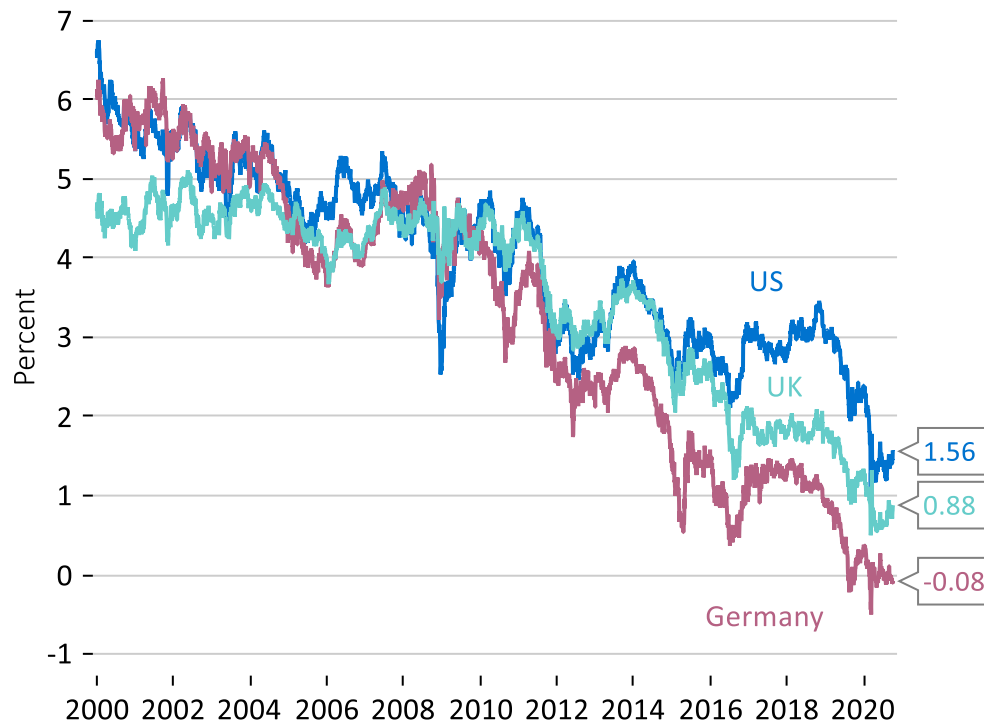
Source: Macrobond 08.10.2020

Why? 1. Lower inflation and lower long-bond yields are beneficial for asset prices...



The time value of money has disappeared...

