

SARASIN
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Sarasin Six Minute Strategy

11 days to go...

October 23rd, 2020

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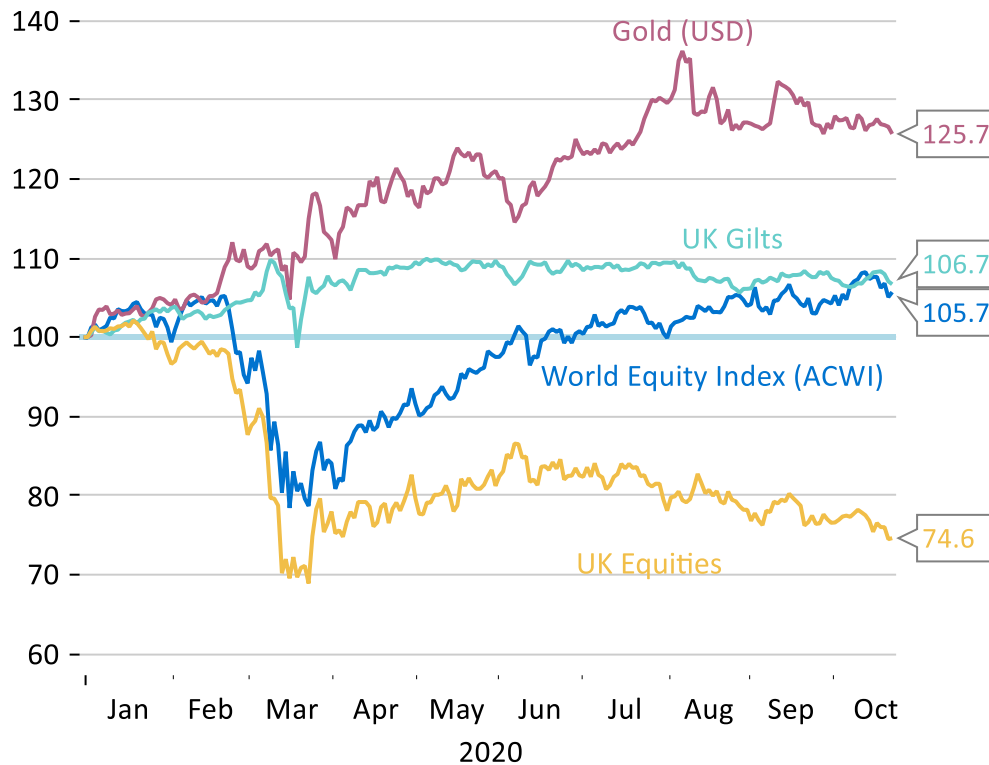
Markets 2020

Gold still leads a global asset rally – UK equities still among the worst performing assets



Equities reverses COVID losses for a sterling investor

Global Asset Class Returns 2020 (GBP)

