SARASIN IE GLOBALSAR - DYNAMIC FUND

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ECONOMIC AND FUND REVIEW

Social distancing restrictions and vaccine rollouts have led to an improving COVID-19 picture in the US, UK and Europe, with infection and hospitalisation rates falling. UK Prime Minister Boris Johnson announced a roadmap for reopening, targeting late June for the removal of all restrictions and there are expectations for other countries to follow suit. The improving outlook continues to be well received by markets and showed the first signs of feeding through into economic data too, with retail sales in the US coming in ahead of expectations and inflation generally higher than expected. The bond market also signalled recovery with US 10-year treasury yield rising to its highest level since the start of the pandemic.

Semiconductor manufacturer ASML, continued as a key contributor in February, benefiting from the ongoing supply shortage in semiconductors to the auto industry. JP Morgan also contributed, supported by improvements in general economic momentum and the rising US 10-year treasury yield. While unlikely in the near term, higher interest rates would be good news for banks' profits.

On the flip side, Orsted weighed on performance. After a period of record highs, the group's share price has continued to retrace following the cut to 2021 guidance in January. Although a negative in the short-term, we continue to believe it's leading position in offshore wind energy has an underappreciated long-term growth trajectory.

Fixed income investments also detracted, as improving economic data and vaccinations prospects, have raised investor expectations for inflation and in turn higher interest rates in the future. The increase in government bond yields was unambiguously poor for fixed income returns. However, we had reduced our relative positioning in fixed income in early January.

We started a position in American Tower, who provide telephony services to the US and is expanding in emerging markets including India and Africa.

We also started a new position in Cordiant Digital Infrastructure, which invest in and manage data centres, telecommunication towers and fibreoptic networks. We think this fund and its investments is well positioned for multiple digitalisation trends, including 5G adoption and the move to cloud computing.

OUTLOOK

An improving infection outlook and mass vaccination rollouts, mean that hopes of returning to normal look increasingly realistic. And while this is undeniably positive news, the challenge of deploying the vaccine globally and for economies and societies to reopen fully, remains significant.

To revive economies, policy makers continue to draw on their playbook from the 2008 Financial Crisis but with greater urgency and scale. Central banks globally have shifted towards a more dovish monetary policy, potentially seeing lower rates for longer and a willingness to sustain higher inflation. Trillions in fiscal stimulus has also been pledged, targeting societal inequality with 'levelling up' policies, and industry stimulus such as 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.

Over the long term, we think 2020 provides a window into the future industrial landscape. We expect trends that the pandemic accelerated, such as e-commerce and working from home, are here to stay. Further opportunities will be driven by the shift to a more digital world, new automation, climate change mitigation and adaptation, demographic trends and by shifts in consumption patterns in both the emerging and the developed markets.

Beyond the pandemic, there are other risks we are monitoring closely. Rising inequality is our greatest worry and the consequences of the virus disproportionately affecting lower skilled, lower income populations.

Despite the challenges ahead, we remain positive on the prospects for a cyclical economic recovery in 2021 supported by international vaccination efforts. Ultimately, this combined with continued support from central banks should lead to an attractive environment for risk assets.

IMPORTANT INFORMATION

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SARASIN & PARTNERS LLP

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

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