

Spring Seminar

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01

Key assumptions

Building your investment strategy for the next decade

A changing landscape for society, economy and markets

1. Shifting Demographics

- Ageing
- Slowing growth drivers
- Higher savings rates?

2. Tameless Technology

- Winner-takes-all
- Labour impact
- Regulation?

3. Modern Economic Policies

- Ongoing fiscal spend
- Debt monetisation
- Long term inflationary risk?

4. Restless Society

- Levelling-up
- Populism
- Capital taxes?

5. Deteriorating Environment

- Climate change
- Massive capital spend to meet carbon targets
- Continuing Virus threats?

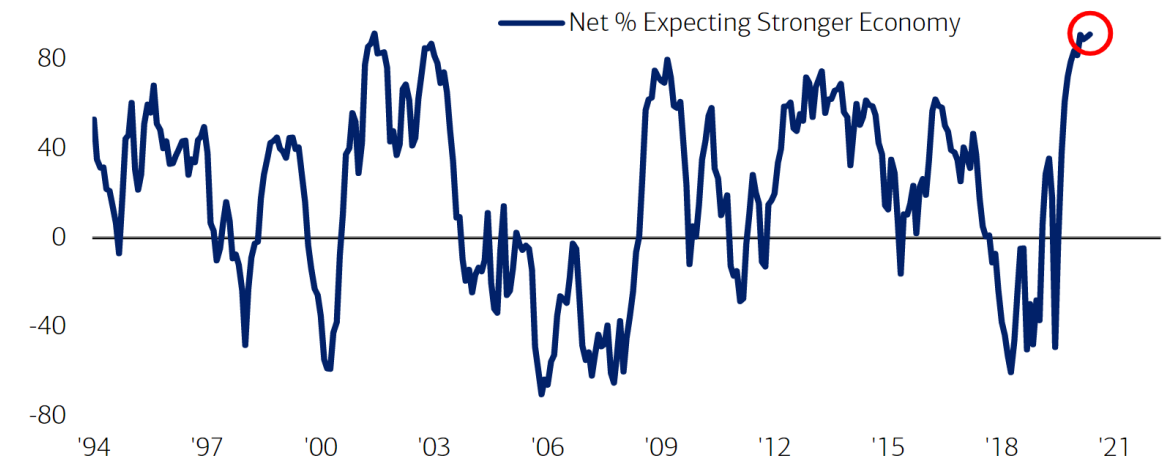
Record investor optimism on a recovery as metal & energy prices surge



Fund managers have never been more optimistic on recovery

Exhibit 2: Record amount of FMS investors expect a stronger economy

Net % Expecting Stronger Economy



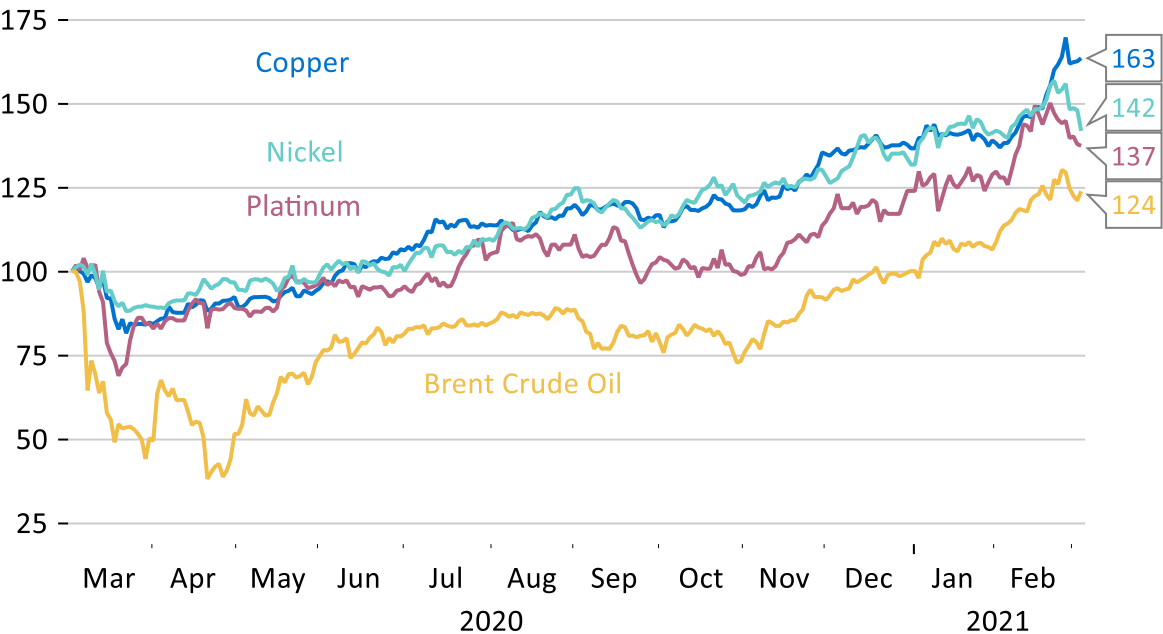
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH



