

SARASIN
& PARTNERS

Sarasin Six Minute Strategy

A reality check

11 December 2020

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



Can a Brexit deal be salvaged?

Right to the wire...as expected

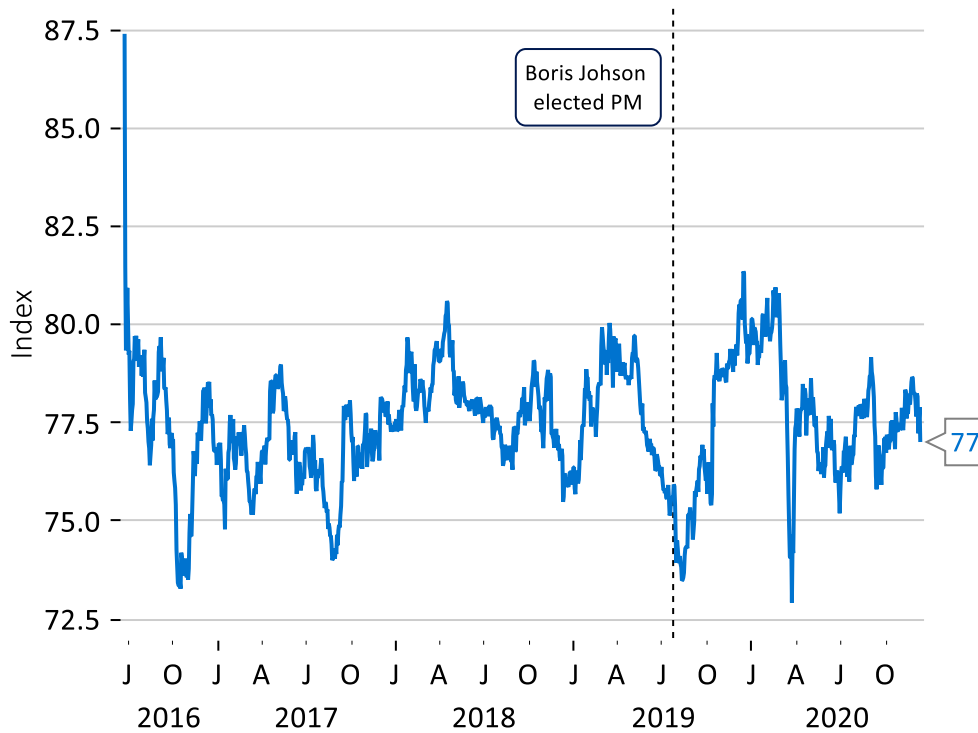


Sterling has been a reasonable barometer of 'Deal/No-Deal'



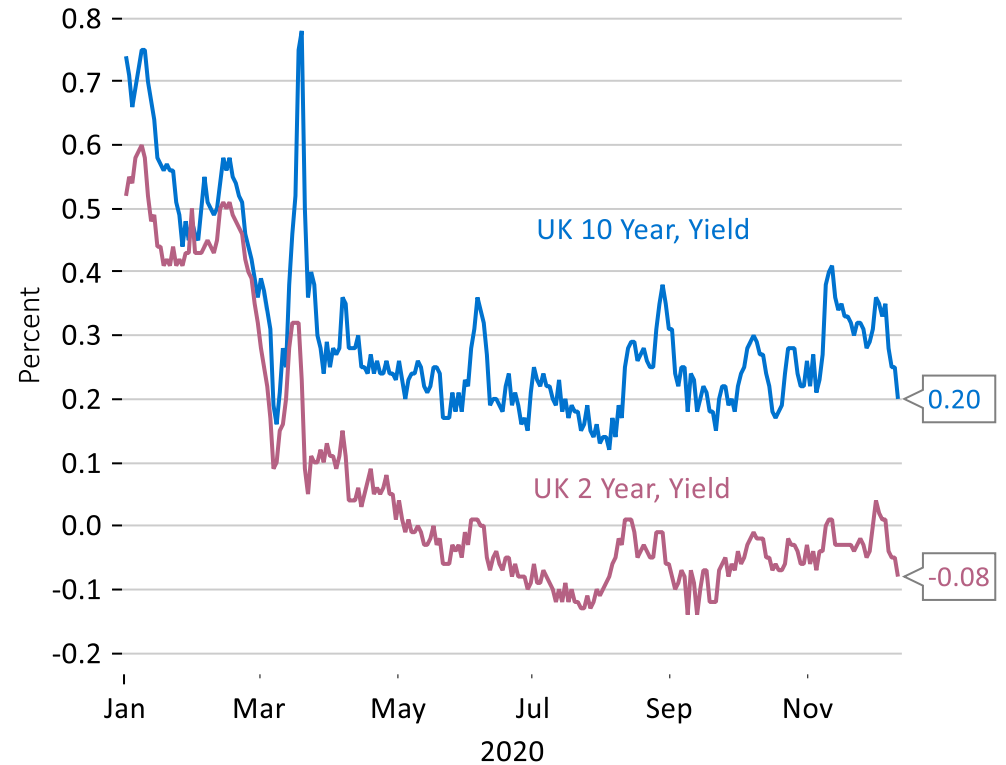
Markets starting to price negative rates for UK in 2022

