SARASIN RESPONSIBLE GLOBAL EQUITY

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ECONOMIC AND FUND REVIEW

Most of the major global equity markets suffered in April as investors feared a deteriorating economic outlook affecting companies' prospects. Fixed income markets were also in negative territory, as inflation concerns were firmly on the agenda during the month. US consumer price inflation hit a new high of 8.5% in April. Investors were increasingly concerned that this round of central bank tightening that will be faster than the past few cycles. The US Federal Reserve (Fed) reaffirmed this with a series of comments that spoke to the need for controlling inflation. Subsequently, expectations for rate hikes increased dramatically, causing government bond yields to break higher and prices to drop.

Meanwhile, China continued pursuing its zero-Covid strategy. In an effort to contain cases of the Omicron variant, it imposed a strict lockdown in Shanghai at the end of March. The disruption led to food shortages, extreme congestion at Shanghai's large trade port and logistical difficulties transporting goods. This situation, coupled with fears that it may be repeated elsewhere in China, added to concerns over supply chain challenges and inflation.

Colgate contributed positively to returns, proving its worth as a defensive consumer staple with a reliable revenue stream. As inflation concerns in most markets will likely put pressure on consumers' appetite for discretionary items, demand for toothpaste products should remain relatively steady. The fund also benefitted from its holding in US pharmaceutical company Merck. The group reported better than expected earnings thanks to their main cancer drug, Keytruda, and their Covid drug, Molnupiravir.

Detractors from performance included Daikin, which was affected by fears over the slowing property sector in China. Investors are worried about the way further lockdowns may impact building development. The US broadband cable provider Charter Communications also detracted from performance. Their earnings indicated that that competition from telecoms providers was impacting growth.

OUTLOOK

The ongoing Russia-Ukraine conflict and the outlook for inflation are among the key concerns for investors. In addition, the impact of lockdowns in China is increasingly being felt on a global scale. The long-term effects of sanctions and rising oil prices due to the war in Eastern Europe will only be known in the months ahead. In the short term, we expect market volatility to remain heightened.

Looking out to the longer term: the invasion of Ukraine has come at a difficult time for the global economy. In the aftermath of the pandemic, prices are already rising at levels not seen in 40 years. In addition, Russia is one of the world's largest gas producers and energy prices have been rising sharply as a result. In short, the impact on price levels could become a unique challenge for global central banks. If allowed to persist, it could raise the risk of stagflation. The crisis is also likely to depress growth, sustain uncertainty and damage consumer and business confidence.

The fragmentation of global supply chains and cross-border trade may also be further exacerbated. In particular: China's 'dynamic clearance' policy – which requires testing and quarantine for positive Covid-19 cases – is of great concern. It has already led to city shutdowns and can add further supply chain disruption. For global manufacturers though, these are yet more reasons to shorten supply chains, bolster domestic production facilities and sacrifice margins in return for security of supply.

As events are changing with remarkable speed, we continue to monitor risks to the outlook. We remain focused on high-quality assets that we believe are well positioned to withstand the implications of geopolitical events.

Beyond the conflict in Ukraine, there are other challenges that require close monitoring. Rising inequality must be tackled, while the climate crisis is an unprecedented threat to humanity. Corporations and investors have a role to play in both instances, seeking to support innovation and development through effective allocation of capital.

Despite the challenges, we remain focused on the opportunities inevitably provided during times of great upheaval. 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.

IMPORTANT INFORMATION

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Sarasin Responsible Global Equity (Sterling Hedged) merged with Sarasin Responsible Global Equity on 09.10.20.

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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). 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.

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