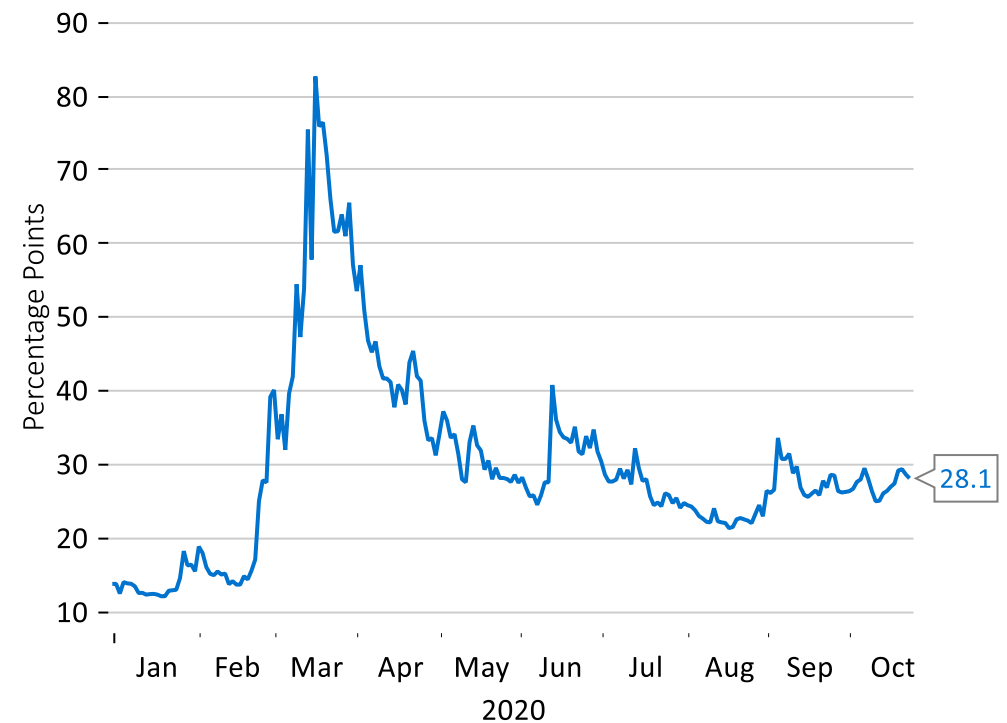


Source: Macrobond, 23.10.20



Volatility continues to decline

US Equity Volatility Index (VIX)
2020 to date



Source: Macrobond, 23.10.20

COVID-19

Business sentiment falls in contractionary territory in the Euro area as government restrictions tighten to control virus