Surge in metal and energy prices driven by recovery hopes

Metals & Energy returns last 12 months (rebased to 100)



Source: Macrobond, 04.03.21

Source: BofA Jan 2020 Fund Manager Survey

Global uncertainty falling as new administration finds its feet

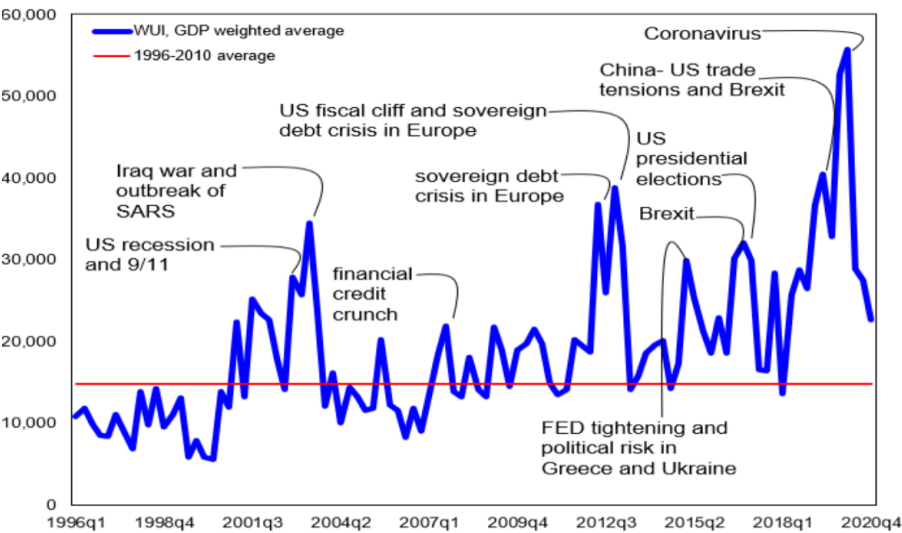
Vaccines, Biden and a Brexit deal lower uncertainty



Vaccines, Biden and a Brexit deal lower uncertainty...

Uncertainty in the world

Global uncertainty as measured by the World Uncertainty Index remains high.
World Uncertainty Index (GDP weighted average)

