SARASIN RESPONSIBLE GLOBAL EQUITY

SARASIN & PARTNERS

ECONOMIC AND FUND REVIEW

As we digest the first quarter of 2021, it is clear that a strong, vaccine-driven recovery is now unfolding around the world. It is US-led but global in scale, synchronised across regions and fuelled by generous monetary and fiscal policies. The improving outlook continues to be well received by equity markets, with the S&P reaching its highest level in history. And with macroeconomic data all pointing towards a synchronised cyclical recovery, underpinned by substantial fiscal packages, inflation expectations have risen seeing bond yields rise.

Against this backdrop, the fund benefitted from being overweight some of the more economically sensitive sectors such as industrials and financials, but also in IT and consumer staples. When it came to stock selection, we generated outperformance from our IT, industrials and consumer discretionary holdings, but utilities and financials weighed on performance.

Within industrials, Deere & Co was a standout performer. The group continues to go from strength to strength and is well positioned for a number of tailwinds including the ongoing equipment replacement cycle, higher crop prices and wider precision technology adoption. Zebra Technologies also performed well, thanks to record Q4 results, reflecting a rebound in demand from SME customers. ASML continued its good momentum into 2021, underpinned by continued robust demand and supply shortages.

Orsted however, weighed on performance. After a period of record highs, the group's share price has continued to retrace following a cut to 2021 guidance in January. Longer term, we remain positive that as the global leader in offshore wind energy, the group is well positioned in the fastest growing renewables sector. Alstom also detracted, as concerns over a pulled bid by Bombardier for the Paris subway raised questions over the successful integration of the two companies. Again, we'd see this as a transitory event and expect the share price to recover.

During the quarter we replaced Booking with Marriott, whose recent Q4 results showed impressive cash conservation. We increased our cloud exposure by adding Microsoft, which continues to go from strength to strength and provides an attractive valuation upside. We sold Ecolab following lacklustre Q4 results, it's also trading at a significant premium to its long-term average which we feel bakes in too much optimism on the strength on the business coming out of the crisis. We also exited our position in Shionogi and Givaudan.

OUTLOOK

An improving infection outlook and mass vaccination rollouts mean that hopes of returning to normal are moving towards reality. 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 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.

Over the long-term, 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, 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 challenges we are monitoring closely. Rising inequality is our greatest worry and the consequences of the virus disproportionately affecting lower skilled, lower income populations. Global supply chains are also being tested, already fragile and now facing pressure from accelerating global demand, reshoring production and strategic supply nationalism.

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

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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