Bank of England Sterling index since Brexit Vote



Source: Macrobond, 11.12.20

UK Govt Bond Yields



Source: Macrobond, 11.12.20

Will there be a deal?

It probably depends on Boris Johnson

- VDL has limited room for manoeuvre; power to block deal distributed across various EU institutions and member states
- The PM has much more power; Labour likely to support or abstain, so passage guaranteed. Whether final deal reflects greater concessions by UK or EU may have little impact on Parliamentary arithmetic

What are the PM's true views on the future relationship?

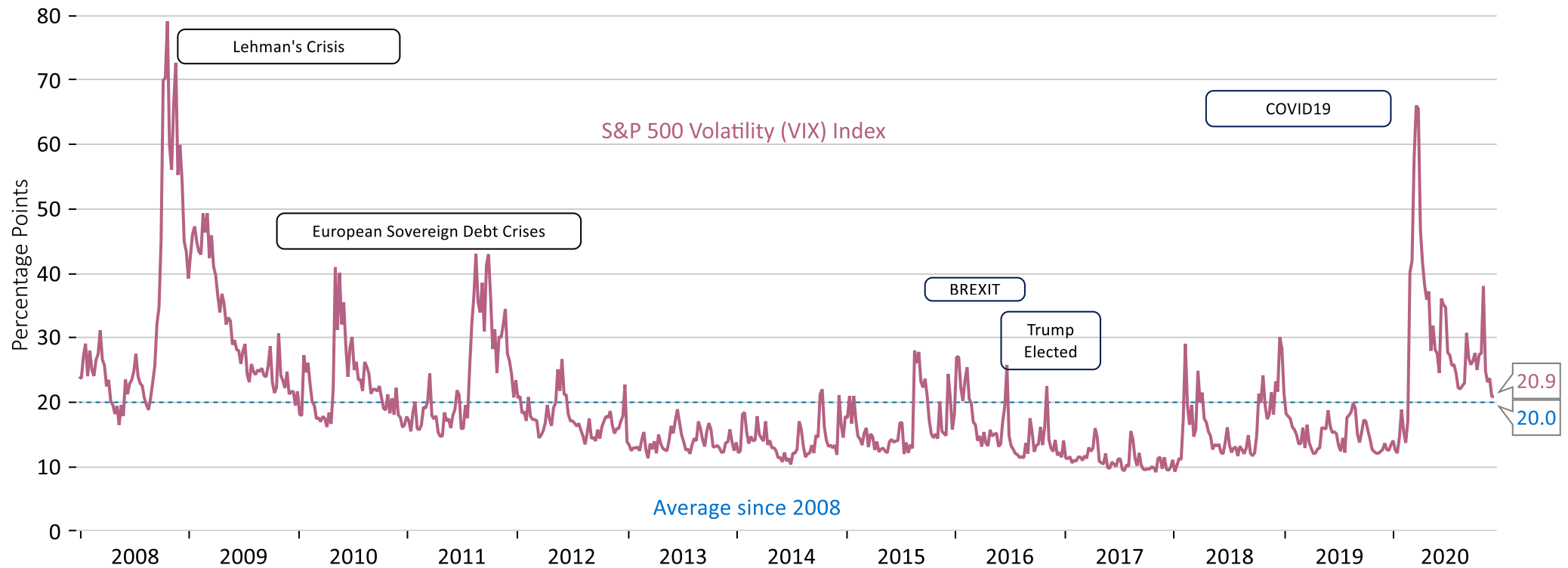
- Closely guarded secret; makes sense to maximise uncertainty to offset EU strategy of using bureaucracy to reduce flexibility
- Drawn-out negotiations also make sense either way:
 - Minimise blame on UK if no-deal
 - Reduce scrutiny on deal in Parliament, support narrative of fighting hard and securing deal against all odds
 - EU has more challenging approval timeline than UK; may increase pressure on EU to “blink first” and make relatively greater concessions

