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RESPONSIBLE MODEL PORTFOLIO

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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. Thanks to vaccination progress the US and UK have both targeted full reopening on 4 July and 21 June, respectively. However, where vaccine progress has been weaker, we are seeing further lockdowns imposed, Europe in particular. The improving outlook continues to be well received by equity markets, the US market reaching new highs. And with macroeconomic data all pointing towards a synchronised cyclical recovery, underpinned by record fiscal packages and new commitments to climate and infrastructure spending, inflation expectations have surfaced seeing bond yields rise and negative returns in fixed income. Gold also continued to retrace.

Sarasin Responsible Global Equity was the key contributor to performance this month. Within the fund agricultural manufacturer 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.

By contrast, Vanguard UK Government Bond and Sarasin Responsible Corporate Bond weighed on performance – reflecting the weakness in global fixed income more generally. The weakness has been driven by rising inflation expectations, seeing the 10-year US treasury yields rise by more than 80bps in Q1. Higher inflation is bad news for fixed income, as it can erode the value of the fixed payments received.

There were no outright fund purchases or sales over the month. Within Sarasin Responsible Global Equity, managers replaced Booking with Marriott, whose recent Q4 results showed impressive cash conservation. The fund also increased its cloud exposure by adding Microsoft, which continues to go from strength to strength. The managers sold Ecolab following lacklustre Q4 results and also exited positions 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 & PARTNERS LLP

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

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