

Sarasin Six Minute Strategy

Assessing the damage - finding the opportunities

Friday, 18 December 2020

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



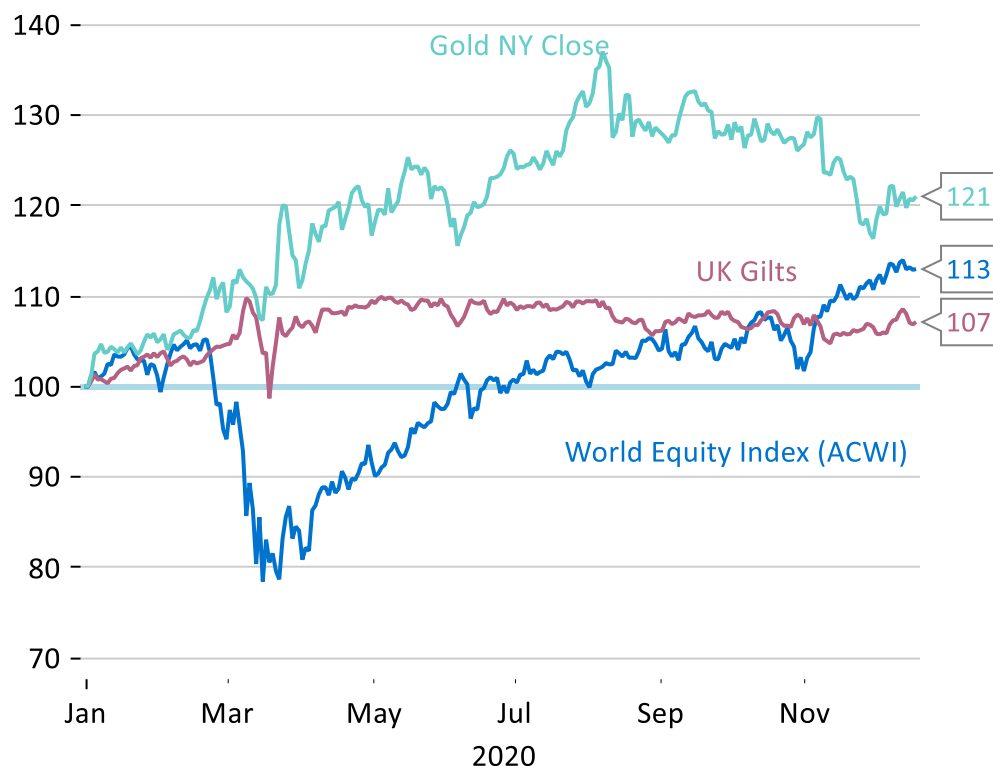
2020 Global markets

Global asset prices higher in 2020 despite tightening in lockdowns



Equity rally continues on Election and Vaccine

Global Asset Class Returns 2020 (GBP)