Meanwhile equity volatility has fallen back to longer term average



Long-term US equity volatility

US Equity Volatility (VIX)



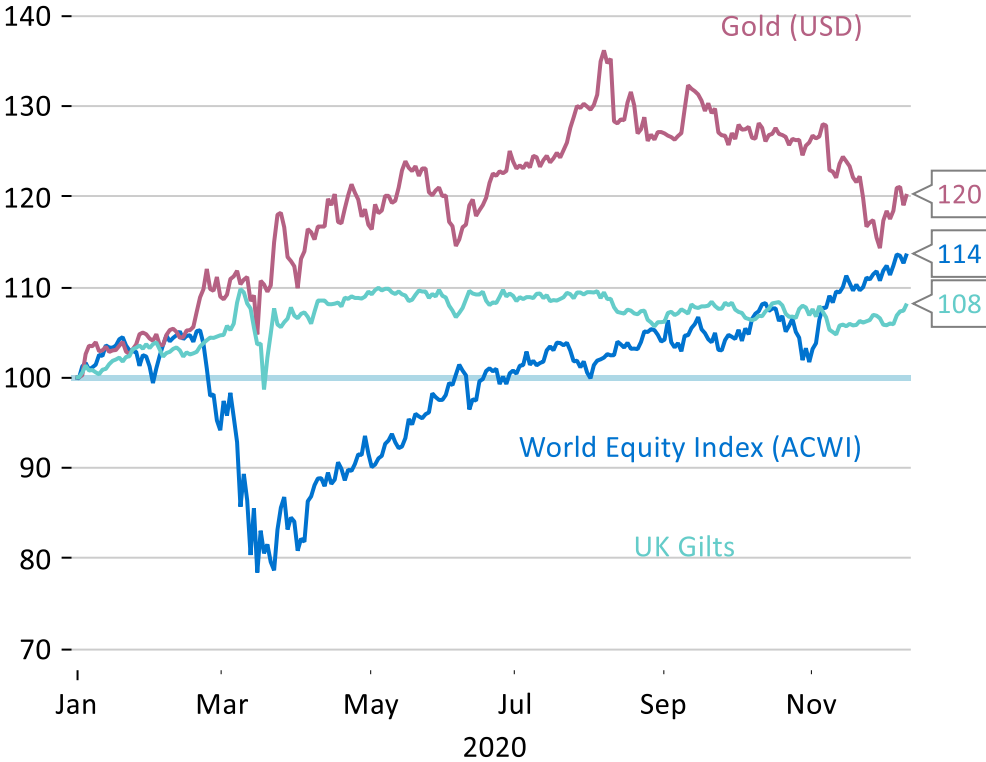
Source: Macrobond, 11.12.20

Global asset class returns 2020 continue to climb



Global asset class returns all positive

Global Asset Class Returns 2020 (GBP)

