

# The National Gallery Virtual Reception

## 11 November 2020

Jamie Black, Partner, Head of Private Clients

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If you are a private investor, you should not act or rely on this document but should contact your professional advisor.

Detail from Artemisia Gentileschi, 'Self Portrait as a Lute Player', about 1615-18. Wadsworth Atheneum Museum of Art, Hartford, CT Charles H. Schwartz Endowment Fund 2014.4.1 © Wadsworth Atheneum Museum of Art



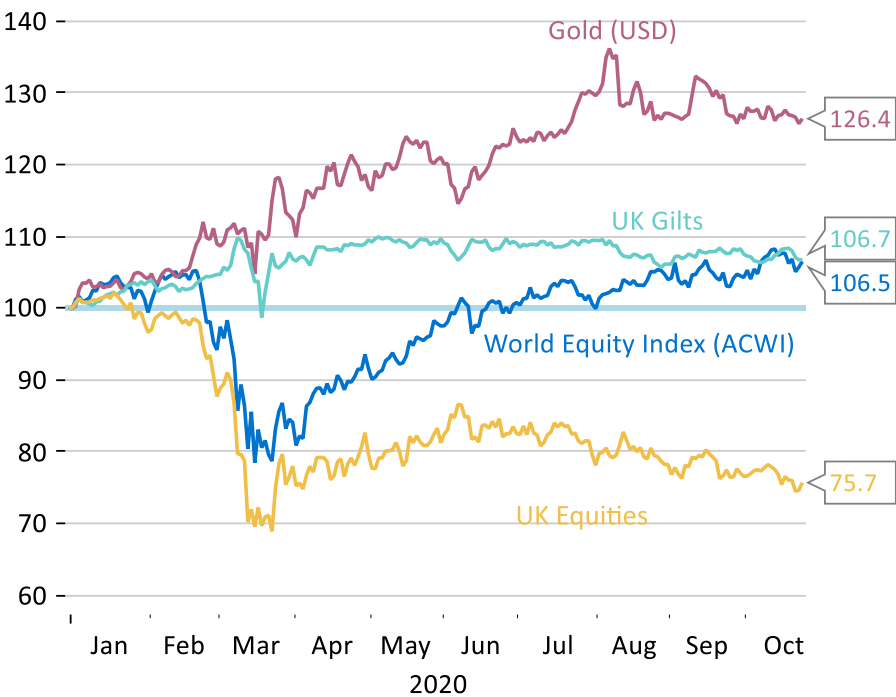
# Markets 2020

Gold leads a global asset rally – UK equities continue to lag – volatility still elevated



Equities reverses COVID losses for a sterling investor

Global Asset Class Returns 2020 (GBP)

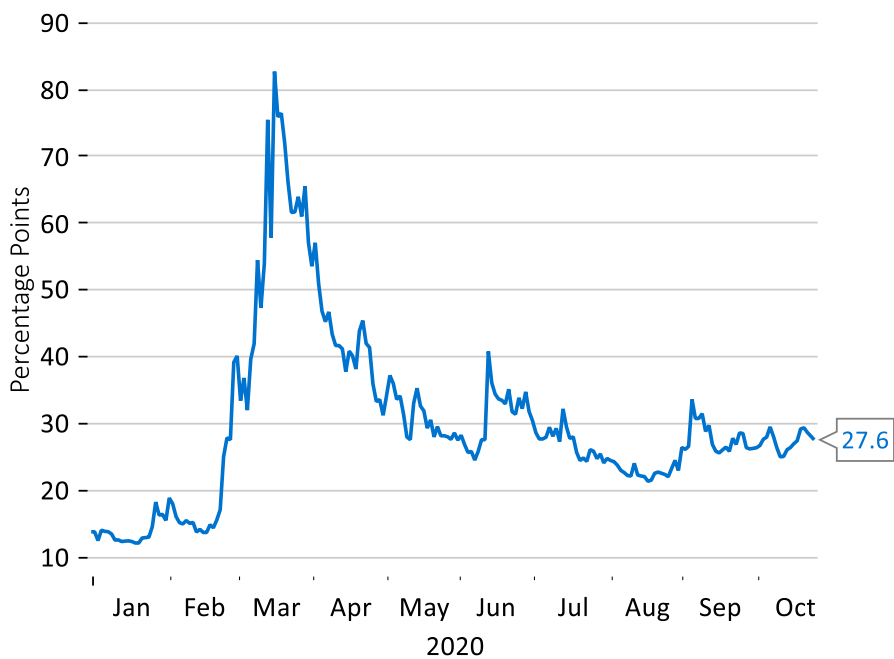


Source: Macrobond, 26.10.20



Volatility continues to decline

US Equity Volatility Index (VIX)  
2020 to date



Source: Macrobond, 26.10.20

**Top quartile Sarasin performance numbers over 1, 3 & 5 years to 30 June 2020 in all four ARC PCI risk categories\***

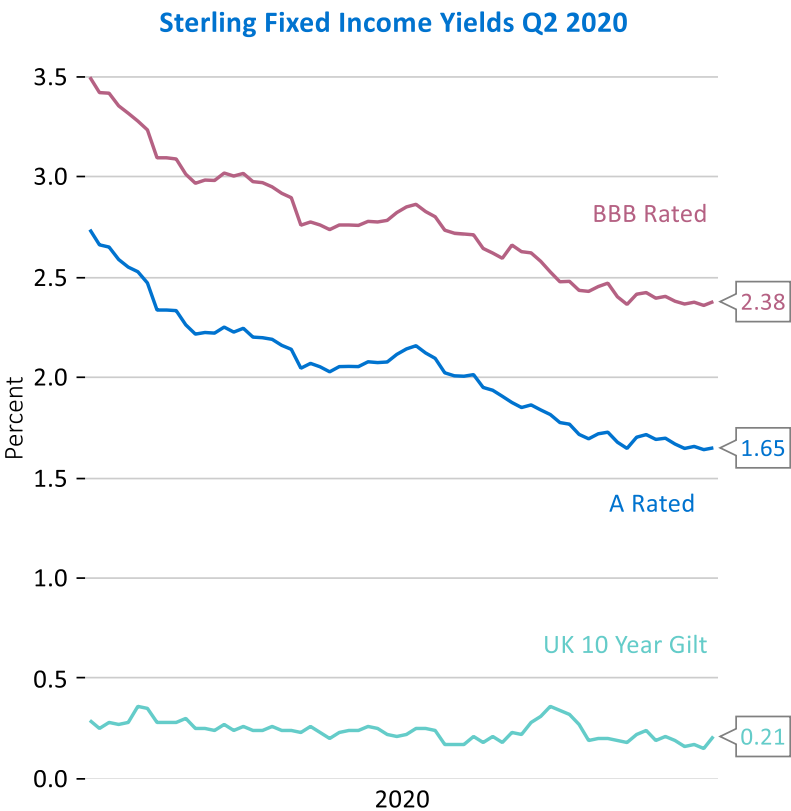
\*Relative to the ARC Private Client Indices for our Sterling clients. Source: Asset Risk Consultants, as at 30.06.2020. Please note past performance is not indicative of future performance