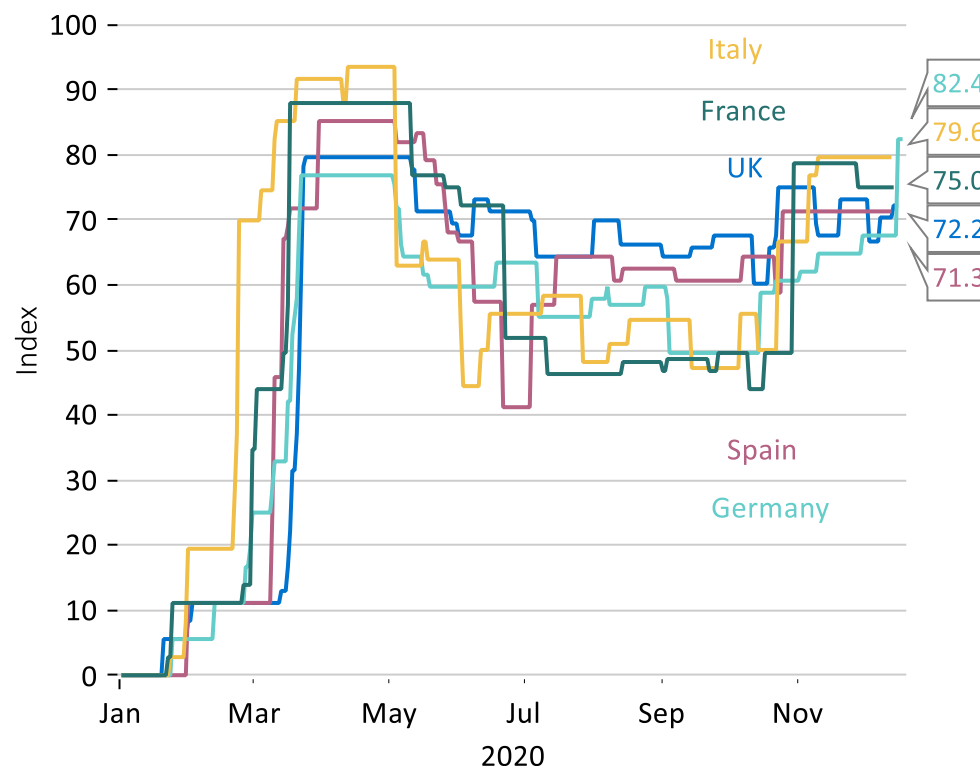


Source: Macrobond, 18.12.20



Lockdowns tighten across Europe

COVID-19 Global Stringency Index



Source: Macrobond, 18.12.20

Global economic forecasts

Economies to reach pre-crisis levels by Q3/4 2021 except the UK



Sarasin global economic forecasts

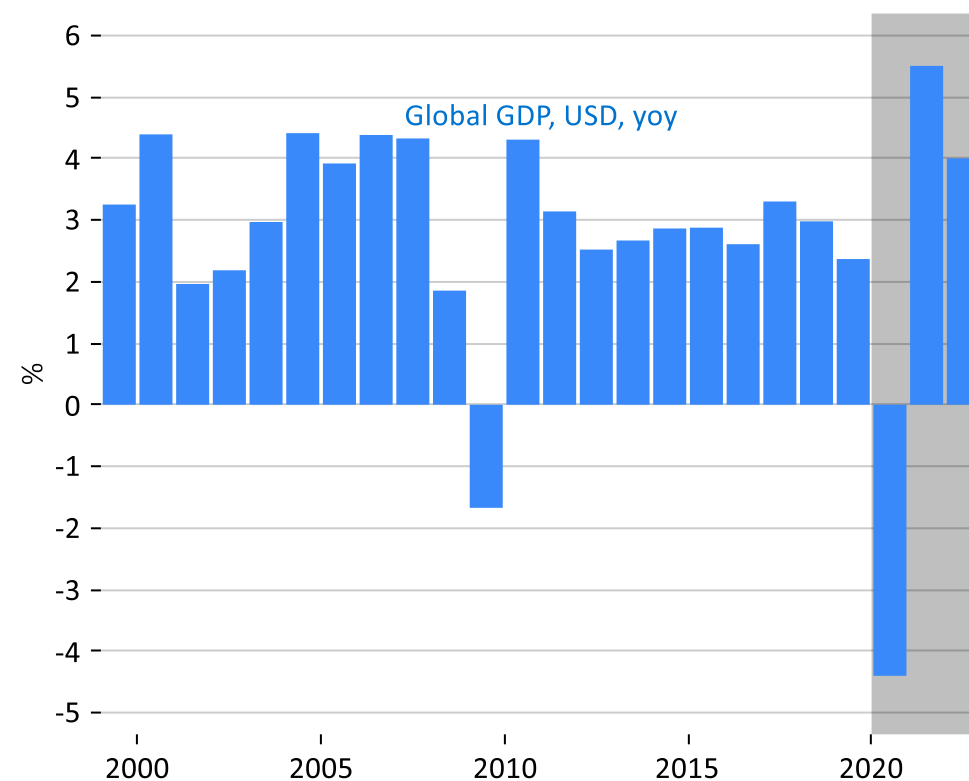
	2020	2021	2022
China	1.8% (1.8%)	9.0% (9.0%)	5.7%
US	-3.6% (-4.0%)	4.1%(3.8%)	3.4%
Eurozone	-7.4(-8.2%)	5.9% (5.7%)	4.3%
UK	-11.3%(-9.6%)	8% (6.3%)	4.0%
Japan	-3.7% (-6.3%)	3.6% (4.4%)	1.5%
World	-4.4% (-4.7%)	5.5% (5.2%)	4.0%