30 Year Bond Yields

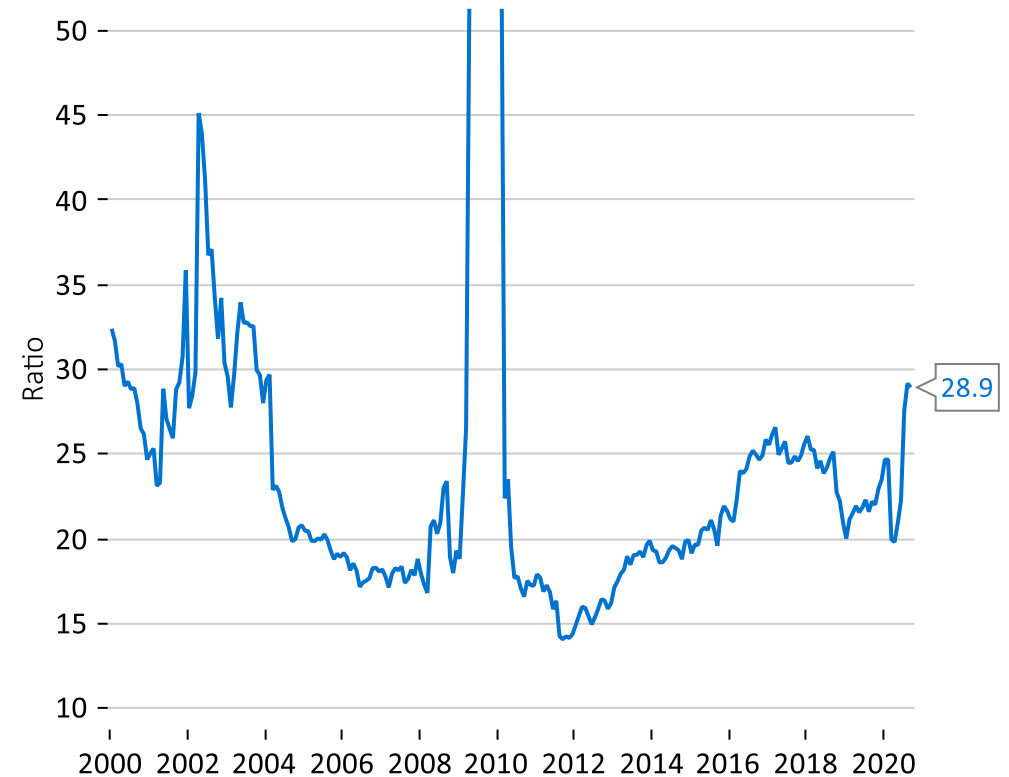


Source: Macrobond



Resulting in higher multiples for long-term growth stocks

United States S&P 500 Index, P/E Ratio



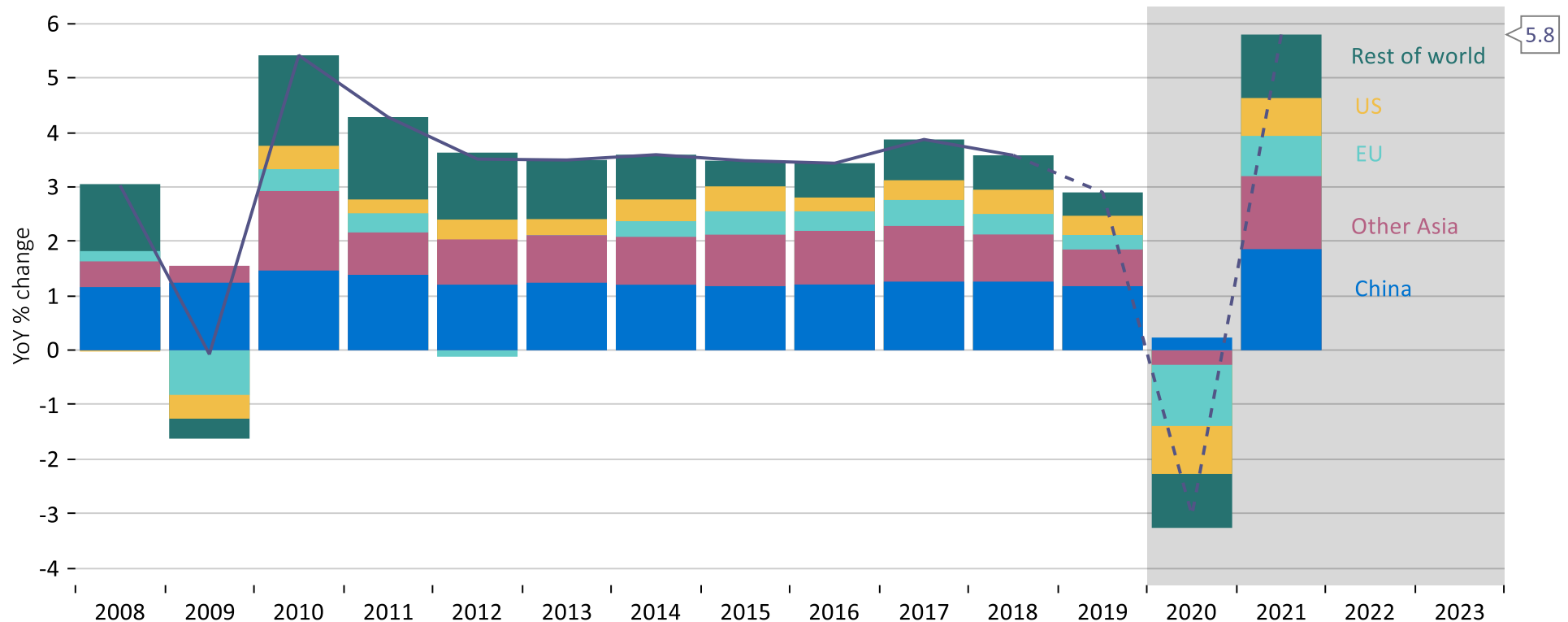
Source: Macrobond, 08.10.20

2. China's economy has rebounded much faster, and is expected to contribute to global growth in 2020



