# SARASIN
# GLOBAL EQUITY REAL RETURN

SARASIN & PARTNERS



## ECONOMIC AND FUND REVIEW

Global equities declined during the third quarter. Investors grew increasingly nervous about China-based property developer Evergrande possibly defaulting on its debt. Added to this were worse-than-expected macroeconomic data and rising prices leading to fears of higher interest rates. US and UK government bond yields increased significantly in September as central bankers reasserted their commitment to tackling inflation, despite months of dismissing price rises as transitory. The best performing assets over the quarter were linked to the rising oil & gas prices. Elsewhere, Japanese equities managed to buck the trend thanks to an improving Covid-19 vaccination programme, which meant the 'state of emergency' was lifted in September for the first time since April. This bolstered investor sentiment.

Positive contributors included ASML, the world leader in lithography equipment, which is vital to the semiconductor industry. The global chip shortage and subsequent increase in semiconductor factory construction, continue to drive demand for ASML's unique extreme ultraviolet lithography machines. Despite being one of the best performing investments for the year to date, we have reduced our holding in the stock for the sake of prudence, as it had become one of the largest positions in the portfolio. The share price has since fallen. US-based bank JP Morgan also added value, as the bank's share price has reacted positively in recent months to a growing US economy and the prospect of interest rate rises by the Federal Reserve.

China-based internet company Alibaba weighed on returns, as the Chinese government's unexpected crusade against large internet companies intensified over the quarter. Alibaba's share price fell as investors considered the long-term implications of the crackdown. As things stand, we believe such worries are overstated and anticipate a recovery in the share price. Other detractors included France-based manufacturer Alstom, after the acquisition of Bombardier led to unforeseen costs. Integrating the company and disposing of problematic contracts have proven more expensive than first thought. This has weighed on both company earnings and the share price. Though disappointing, we still see a number of thematic opportunities for the rail company. We are currently reviewing our holding.

## OUTLOOK

Although infection rates are rising in some parts of the world, mass vaccination rollouts mean that hopes of returning to normal are slowly being realised. And while this is undeniably positive news, there remain significant challenges for economies around the world. Rising inflation, supply chain shortages and higher energy prices will need to be watched closely for their impact on economic growth. It will also impact the monetary policies of various central banks around the world. In addition, a potential economic shock emanating from China – as investors continue to watch the unfolding Evergrande story – cannot be discounted.

In terms of Covid-19 infection rates, the impact of the more transmissible Delta variant – especially in those countries with low rates of vaccination – continues to cause problems for many societies.

To revive economies, policy makers have drawn on their playbook from the 2008 Financial Crisis. Trillions in fiscal stimulus have also been pledged, targeting societal inequality with 'levelling up' policies, and industry stimulus such as US President Joe Biden's proposed infrastructure package and the UK's 'Green Budget'. Crucially, governments' mentality towards debt has shifted, meaning we're unlikely to see a return to the austerity that followed the 2008 crisis. However, ultra-loose monetary policy will begin to tighten from here, undoing one of the major supporting factors from asset markets over the last 18 months.

We expect trends that have accelerated due to the pandemic – such as e-commerce and working from home – are here to stay. Opportunities will be driven by the shift to a more digital world, automation, climate change mitigation and adaptation. There are also long-term demographic trends and shifts in consumption patterns, in the emerging and the developed markets.

Beyond the pandemic, there are other challenges we monitor. Rising inequality is our greatest worry, alongside the consequences of the virus disproportionately affecting lower skilled, lower income populations. Global supply chains are being tested: already fragile and now facing pressure from accelerating global demand, reshoring production and strategic supply nationalism.

Despite the challenges, we remain positive on the prospects for a recovery in the coming year and beyond, supported by international vaccination efforts. Ultimately, the reaction function of central banks to inflation and economic data is likely to be the defining factor for asset markets over the next 12 months.

SARASIN
& PARTNERS

## 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 which is a limited liability partnership registered in England and Wales with registered number OC329859 and is authorised and regulated by the UK Financial Conduct Authority. 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 we make no representation or warranty, express or implied, as to their accuracy. All expressions of opinion are subject to change without notice.

There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). The investments of the fund are subject to normal market fluctuations. **The value of the investments of the fund and the income from them can fall as well as rise and investors may not get back the amount originally invested.** If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments.

For efficient portfolio management the Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The Fund may also invest in derivatives for investment purposes.

Neither Sarasin & Partners LLP nor any other member of Bank J. Safra Sarasin Ltd. 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.



**SARASIN & PARTNERS LLP**

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

T +44 (0)20 7038 7037
www.sarasinandpartners.com