Source: Sarasin & Partners & Macrobond, December 2020



Depth of world recession & rebound

Global GDP, USD, real



Source: Macrobond, 18.12.20

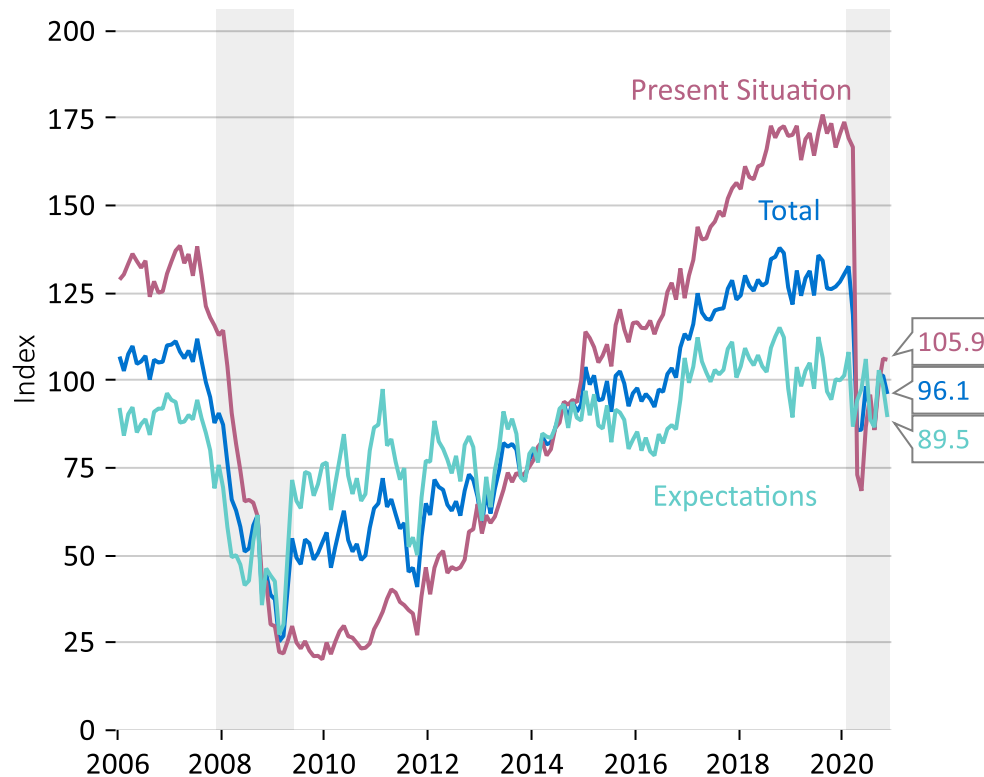
1. Policy

We need to bridge the gap between rising COVID & wide spread vaccine deployment



COVID spread is impacting consumer confidence

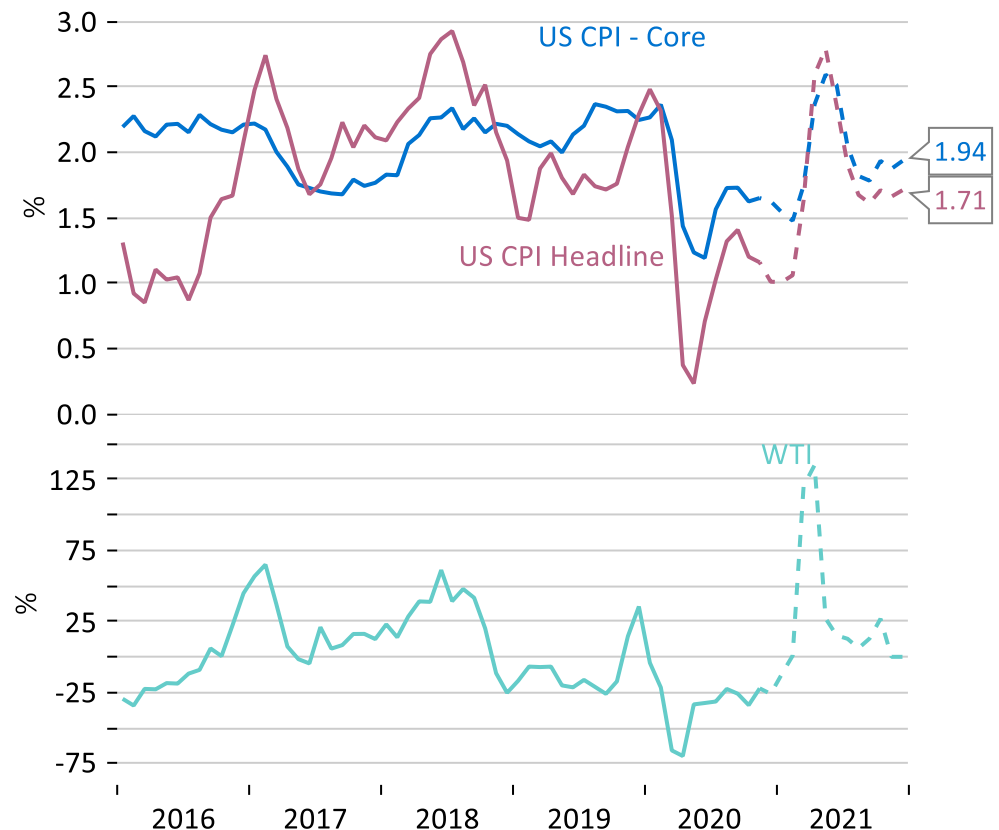
Conference Board, Consumer Confidence Index