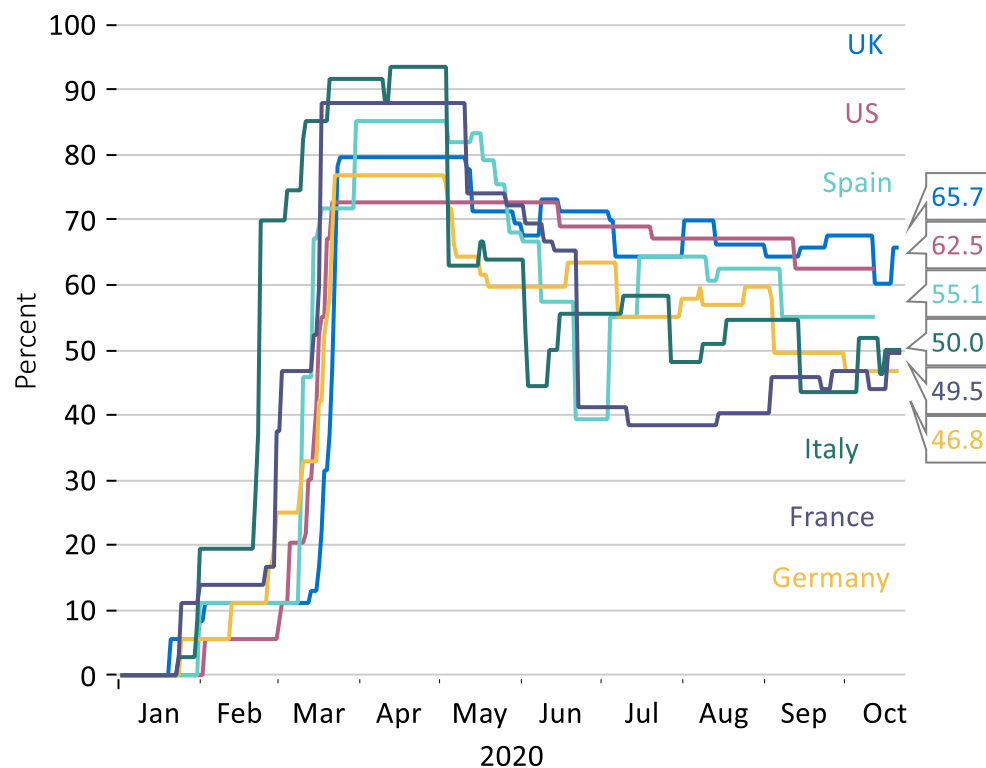


COVID-19 government response tracker



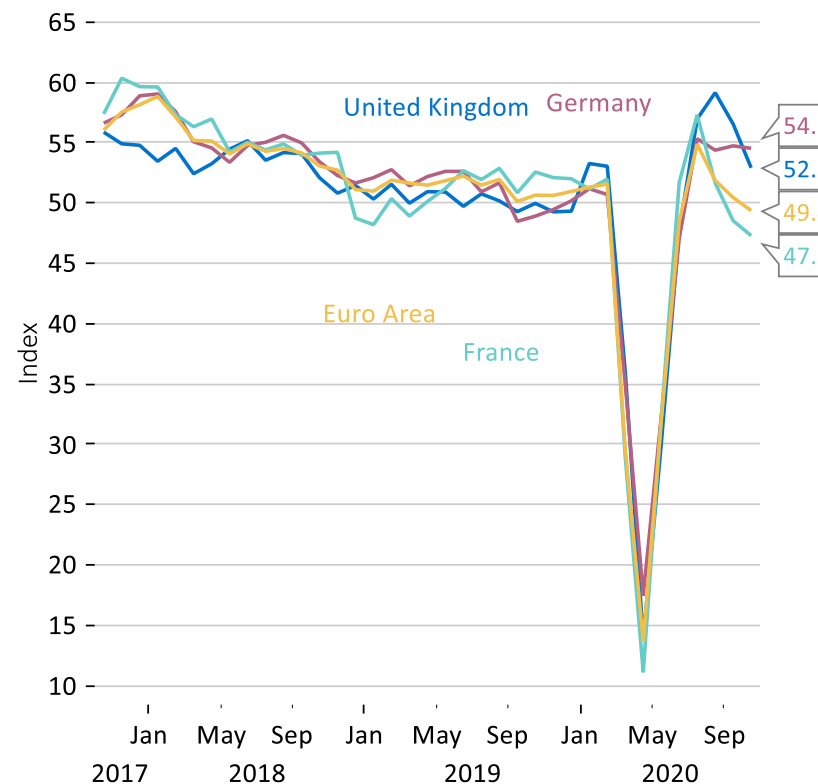
European business sentiment

COVID-19 Global Stringency Index



Source: Macrobond, 23.10.20

Composite PMI (Markit, SA)



Source: Macrobond, 23.10.20

US Election

Is the die cast?



The final two weeks usually don't change much

How much the national polling margin changed between 15 days before the presidential election and Election Day, since 1972

YEAR	LEADER IN FIVETHIRTYEIGHT NATIONAL POLLING AVERAGE					CHANGE
	15 DAYS BEFORE ELECTION		ELECTION DAY			
2016	Clinton	+6 . 9	Clinton	+3 . 8	3 . 1	
2012	Romney	+1 . 2	Obama	+0 . 4	1 . 6	
2008	Obama	+6 . 8	Obama	+7 . 1	0 . 3	
2004	Bush	+2 . 4	Bush	+1 . 6	0 . 8	
2000	Bush	+2 . 7	Bush	+3 . 5	0 . 8	
1996	Clinton	+14 . 9	Clinton	+12 . 8	2 . 1	
1992	Clinton	+14 . 1	Clinton	+7 . 1	7 . 0	
1988	Bush	+11 . 8	Bush	+10 . 4	1 . 4	
1984	Reagan	+16 . 7	Reagan	+18 . 0	1 . 3	
1980	Reagan	+2 . 3	Reagan	+2 . 1	0 . 2	
1976	Carter	+2 . 0	Carter	+0 . 8	1 . 2	
1972	Nixon	+25 . 5	Nixon	+24 . 1	1 . 4	

The averages listed are calculated retroactively based on FiveThirtyEight's current polling average methodology.