China and other Asia hurt much less by the COVID-19 Virus

Contribution to global GDP growth at purchasing-power parity, IMF estimates



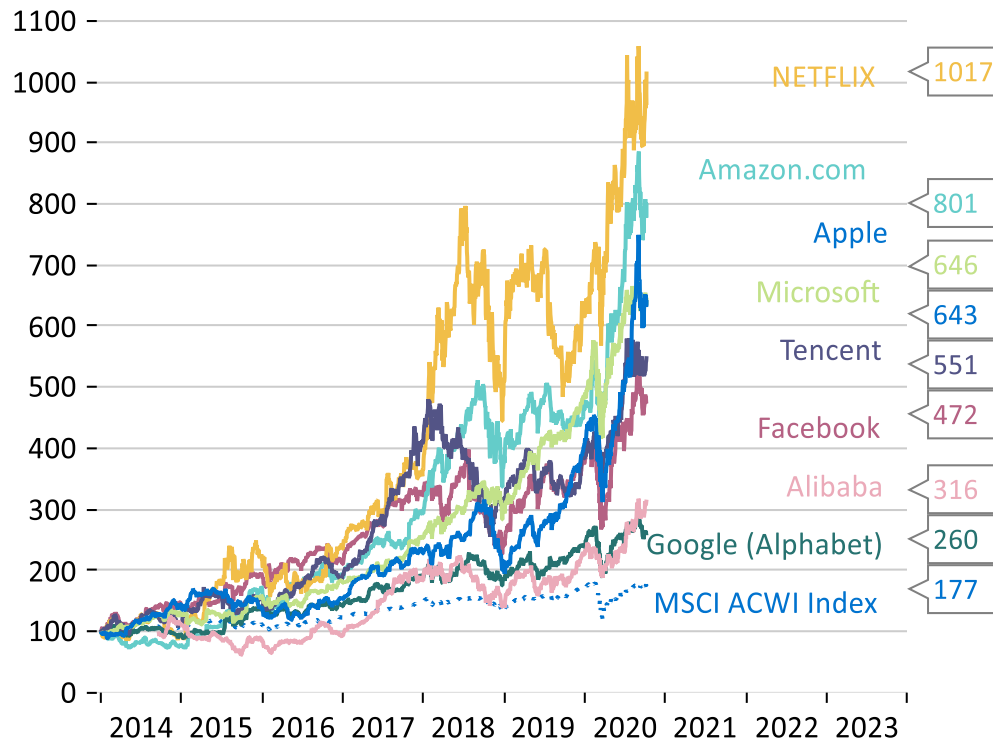
Source: Macrobond, 08.10.20

3. Growth stocks have seen prices soar but earnings have as well...



Stock price returns of leading growth stocks (2014=100)