Source: Macrobond, 18.12.20



Inflation set to rise on the back of base effects by May



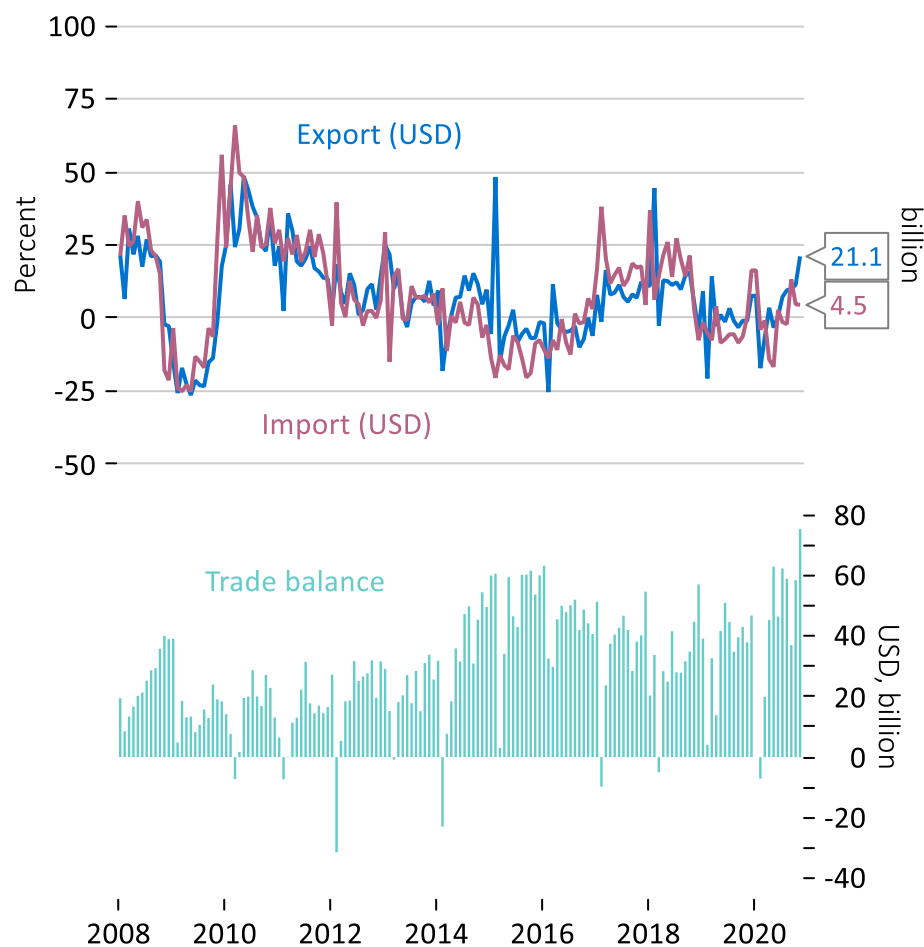
Source: Macrobond, 17.12.20

2. China

Export boom continues - PPE & work-from-home products to EU & US



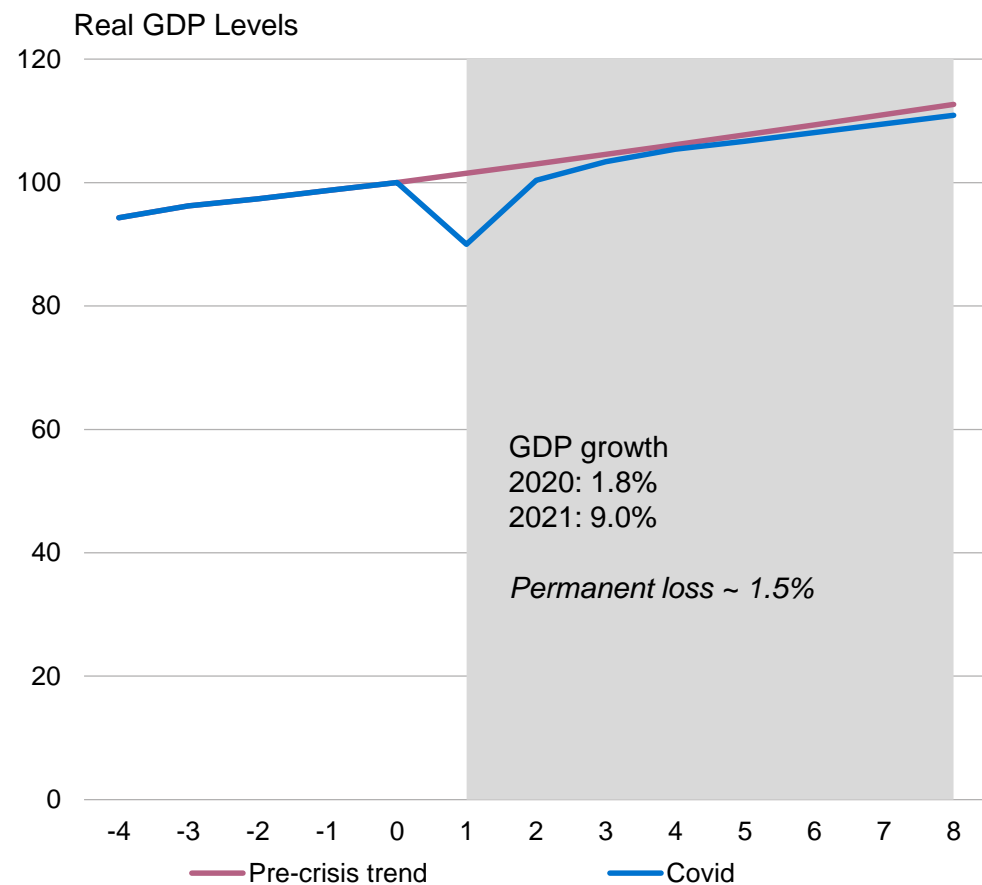
Trade surplus reaches highest on record