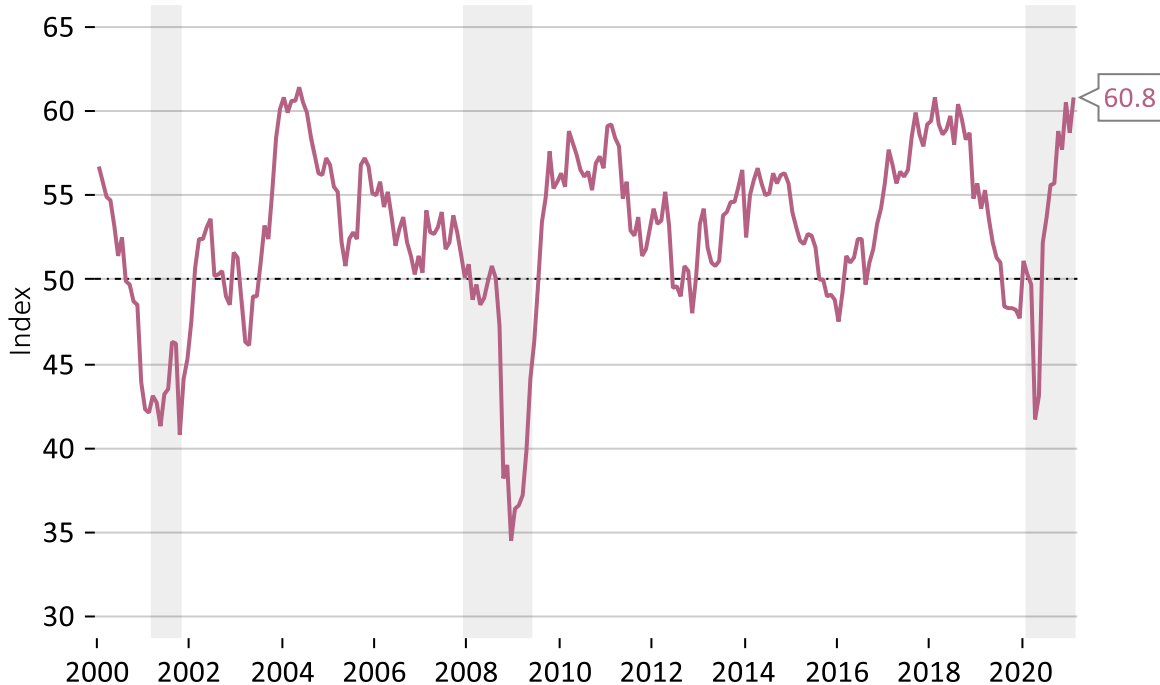


Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo.
Note: The World Uncertainty Index (WUI) is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The WUI is then rescaled by multiplying by 1,000,000. For example, an index of 200 corresponds to the word uncertainty accounting for 0.02 percent of all words, which—given the EIU reports are on average about 10,000 words long—means about 2 words per report. A higher number means higher uncertainty and vice versa.