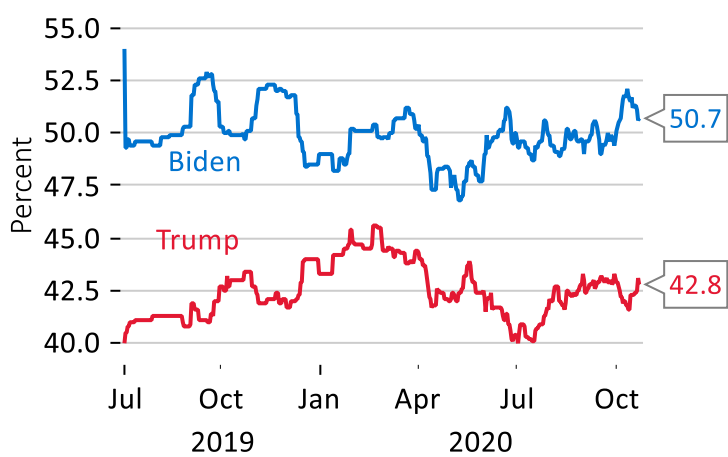
Source: FiveThirtyEight – October 2020

US Election

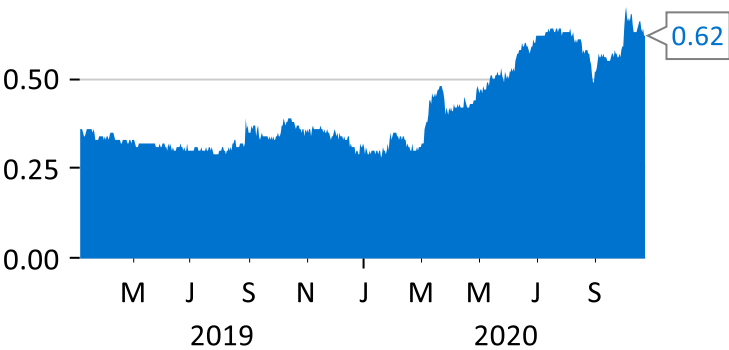
Latest polls – Biden’s to lose?

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

US National Polls, Trump vs Biden (RCP)

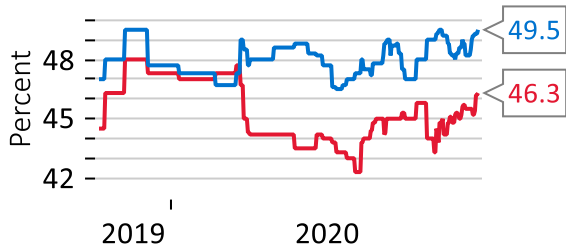


US Political Polls - Who Will Control the Senate After 2020, Democratic (PredictIt)