# Income: Under pressure from falling yields & lower dividends

Truly sustainable dividend growth highly prized



## Credit spreads narrow sharply in Q2 2020

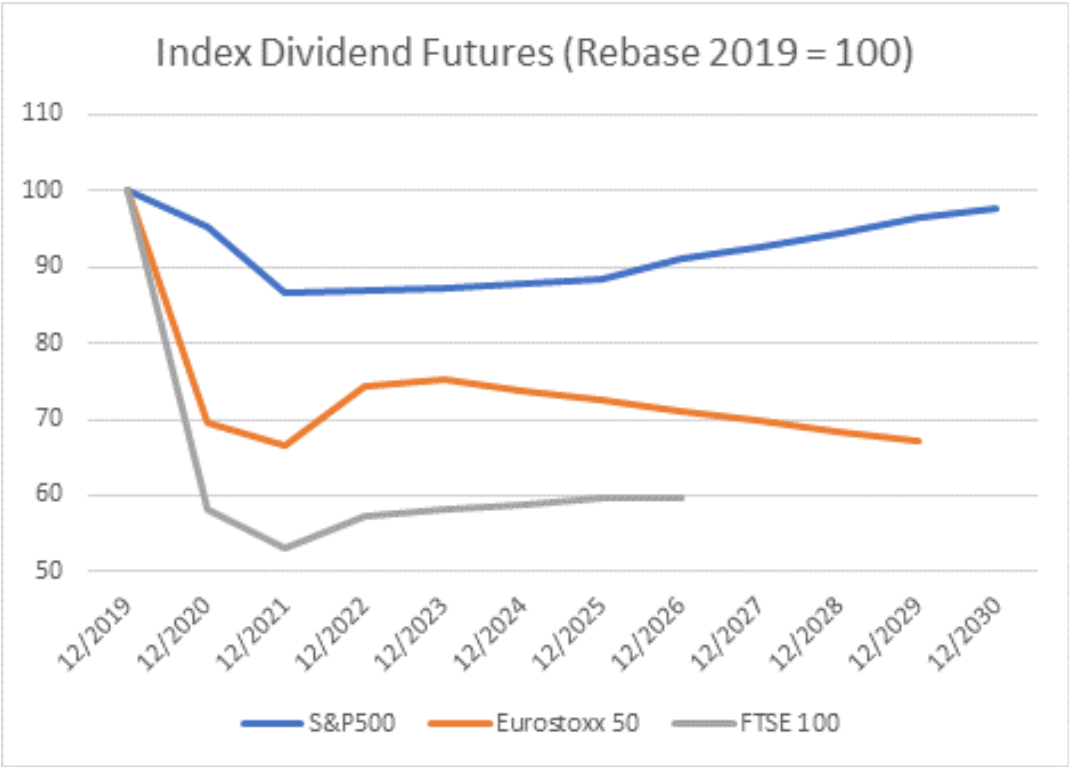


Source: Macrobond

Source: Macrobond, August 2020



## Dividend Futures suggest a long climb back



Source: Bloomberg/Sarasin, August 2020



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& PARTNERS

# Global Strategy | National Gallery 2020

Guy Monson

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# 01

## **Vaccines and Elections** **What is the market telling us?**

# 1. COVID vaccine

## What we know so far



- Pfizer COVID vaccine, developed with BioNTech of Germany “prevents 90% of COVID infections” - could get an EUA\* on 17 November
- Markets were looking for 60% – 70% impact and getting lower as each day passed with still no data, so 90% is very good
- Others:
  - Moderna data should be out very soon too and if this is a class effect then the efficacy is likely to be good too.
  - Astra/Oxford is also progressing OK but has had more issues with safety (which may or may not be connected to the Vaccine). Both less ‘fiddly’ in terms of storage & dilution than Pfizer.
- There will likely be bottlenecks in getting vaccinations done, but manufacturing is already very much in place - distribution still a Herculean Task (8 billion doses for Global Herd Immunity)

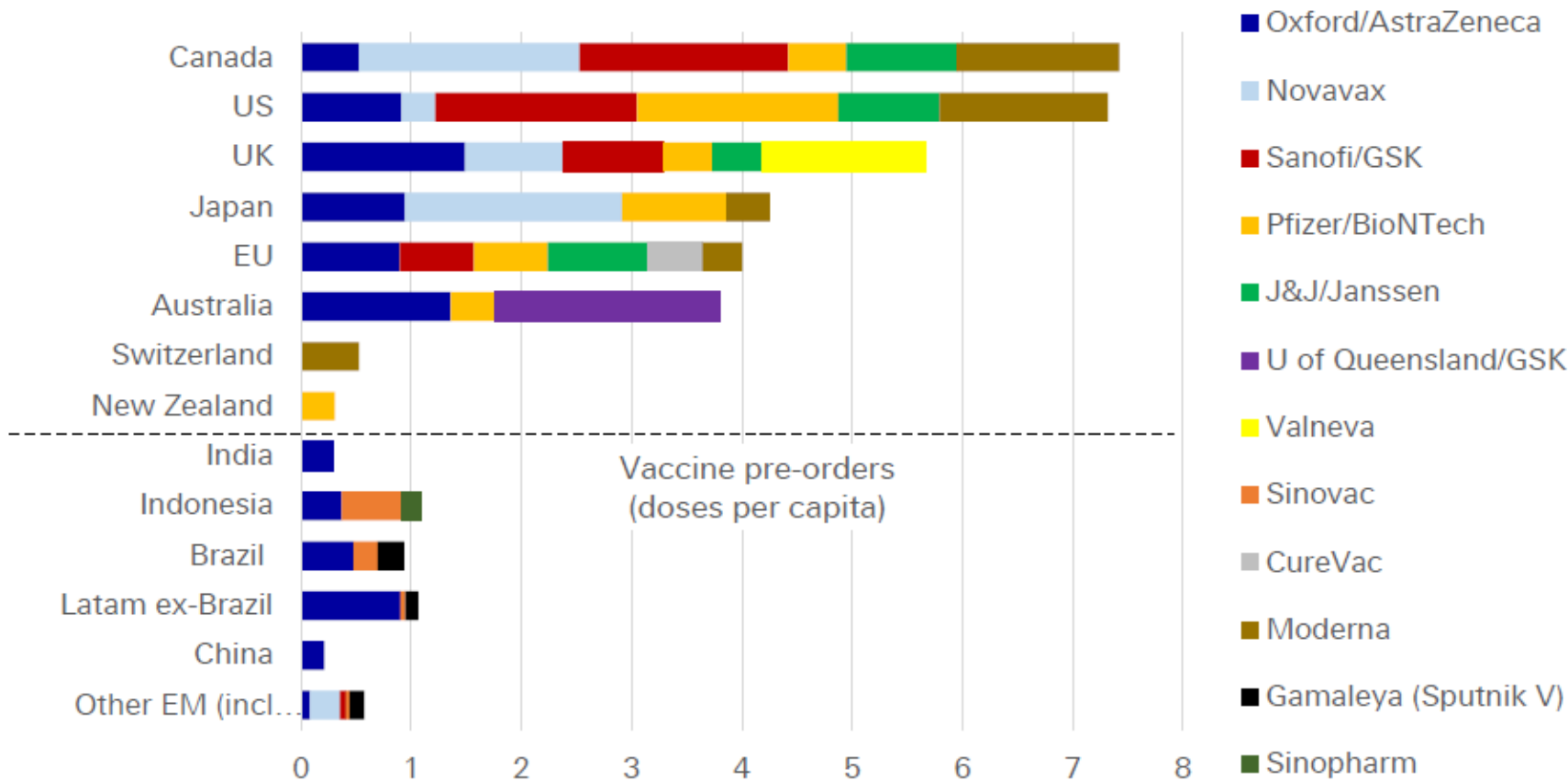
**Vaccine can end risk of ‘3<sup>rd</sup> Wave,’ business can plan for full resumption,  
pent-up consumer demand released from Q2 2020**

Source: Sarasin – 9.11.20 EUA= Emergency Use Authorisation

# Doses per capita



## What are countries' vaccine portfolios?



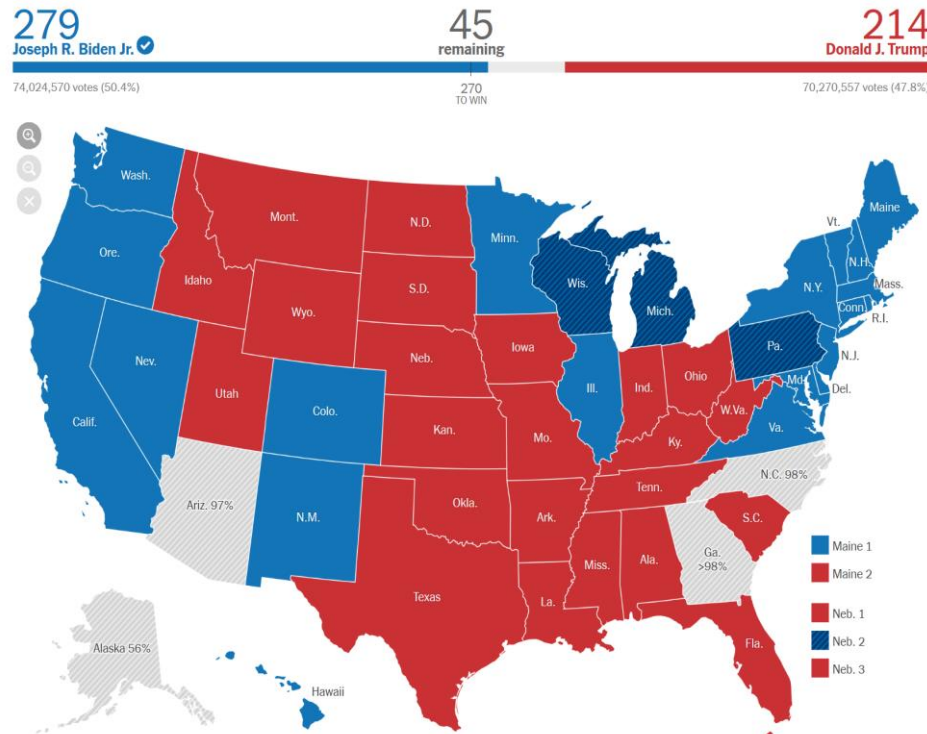
Source: Deutsche Bank, company sources, national government sources, airfinity. November 2020

## 2. US Election

No blue wave, no blue sweep, more a blue ripple...