Manufacturing surveys close to 20 year highs

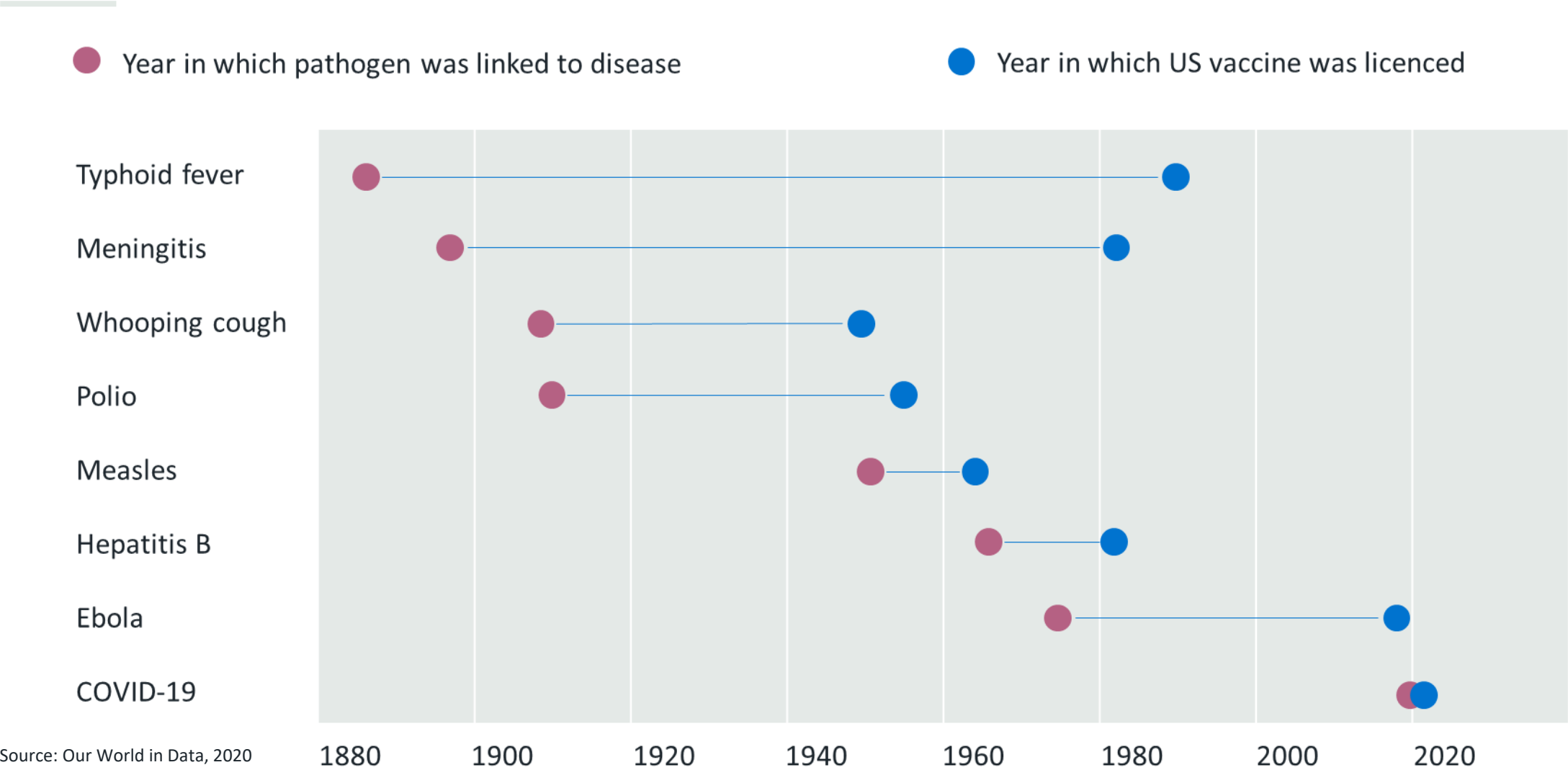
US - ISM Manufacturing Index



Source: Macrobond, 04.03.21

INTERNATIONAL MONETARY FUND

It is easy to forget how rapid the vaccine progress has been



Source: Our World in Data, 2020

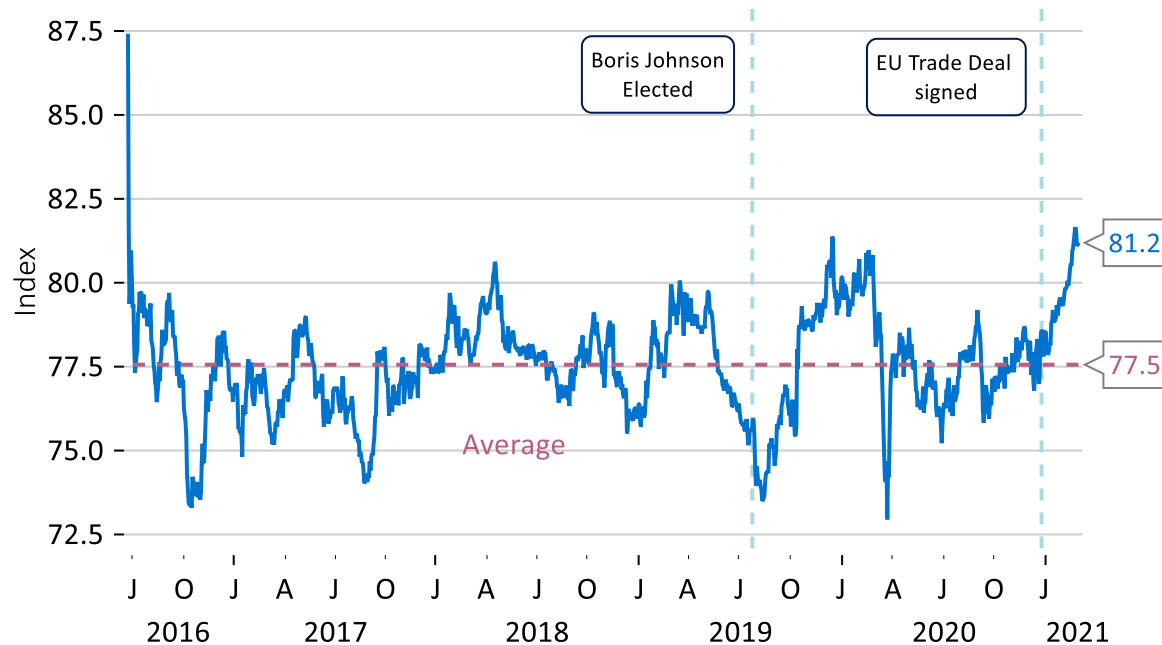
While Sterling reaches post-referendum high