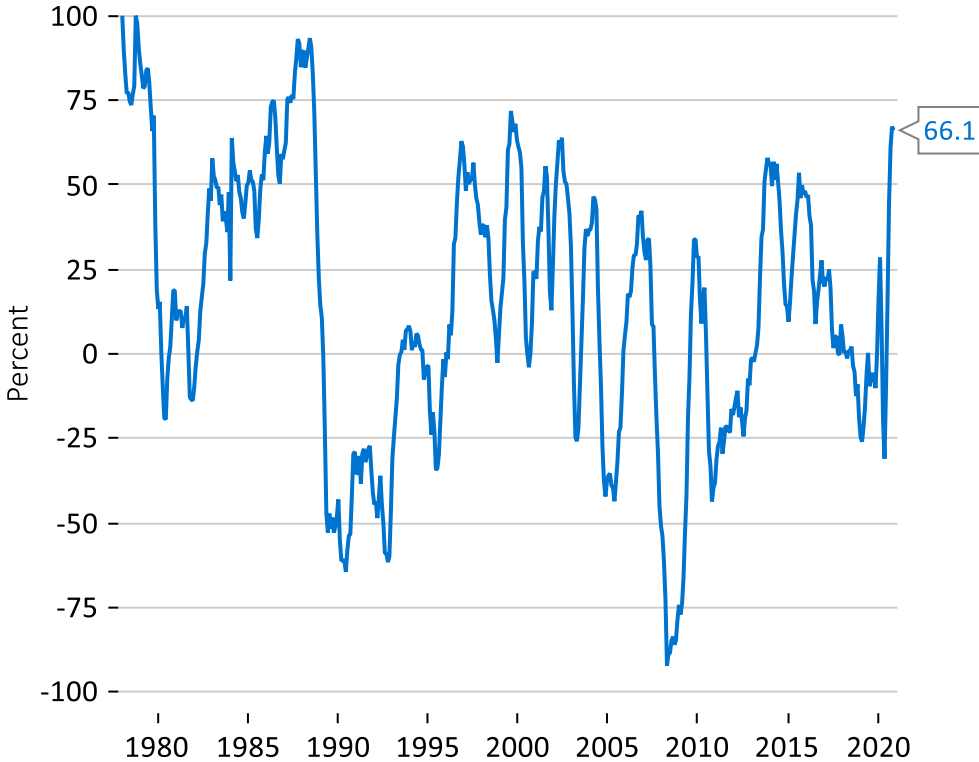


Source: Macrobond, 11.12.20



UK Housing Survey

UK RICS, Housing Market Survey - Prices Net Balance



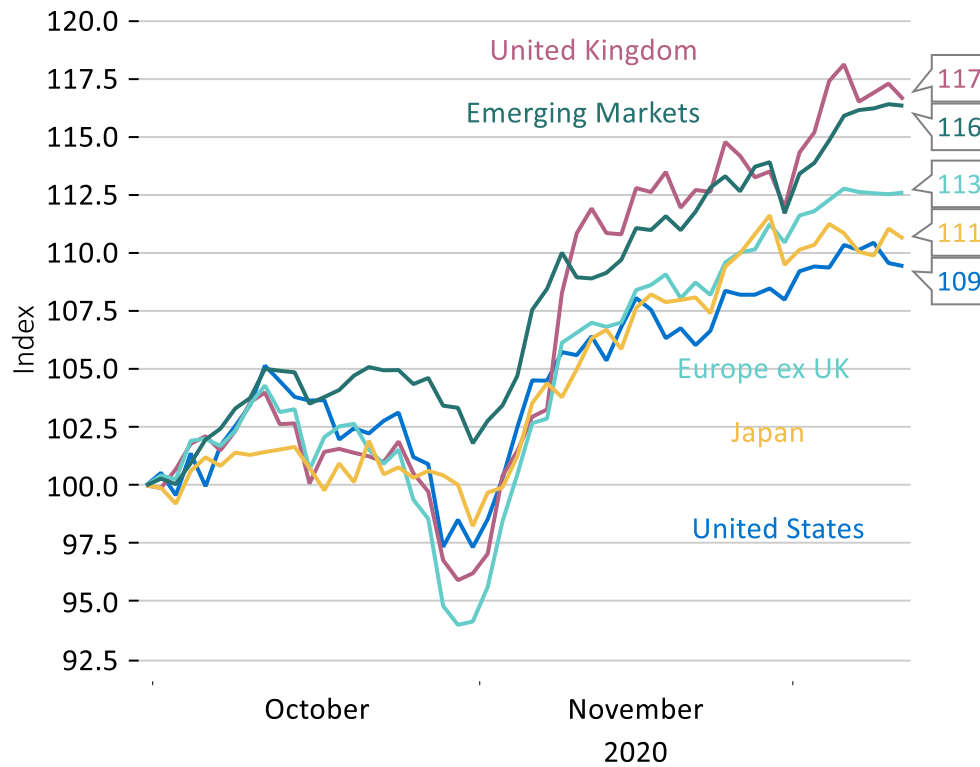
Source: Macrobond, 11.12.20

Reversal – US worst performer – EM improving - \$ critical



UK leads global equity returns Q4 followed by EM

Equities Q4 - Total Returns (GBP)