Joe Biden elected 46th US President after winning Pennsylvania



- With a Biden win we end up with a centrist Democratic President likely hamstrung by a marginally red Senate & a less blue house.
- Biden outperformed the Democratic Party in Senate & House: the US is more conservative, more right of centre than the Party.
- Fiscal activism less likely
- 2022 Senate races become key focus – legislative checkmate till then.
- The big if is a peaceful transition...

Source: NY Times 8.11.2020

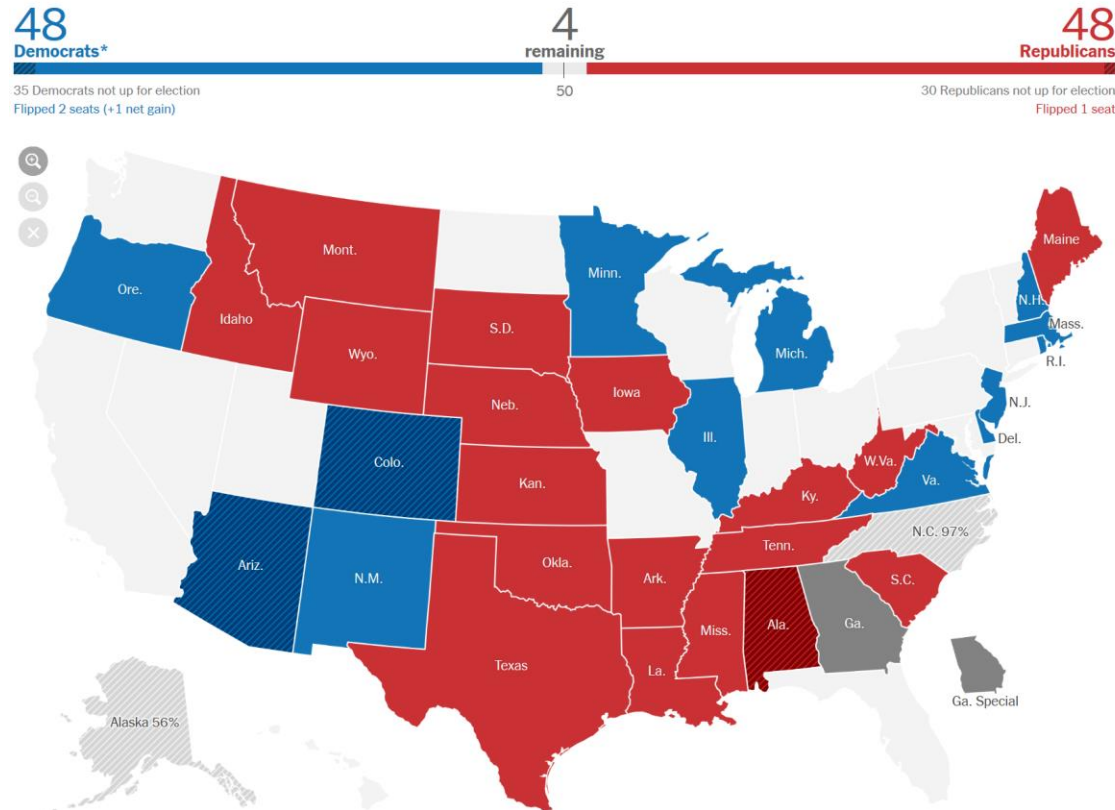


# Senate will likely remain Republican

Mitch McConnell keeps a blocking vote on any meaningful shift in policy



Senate: Democrats 48, Republicans 48



Source: NYT 5.11.2020

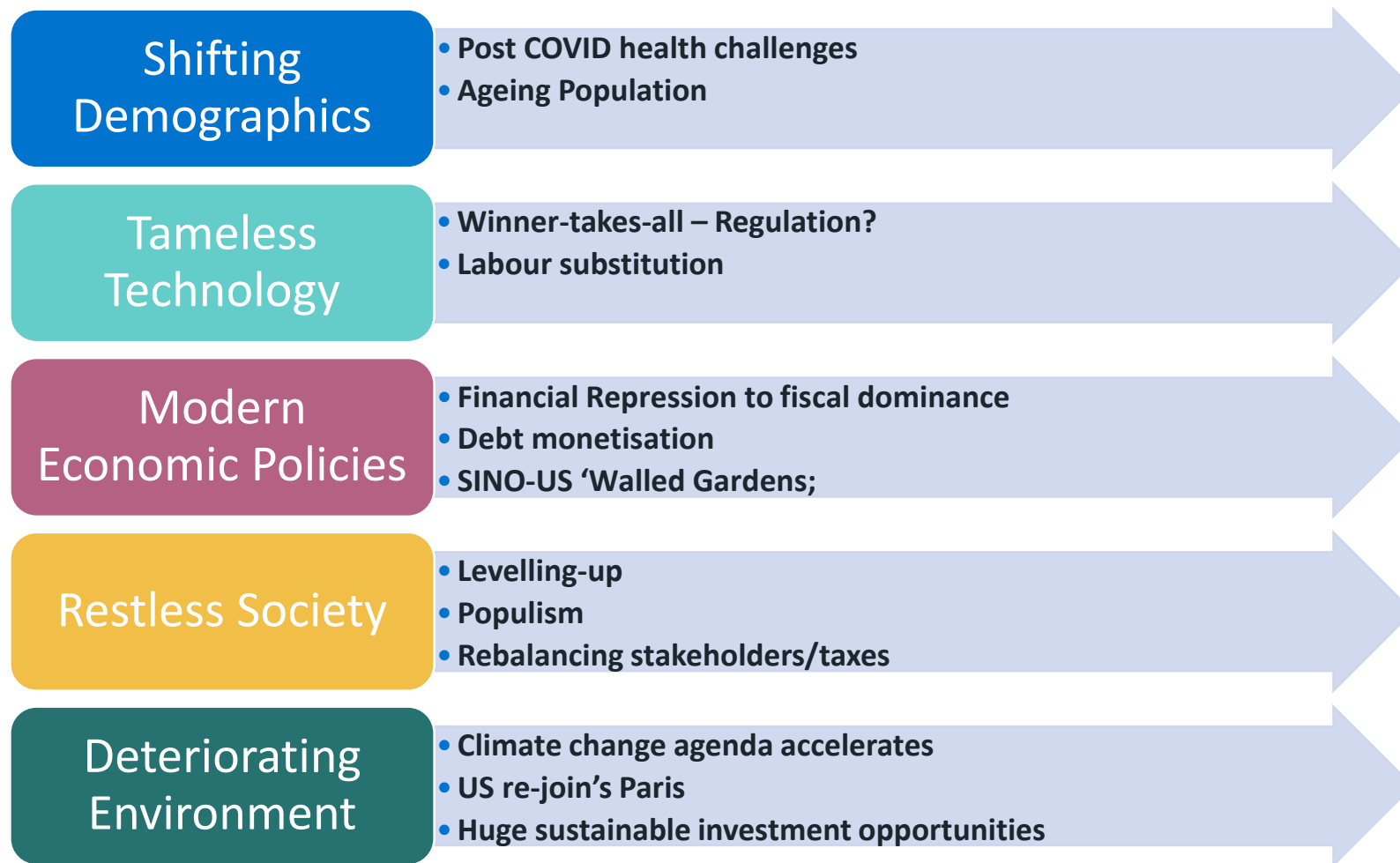
## Democrats lost by a large margin...despite big spending

A likely **Republican senate** (Georgia has 2 senate races in run-off) will hamper Democrat progressive agenda on:

- Stimulus
- Taxes
- Healthcare
- How tech companies are regulated
- Appointments
- Senate Majority Mitch McConnell (R) holds seat - under his leadership very effective at blocking policy
- **Political gridlock being seen as good for risk assets** (recent equity gains largest ever on election day).