Sterling overshoot possible as fund flows return



Sterling supported by end of Brexit uncertainty

Bank of England Sterling index
since Brexit Vote

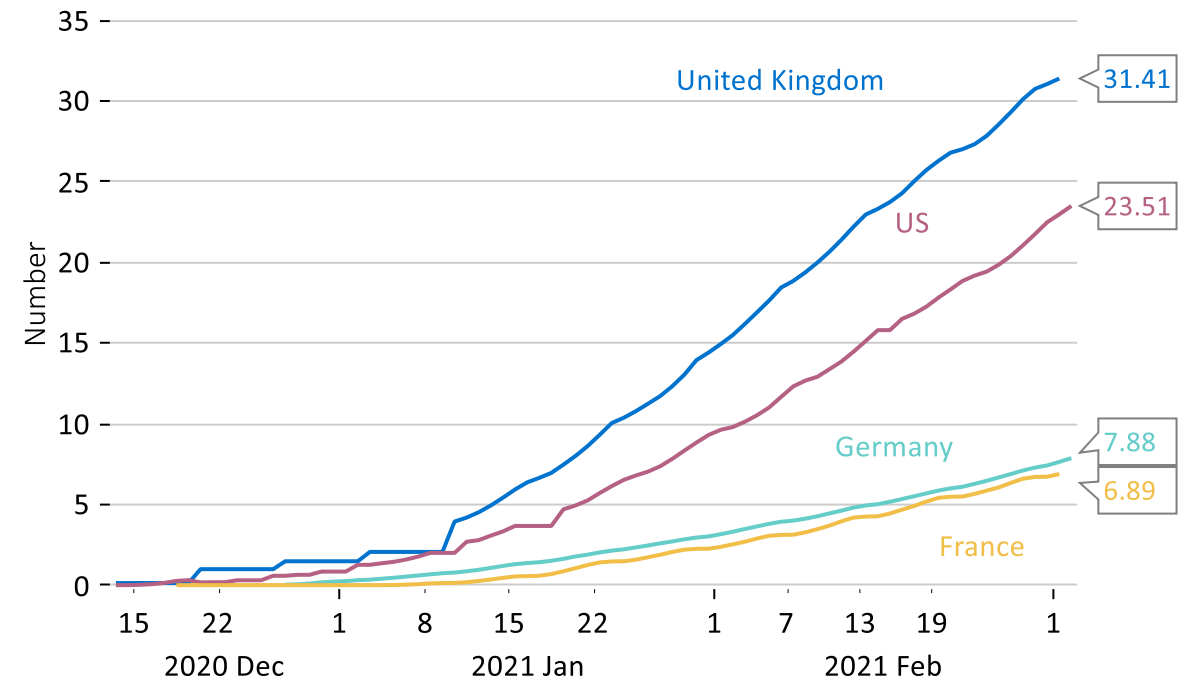


Source: Macrobond, 04.03.21



Vaccine news underpins recovery hopes

COVID-19 Vaccination Doses Administered per 100 People



Source: Macrobond, 04.03.21

02

Will rising bond yields spoil the party?

So will rising bond yields spoil the party?