Major FANG+ Stocks
Total Return USD

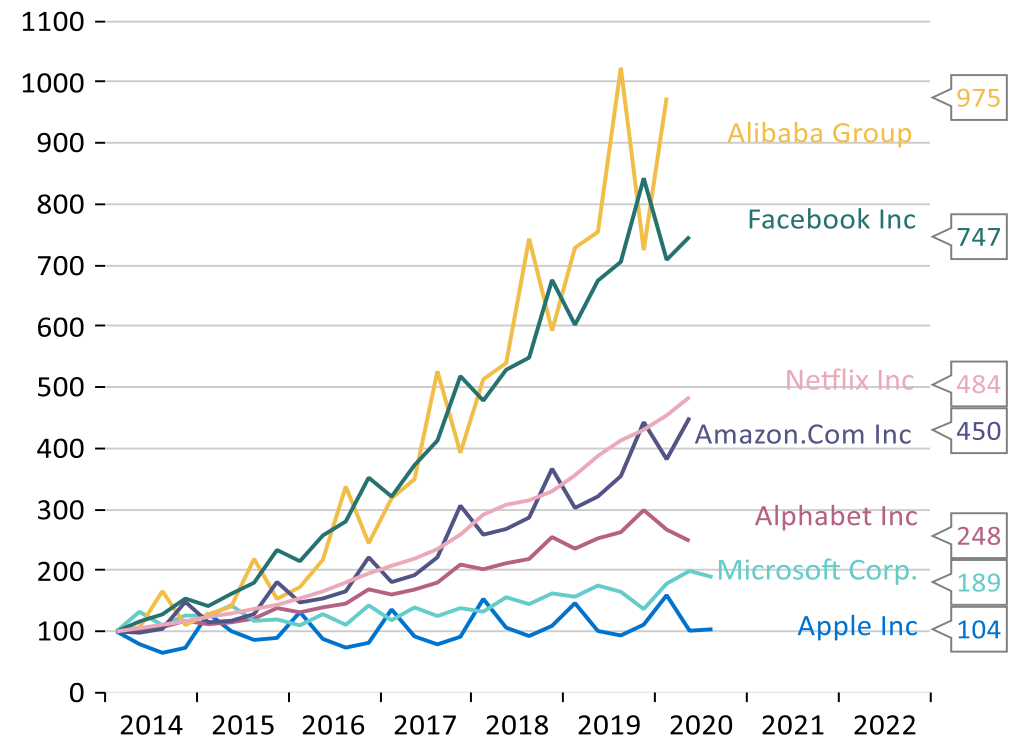


Source: Macrobond, 08.10.20



Revenues of leading growth stocks (2014=100)