# President Elect Biden's in-tray

Our response: stay global, stay thematic & focus on real, sustainable & socially responsible assets



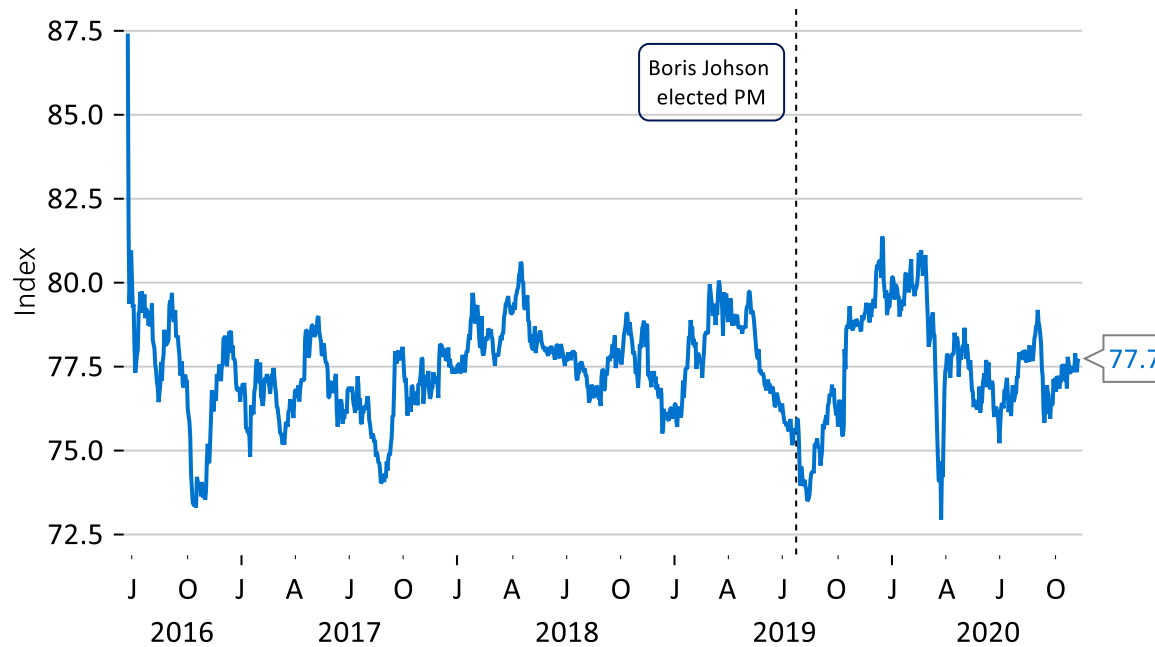
Source Sarasin Investment Strategy Group

### 3. Brexit Deal down to the wire...



Sterling has been a reasonable barometer of 'Deal/No-Deal'

Bank of England Sterling index  
since Brexit Vote

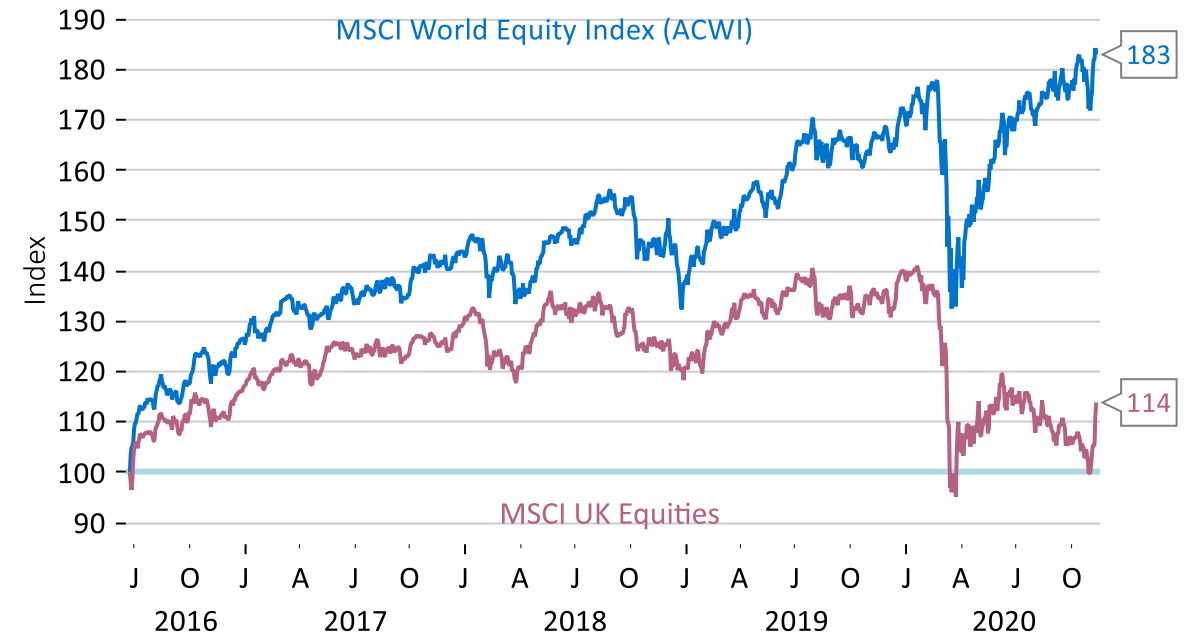


Source: Macrobond, 11.11.20



An astonishing underperformance of UK assets...

UK and Global Equity & FX returns since Brexit Vote  
(23/6/2016)