Source: Macrobond, 18.12.20



Economy returning to pre-covid levels faster than expected



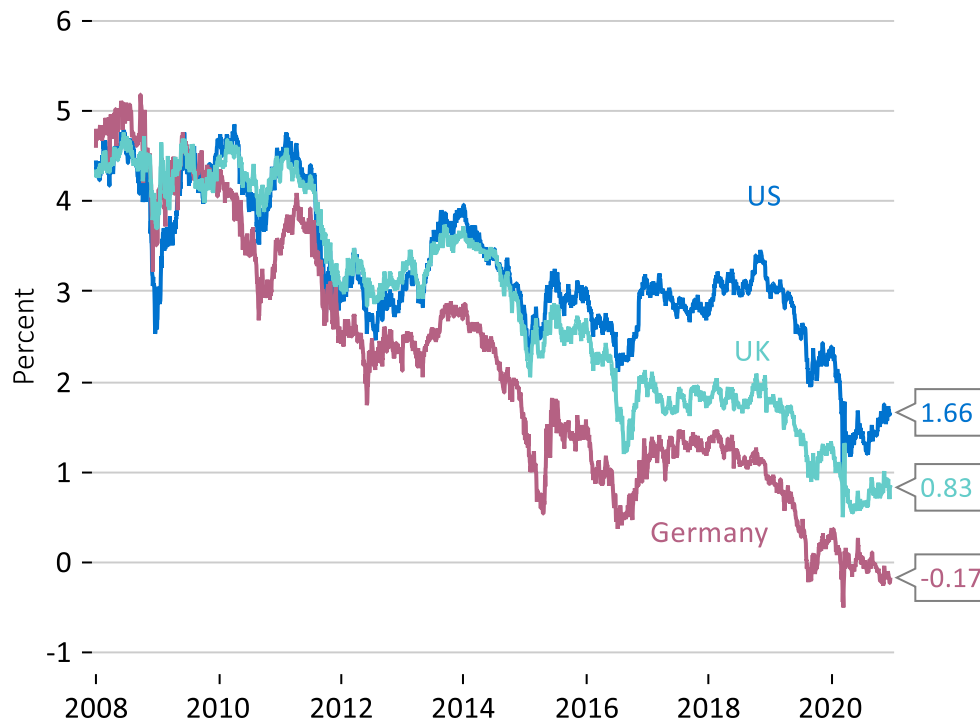
Source: Sarasin & Partners & Macrobond, December 2020

3. Long bond yields and US corporate bond spreads



Have global bond yields passed their lows?