Revenues, USD



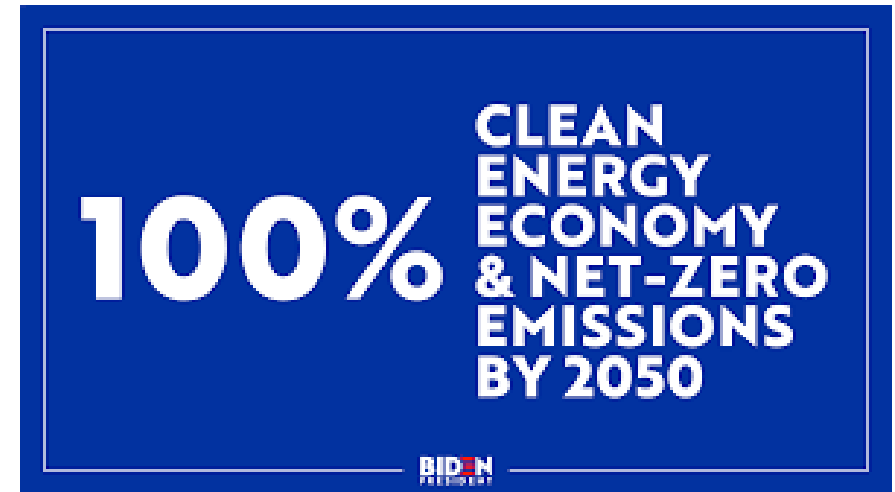
Source: Macrobond, 08.10.20

4. A global commitment to climate change = a CAPEX boom

55% of global emissions potentially captured



US...if Biden wins



China



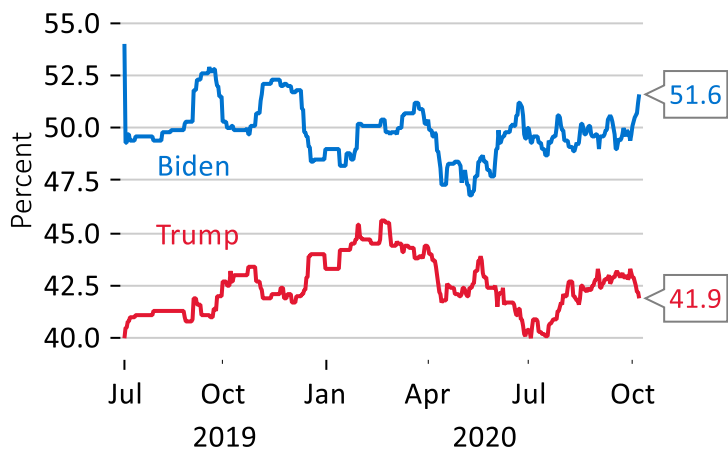
US Electoral Polls

Biden lead still looks firm

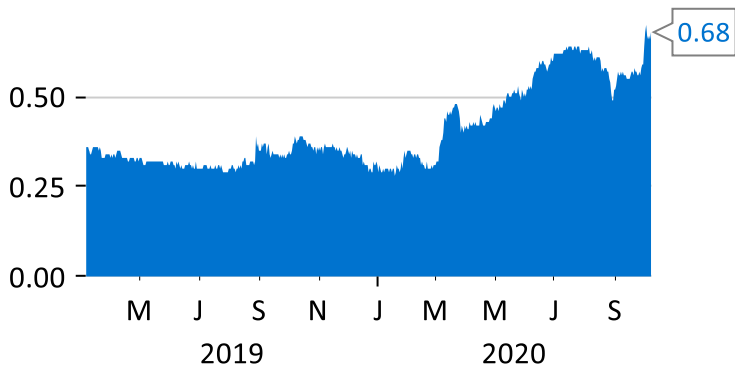


 US political polls in key 'battleground' states – Trump (Republican red) v Biden (Democrat blue)

US National Polls, Trump vs Biden (RCP)

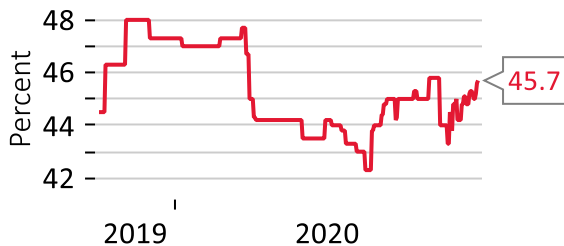


US Political Polls - Who Will Control the Senate After 2020, Democratic (PredictIt)

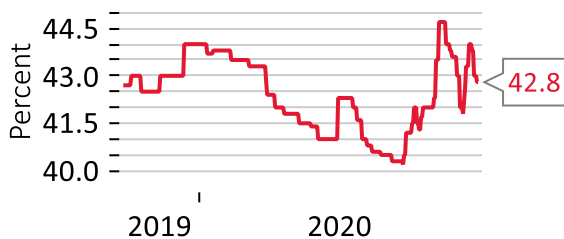


Source: Macrobond, 08.10.20

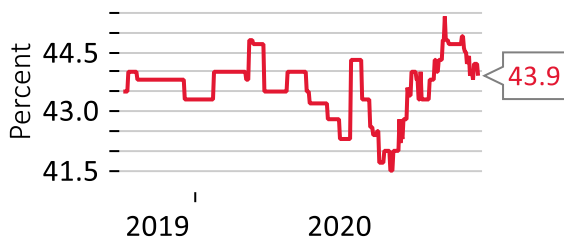
Arizona



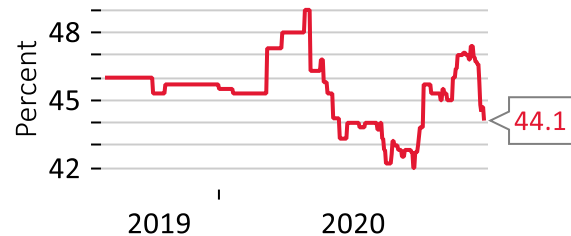
Michigan



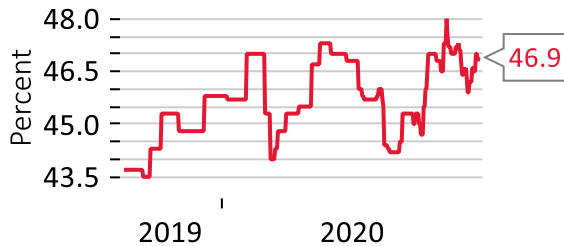
Pennsylvania



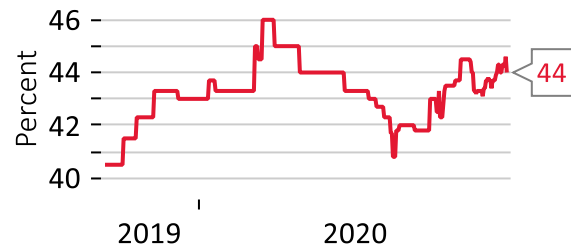
Florida



North Carolina



Wisconsin



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

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

Important information

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SARASIN

& PARTNERS

Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