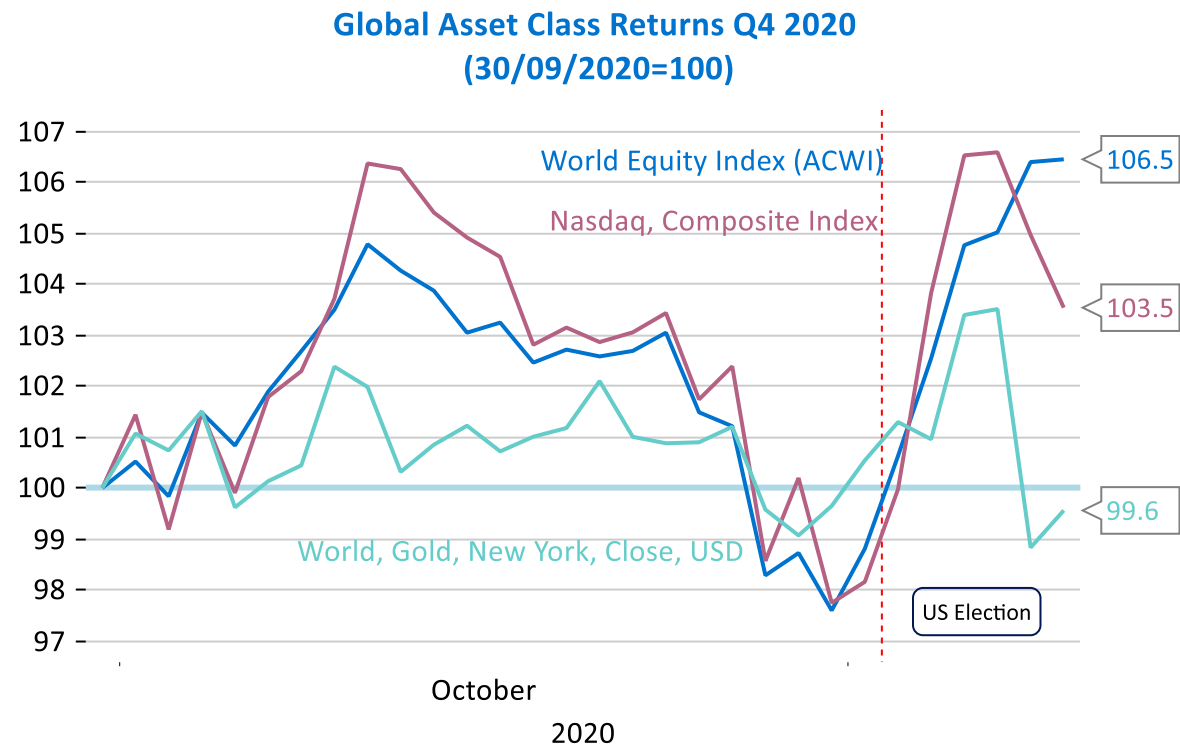
Source: Macrobond, 11.11.20



# Markets

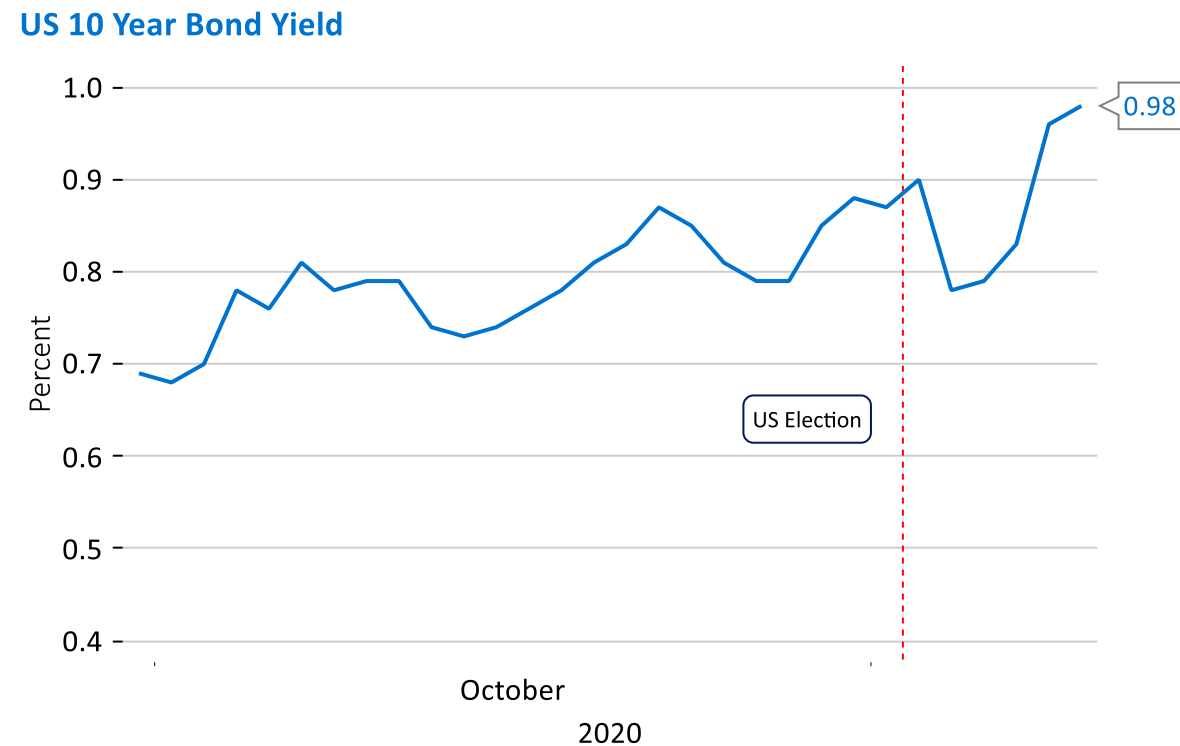
Election & vaccine drives an extraordinary rally...

## Global markets rally sharply – Gold falls



Source: Macrobond, 11.11.20

## Bond yields fall on election...rise on a vaccine



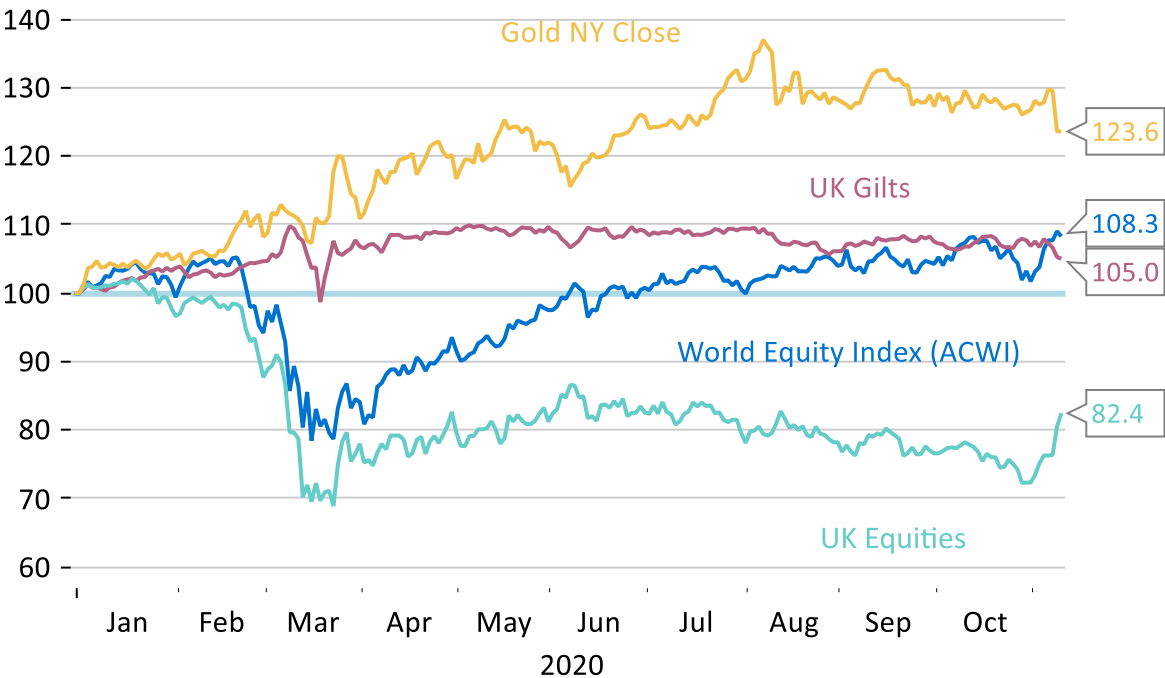
Source: Macrobond, 11.11.20

# Markets 2020

Gold still leads – UK equities continue to lag – volatility falling sharply

## Equity rally continues on Election and Vaccine

Global Asset Class Returns 2020 (GBP)