Bond yields rise and the yield gap widens

US 10 & 2 year T-bond yields

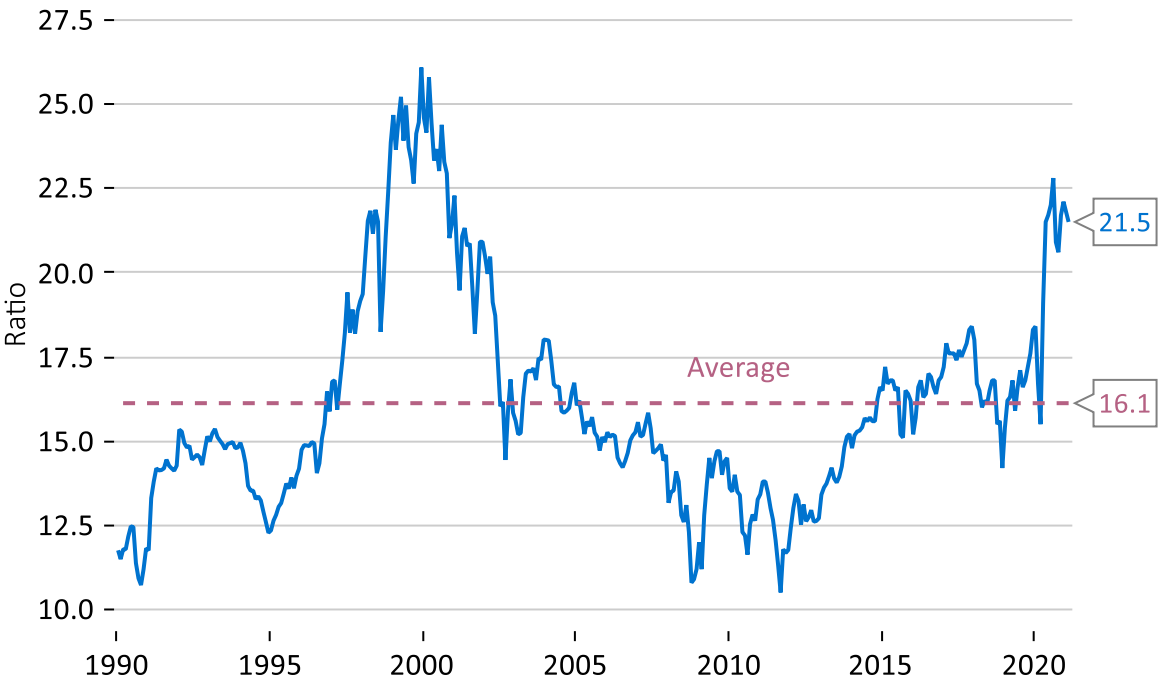


Source: Macrobond, 04.03.21



2020 market performance driven by multiple expansion

S&P 500 12 Month Forward P/E



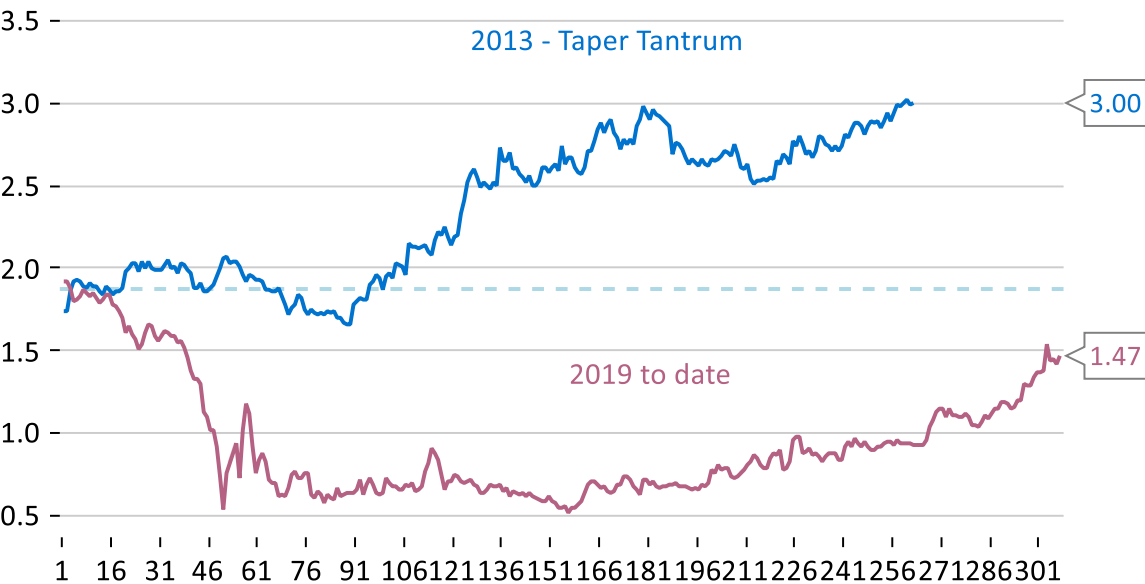
Source: Macrobond, 04.03.21

Today's rise in yields only takes us back to pre-COVID levels...