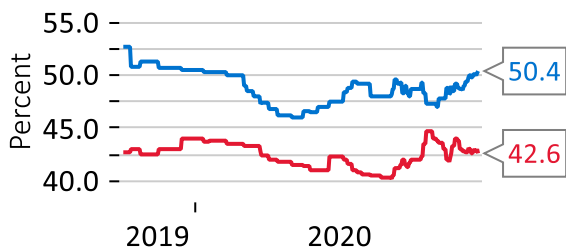


Sc Source: Macrobond, 23.10.20

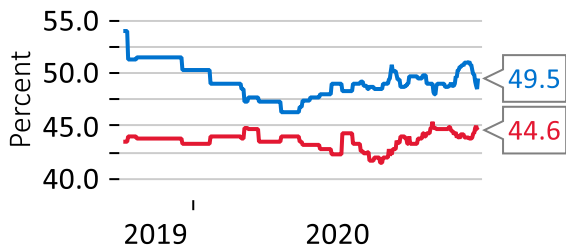
Arizona



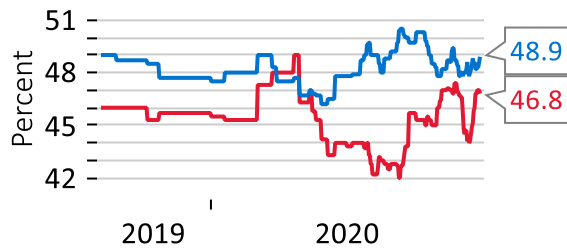
Michigan



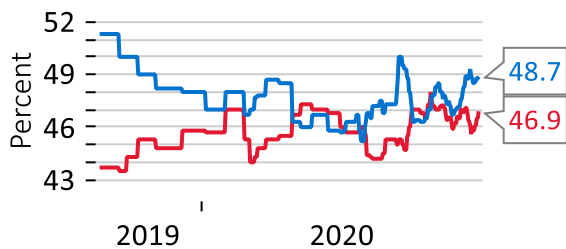
Pennsylvania



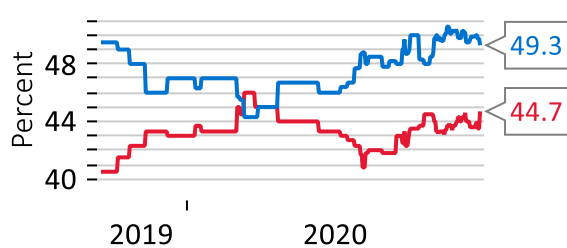
Florida



North Carolina



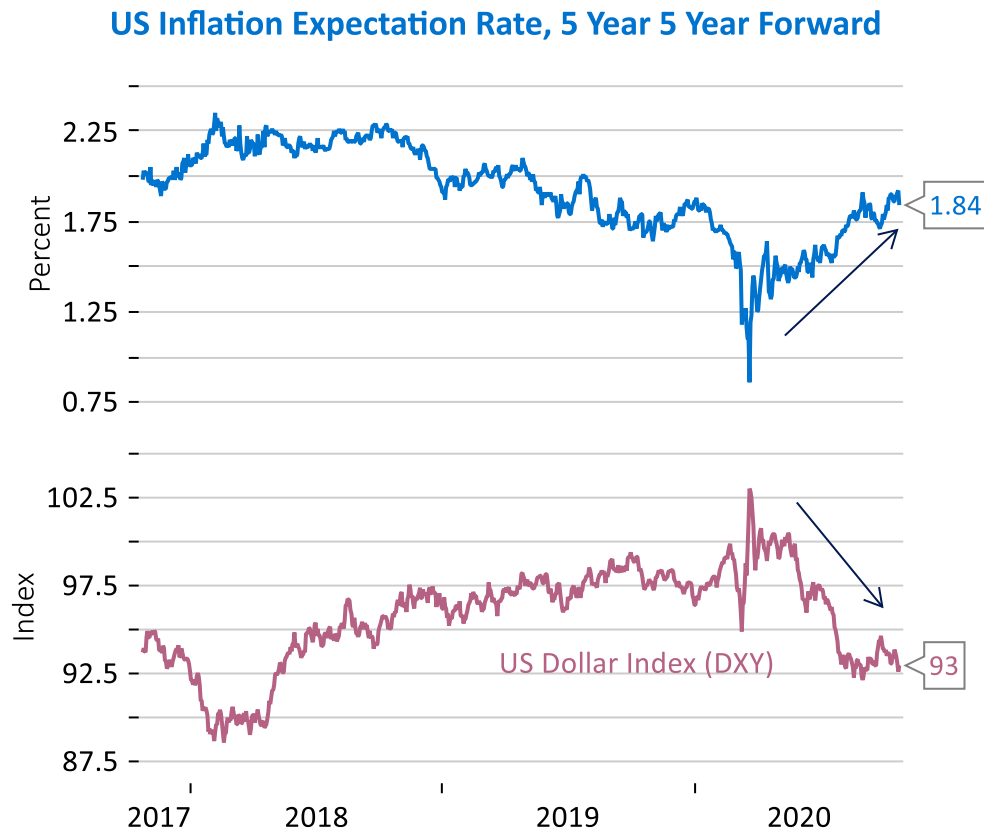
Wisconsin



Despite economic, virus & political uncertainty the US economy is *gradually reflating*...