Source: Macrobond, 11.11.20

## Volatility continues to decline

US Equity Volatility Index (VIX)  
2020 to date



Source: Macrobond, 11.11.20

# 02

## The Post-COVID Economy

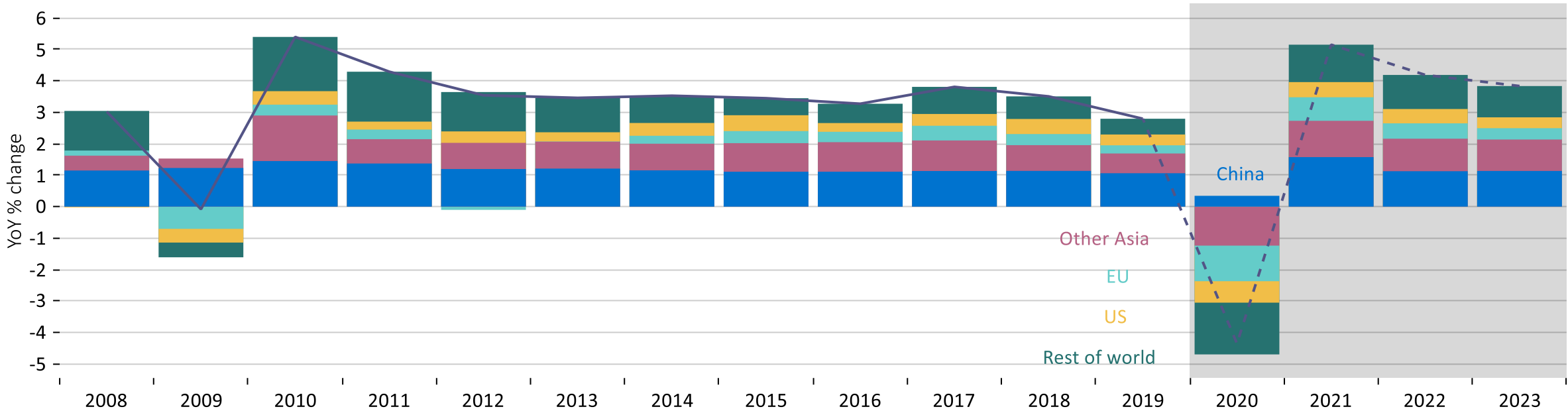


# China's economy has rebounded much faster & will lead the global GDP rebound in 2021



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

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



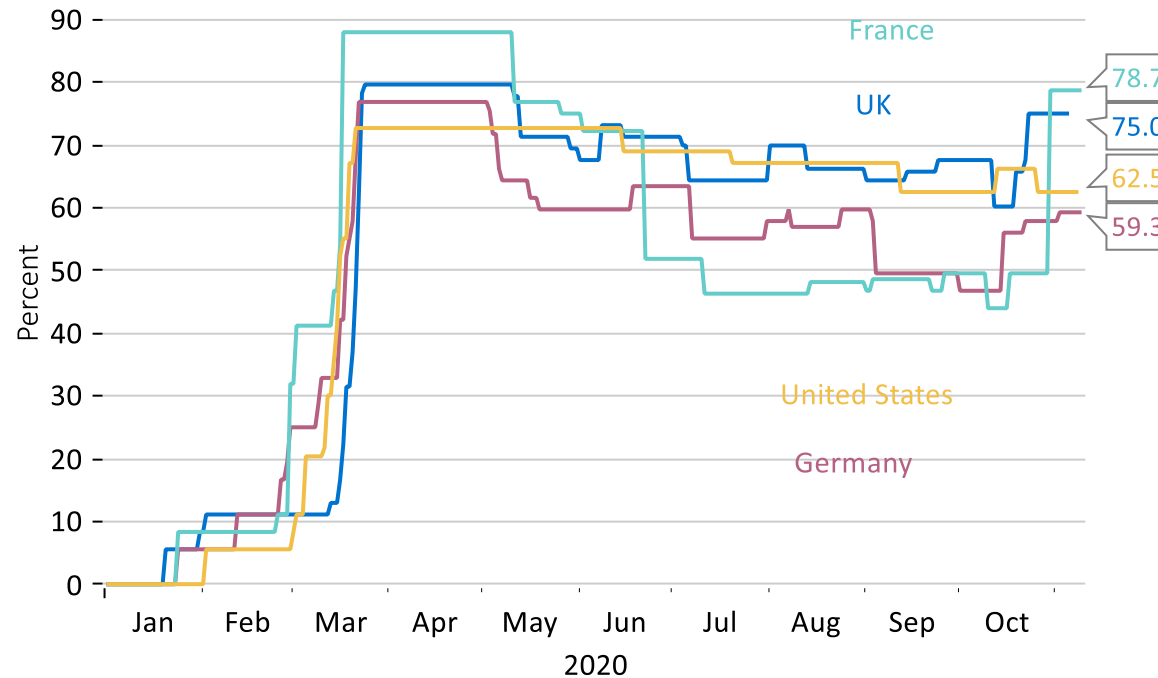
Source: Macrobond, 11.11.20

# New lockdowns suggest a 'W' shaped recession – can the vaccine reverse this?



European lockdowns close to April peaks...

COVID-19 Global Stringency Index

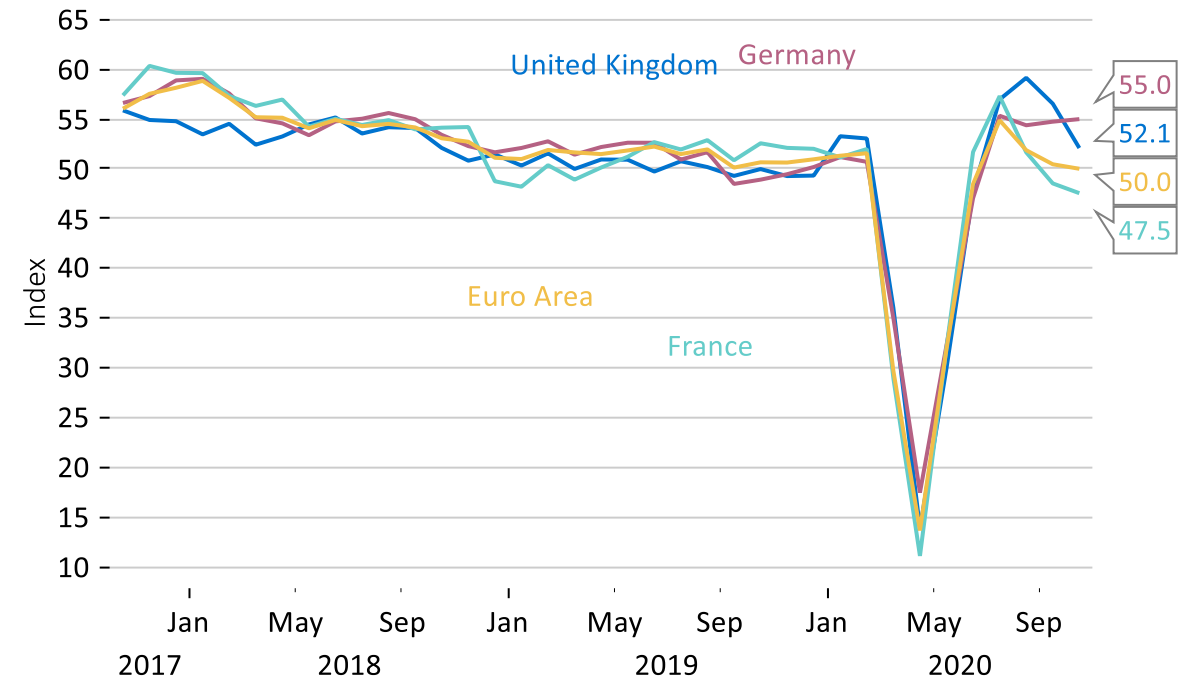


Source: Macrobond, 11.11.20



European business survey data already fading...

Composite PMI (Markit, SA)