Today's yield backup only takes us back to pre-COVID levels

US 10 Year T-Bond Yields
Taper Tantrum 2013 and Today

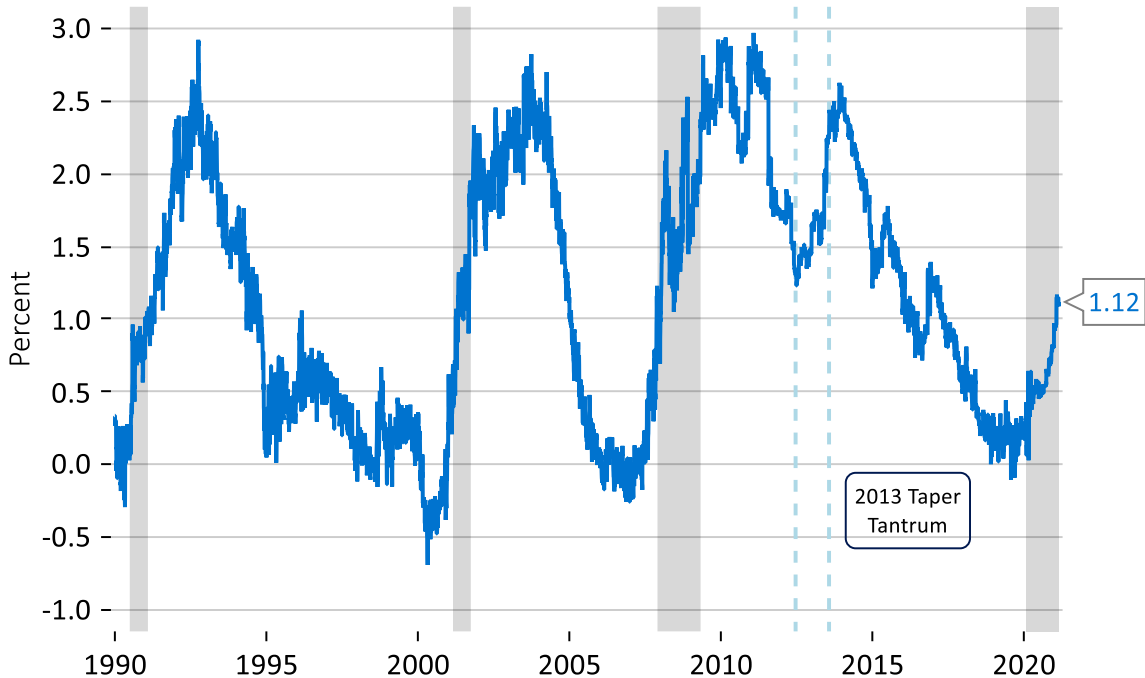


Source: Macrobond, 04.03.21



Yield curves always steepen post recession

US 10-2 Yr T-Bond Yield (US recession shaded)



Source: Macrobond, 04.03.21

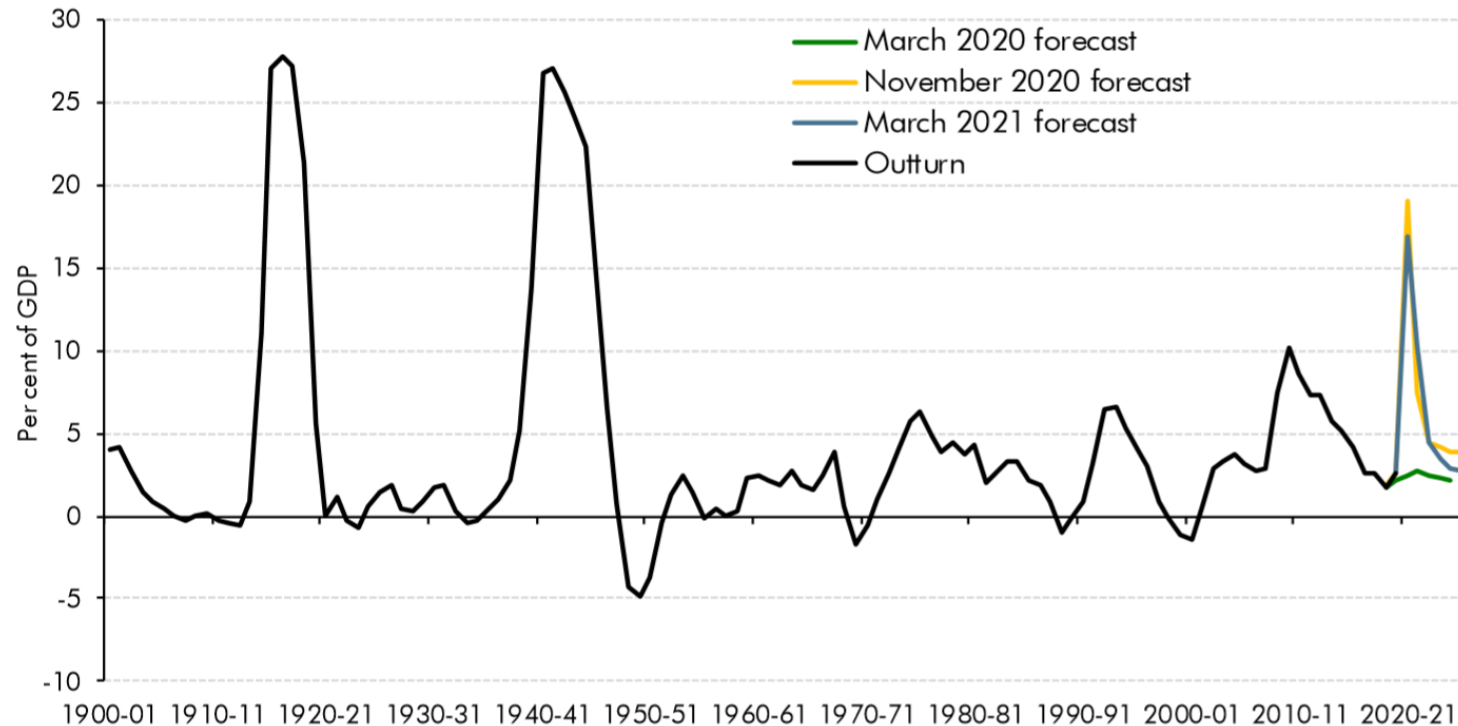
The Taper Tantrum refers to the 2013 market reaction to the Federal Reserves announcement of potentially reducing asset purchases.