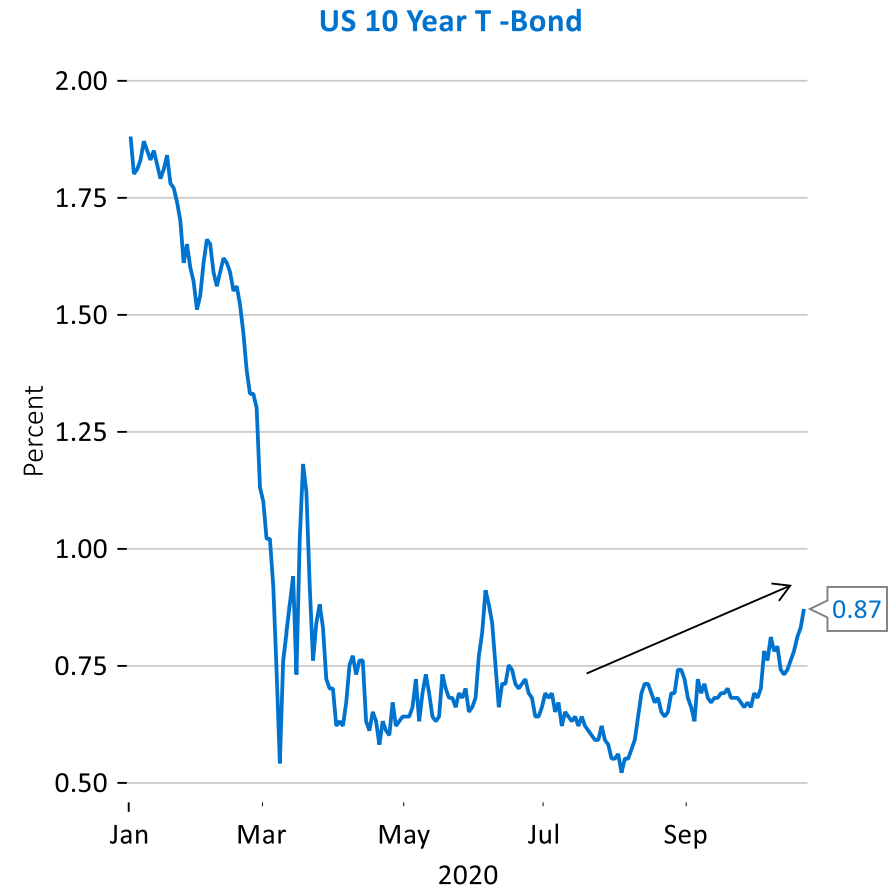
US inflation expectations climbing as dollar falls...



Source: Macrobond



Modest rise in US bond yields this month...