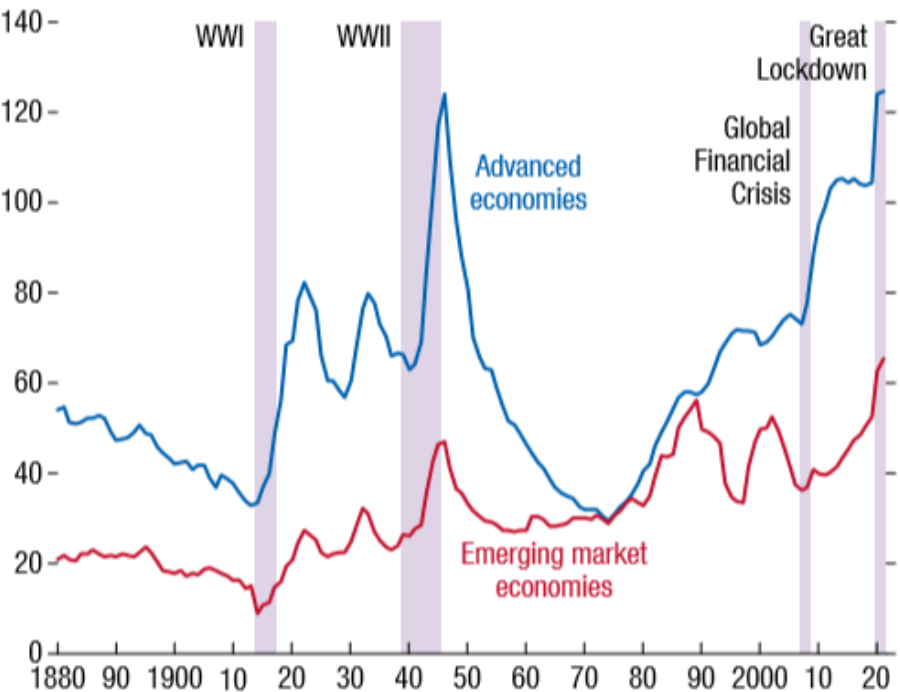
Source: Macrobond, 11.11.20

# Public debt rises to 100% of GDP & 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)

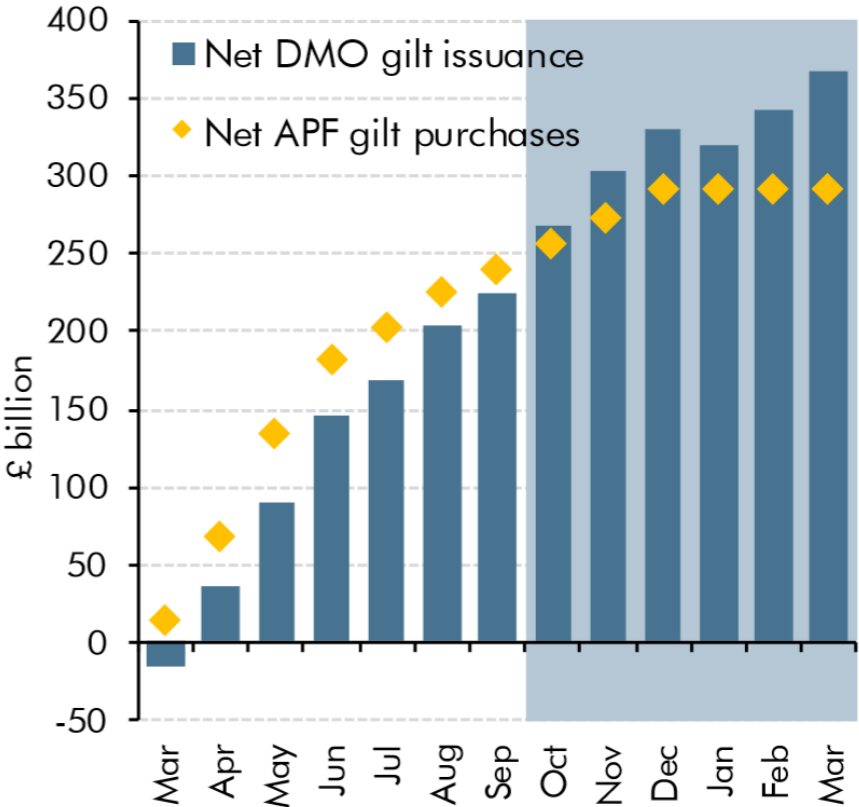


Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; Maddison Database Project; and IMF staff calculations.

Source: IMF Fiscal Monitor, October 2020



## UK Gilt Issuance and QE Fiscal Year 2020/21



Source: BoE, DMO, OBR

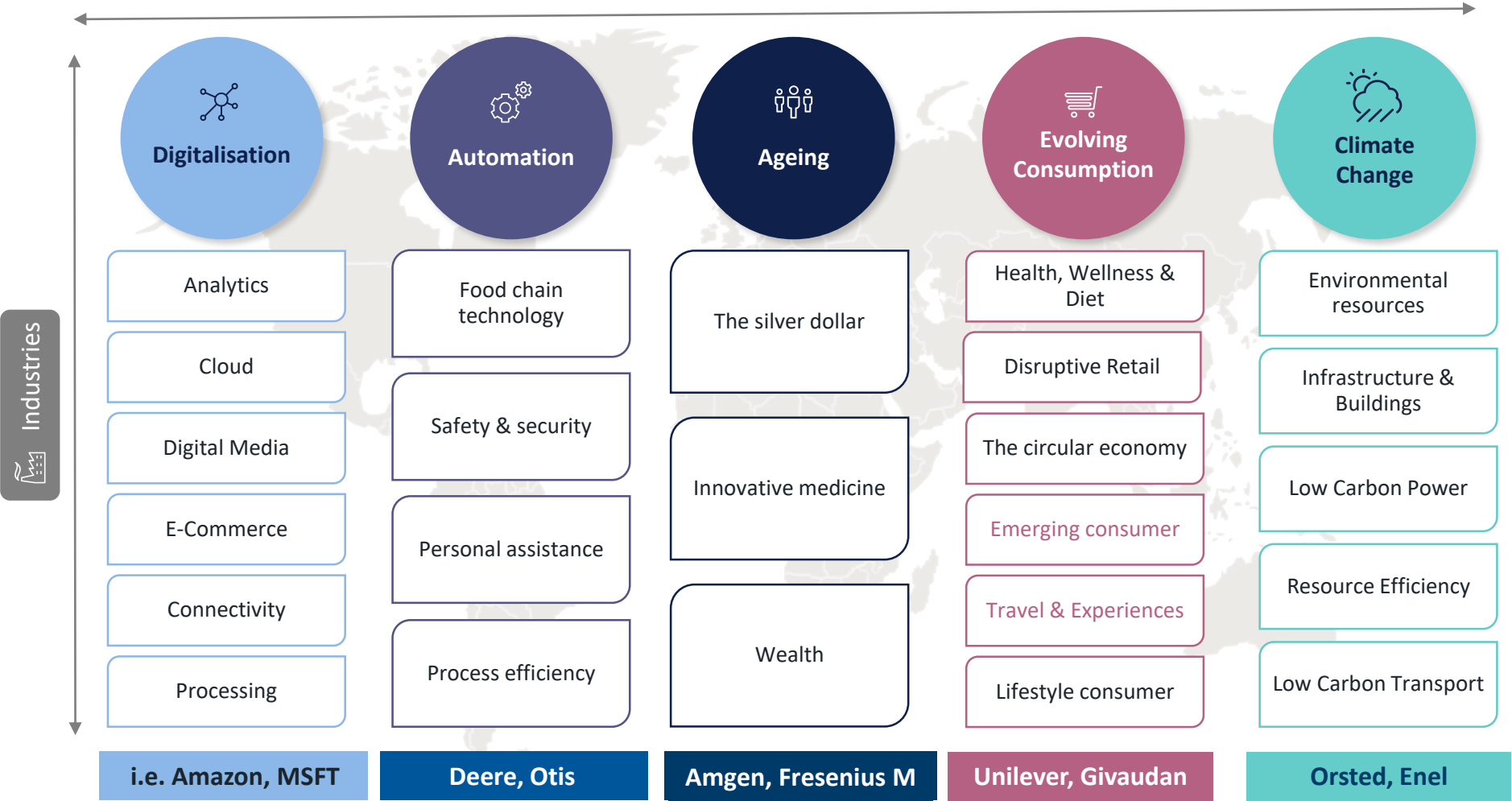
Source: Office of Budget Responsibility Sept 2020



# 03

## Our strategy

# Five core investment themes

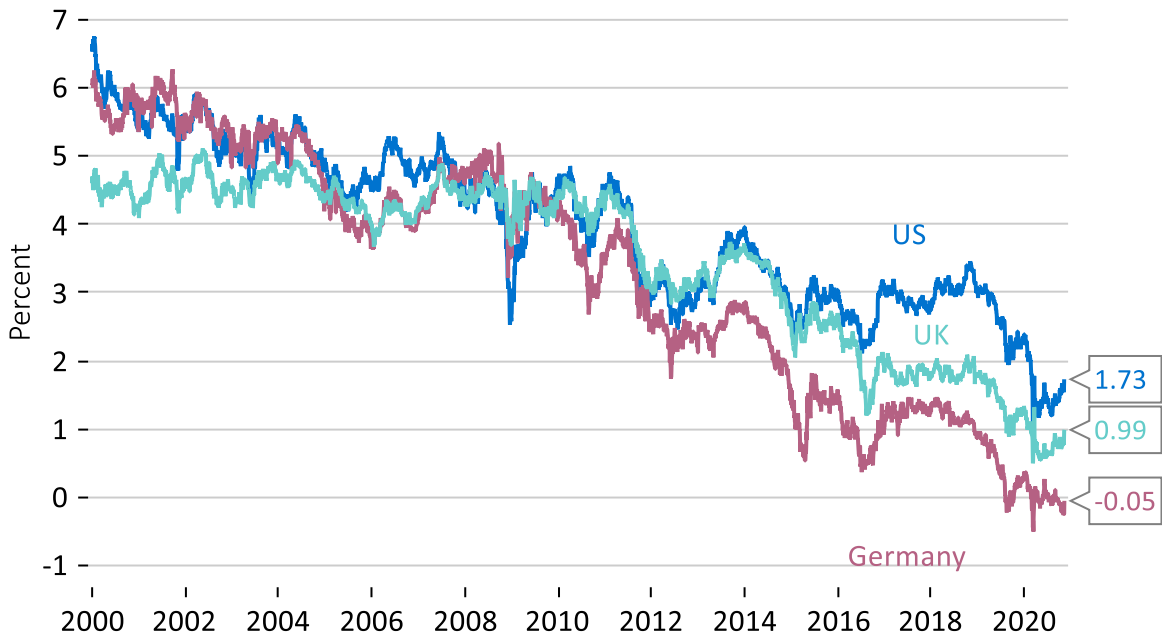


# 1. Today's asset prices have been inflated by super-low rates



The time value of money has disappeared...