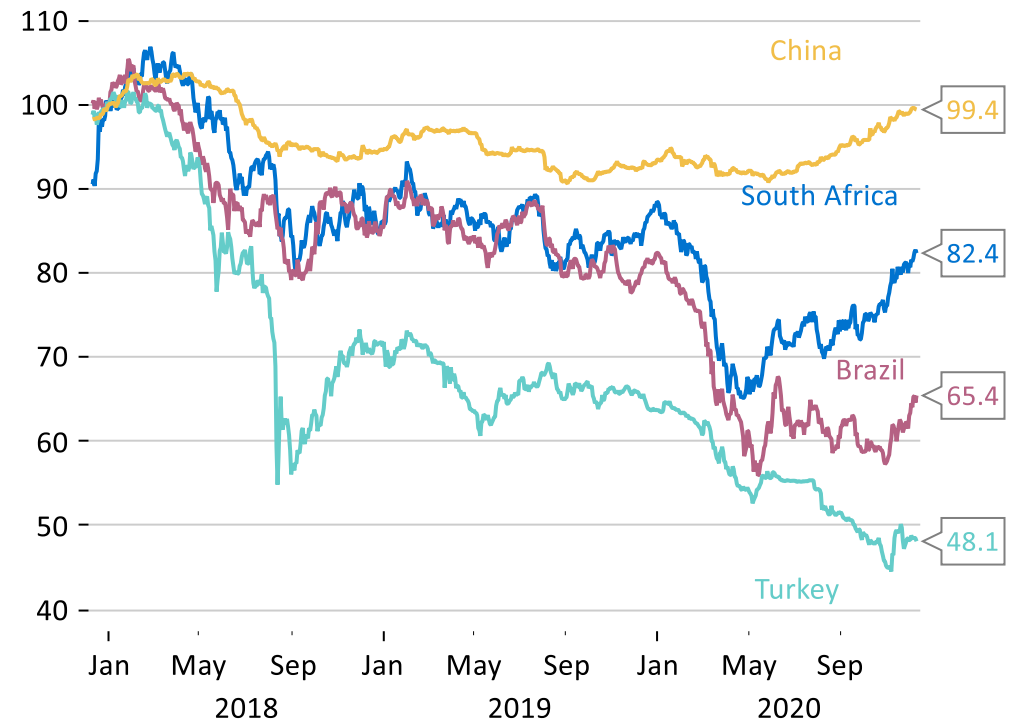


Source: Macrobond, 11.12.20



Persistent dollar weakness in 2020

Emerging Market Currencies, -3y =100 (reverse)



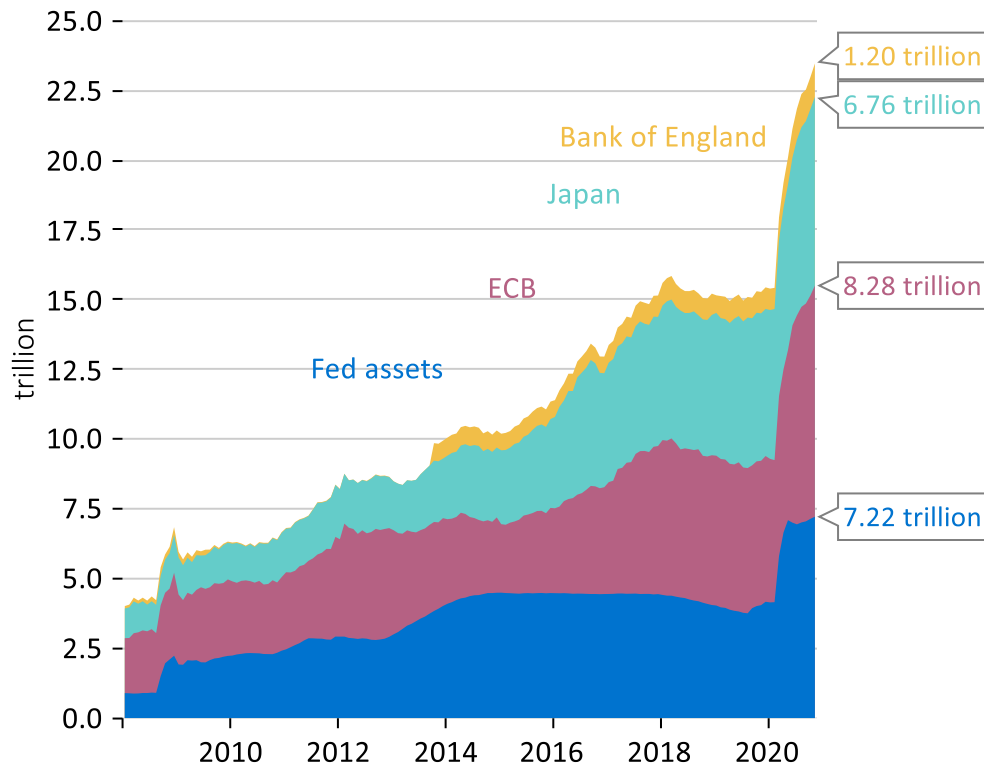
Source: Macrobond, 11.12.20

Central bank liquidity lifts asset prices and valuations



Global Central Bank Balance Sheets

Central bank balance sheet (USD, monthly)