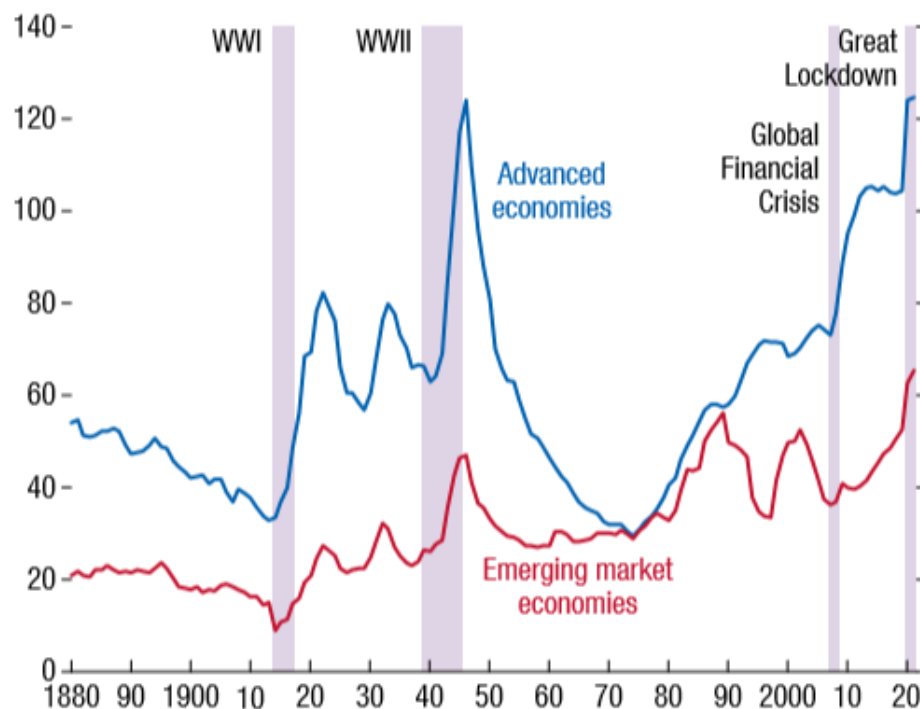
Source: Macrobond

Public debt globally will rise to 100% of GDP and higher in advanced countries - much of it funded by central banks...



Government debt rising to near record levels

Figure 1.2. Historical Patterns of General Government Debt
(Percent of GDP)

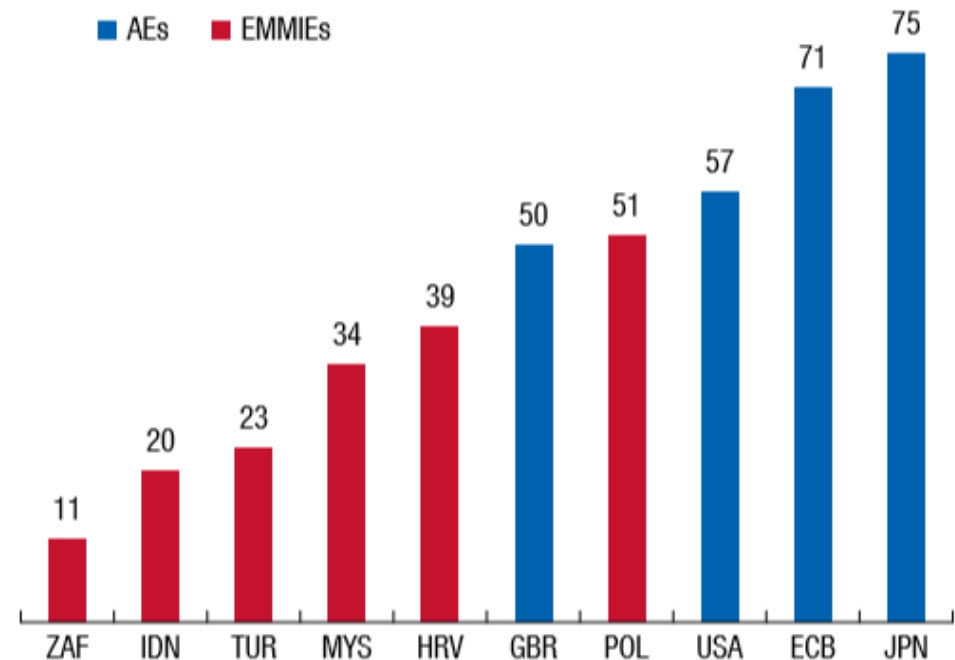


Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; Maddison Database Project; and IMF staff calculations.



Central banks have funded large portions of Govt Debt

Figure 1.3. Central Bank Purchases of Government Debt
(Percent of central government marketable securities or debt issued since February 2020)



Sources: Country authorities; US Federal Reserve Economic Data; Haver Analytics; and IMF staff calculations.

Source: IMF Fiscal Monitor Oct 2020

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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23.10.20

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