30 Year Bond Yields



Source: Macrobond, 11.11.20



Resulting in higher multiples for long-term growth stocks

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



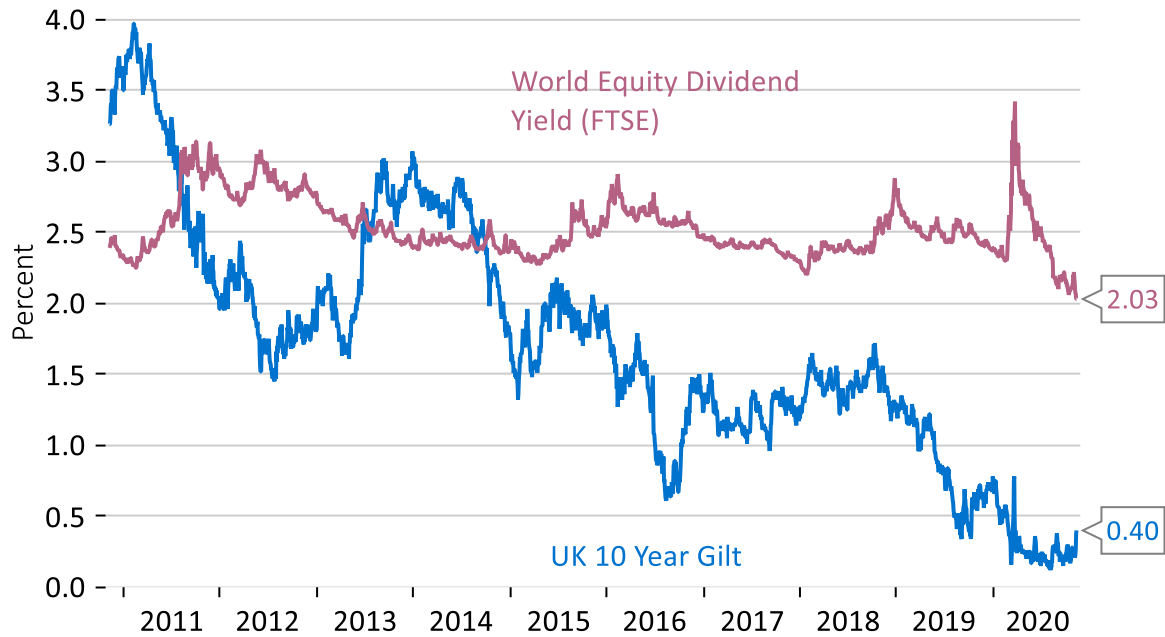
Source: Macrobond, 11.11.20

## 2. Income: Under pressure from falling yields & lower dividends

Truly sustainable dividend growth highly prized...

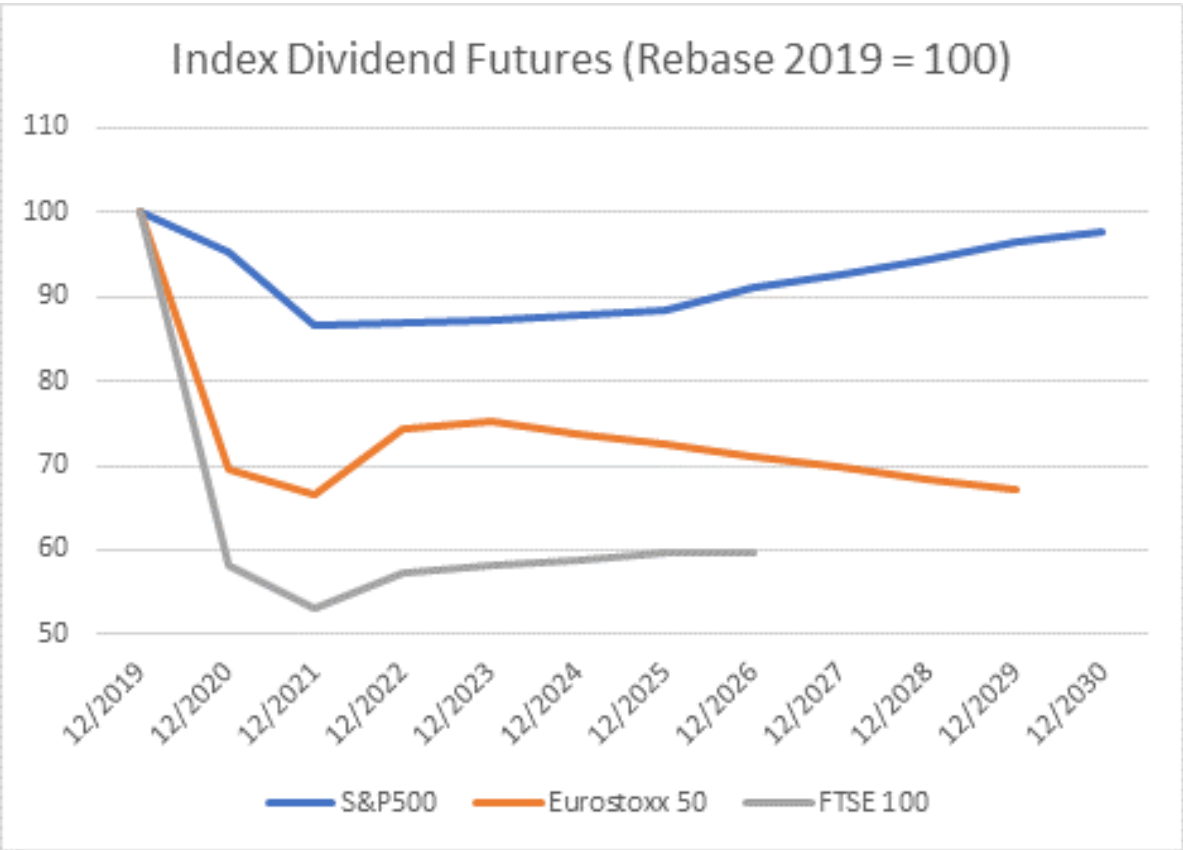
### Yield compression continues...

UK Gilt & Global Equity Yield  
Last 10 years



Source: Macrobond, 11.11.20

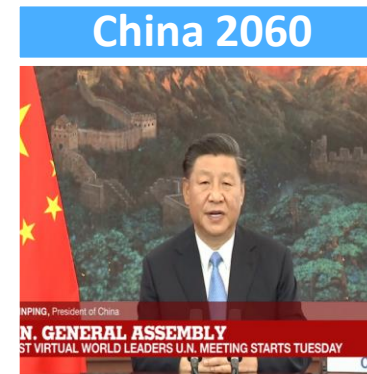
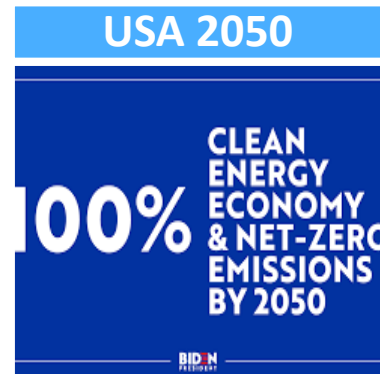
### Global dividends more resilient than UK/Europe



Source: Bloomberg/Sarasin, August 2020

### 3. The policy stars are aligning...

Significant developments in Net Zero target setting





# Economic risks still daunting but the vaccine offers a road to recovery...

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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