30 Year Bond Yields

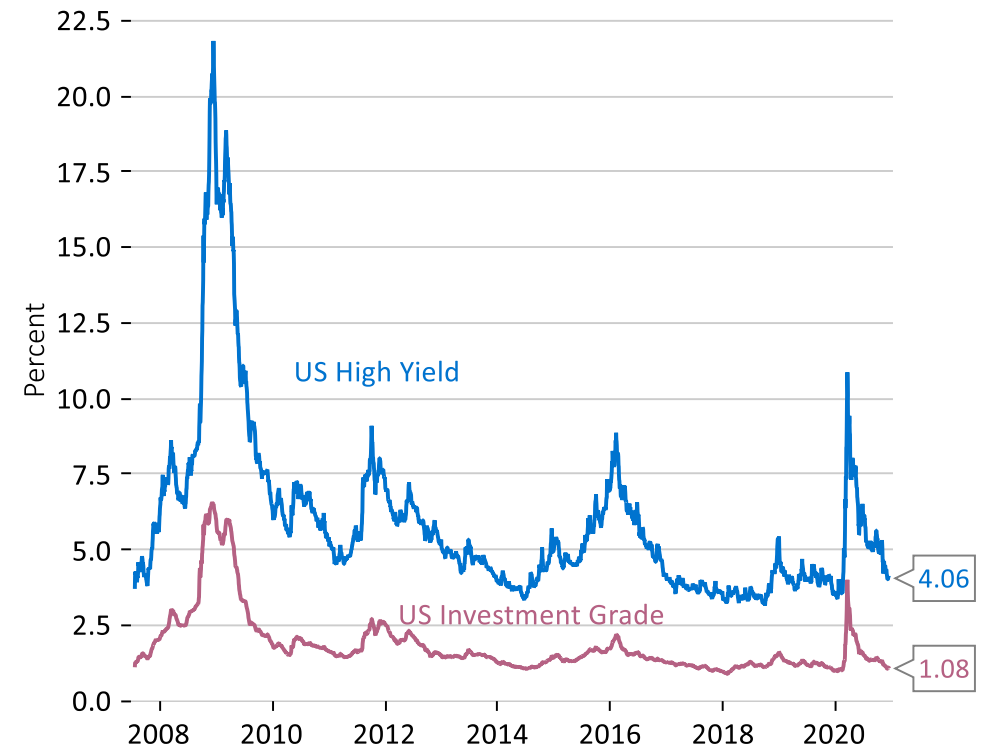


Source: Macrobond, 18.12.20



Corporate Bond spreads narrow sharply

US Corporate Bond Spreads



Source: Macrobond, 18.12.20

2021 Outlook



Opportunities	Risks
Vaccine outlook has improved growth expectations and recovery prospects	Second wave could become more invidious, impacting vaccine delivery
Short term ERP and Momentum remain positive	Valuations appear stretched (US, CAPE) in the short term
Earnings have capacity to surprise on the upside	A pick up in bond market volatility resulting from elevated headline CPI due to base effects
A pull back in fiscal policy will ensure ample liquidity from central banks, given that core CPI remains benign	Balance sheet impairments become visible as recovery takes hold

Vaccine aids recovery prospects - central banks remain supportive

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



Global strategy update December 2020

Bonds	Underweight <ul style="list-style-type: none">• UW Government Bonds – upward drift in US and global yields in 2021 - US 10 Yr. Treasury fair value 1.2%• UW investment grade credit – after a strong H2 2020 spreads offer little compensation for post COVID risks
Equities	Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, earnings have scope to surprise on the upside in 2021• OW UK equities – valuations attractive, flow of funds back to UK probable on any Brexit deal• OW EM equities – China centric Asia managed COVID well –commodity/energy rally supports other EM
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• Neutral Uncorrelated Alternatives - Gold a hedge against policy error but vulnerable to any reset in rates
Cash	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, disorderly bond markets, no-deal Brexit Longer-term: Economic and social scarring from lockdown, valuations stretched, balance sheet impairments only clear in 2021 and beyond

Important information

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