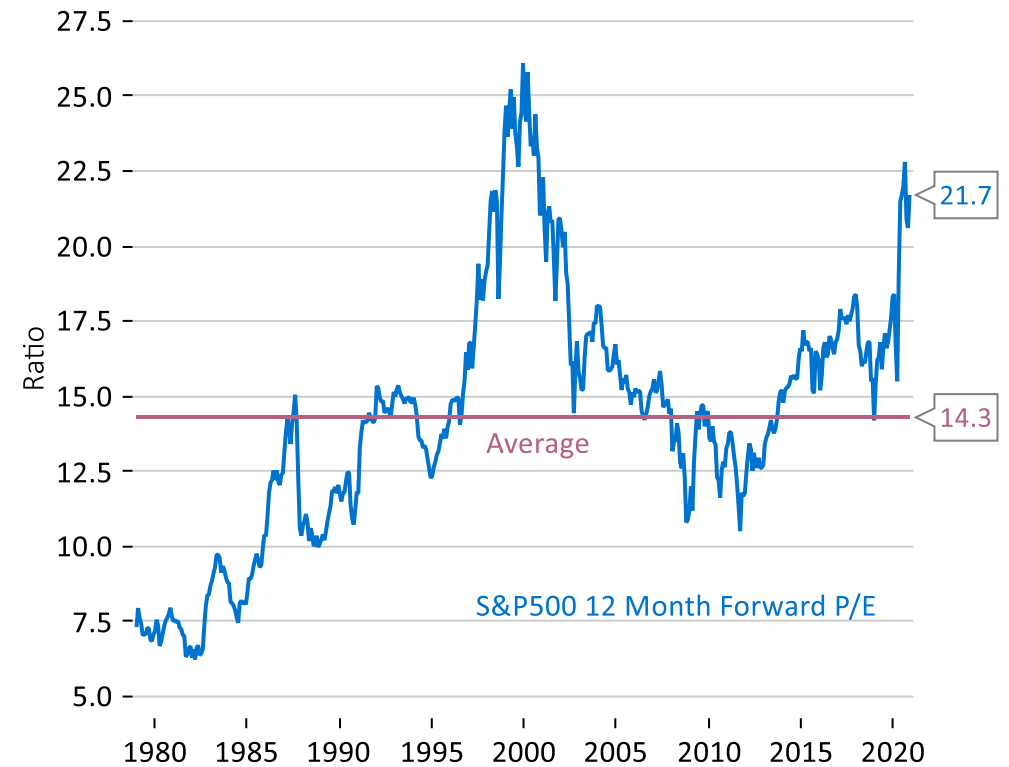


Source: Macrobond, 11.12.20



US Forward PE Multiple

US Forward PE Multiple vs Average



Source: Macrobond, 11.12.20

ECB raises PEPP by Euro500bn & extends 9m – but may not be used in full 10.12.2020

Political risks clear but central bank action still supports equities

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



Global strategy update December 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

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

This document has been approved by Sarasin & Partners LLP of Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU, a limited liability partnership registered in England & Wales with registered number OC329859 which is authorised and regulated by the Financial Conduct Authority with firm reference number 475111 and passported under MiFID to provide investment services in the Republic of Ireland.

It has been prepared solely for information purposes and is not a solicitation, or an offer to buy or sell any security. The information on which the document is based has been obtained from sources that we believe to be reliable, and in good faith, but we have not independently verified such information and no representation or warranty, express or implied, is made as to their accuracy. All expressions of opinion are subject to change without notice.

Please note that the prices of shares and the income from them can fall as well as rise and you may not get back the amount originally invested. This can be as a result of market movements and also of variations in the exchange rates between currencies. **Past performance is not a guide to future returns and may not be repeated.**

Neither Sarasin & Partners LLP nor any other member of the Bank J. Safra Sarasin group accepts any liability or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents. The use of this document should not be regarded as a substitute for the exercise by the recipient of his or her own judgment. Sarasin & Partners LLP and/or any person connected with it may act upon or make use of the material referred to herein and/or any of the information upon which it is based, prior to publication of this document. If you are a private investor you should not rely on this document but should contact your professional adviser.

© 2020 Sarasin & Partners LLP – all rights reserved. This document can only be distributed or reproduced with permission from Sarasin & Partners LLP.

SARASIN & PARTNERS

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

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