1. The exceptional impact of the Virus on public finances makes keeping real interest rates low a necessity



2020-21 UK Budget Deficit forecast to reach 17% of GDP - a level only previously seen in times of War

Chart 1.3: Public sector net borrowing since 1900



Source: ONS, OBR

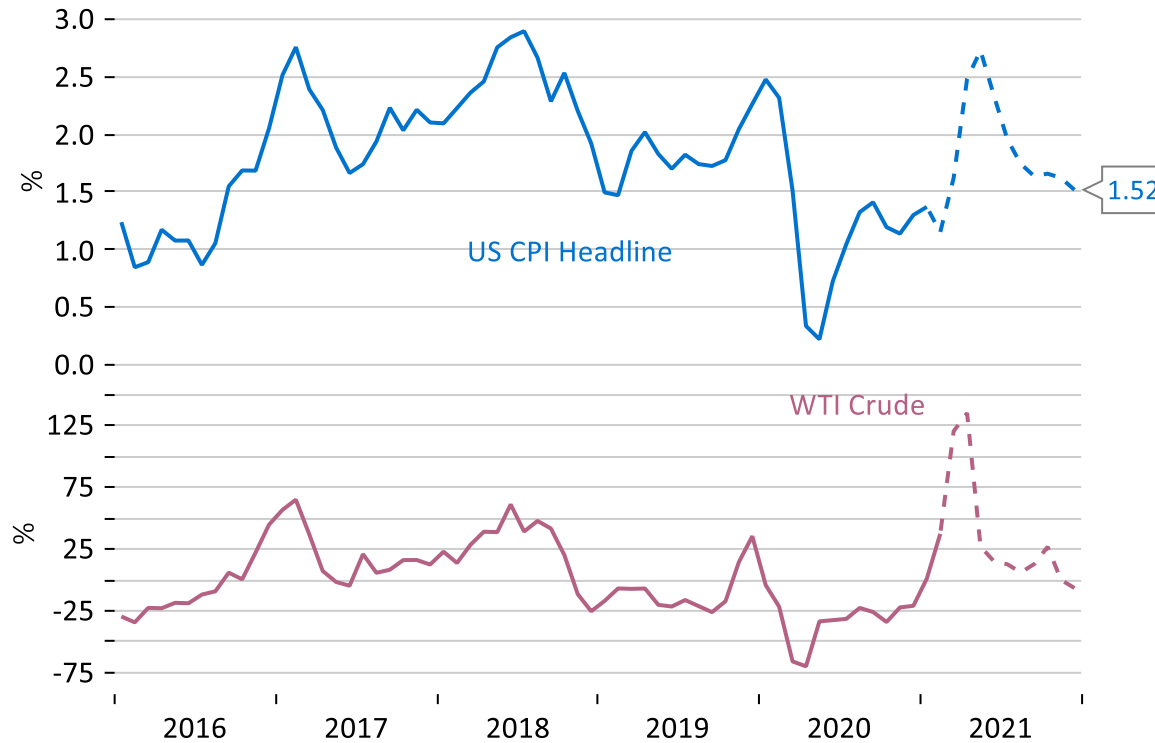
- The pandemic has also pushed government borrowing up to a post-war high.
- In 2020-21, public sector net borrowing is forecast to reach 16.9 per cent of GDP (£355 billion), its highest level since 1944-45.
- Public sector net debt to rise to 100.2 per cent of GDP, its highest level since 1960-61.

Source: OBR, March 2021

2. Policy makers will allow economies to run hot



US inflation will rise



Source: Macrobond, 04.03.21



“The Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, ***appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time***”

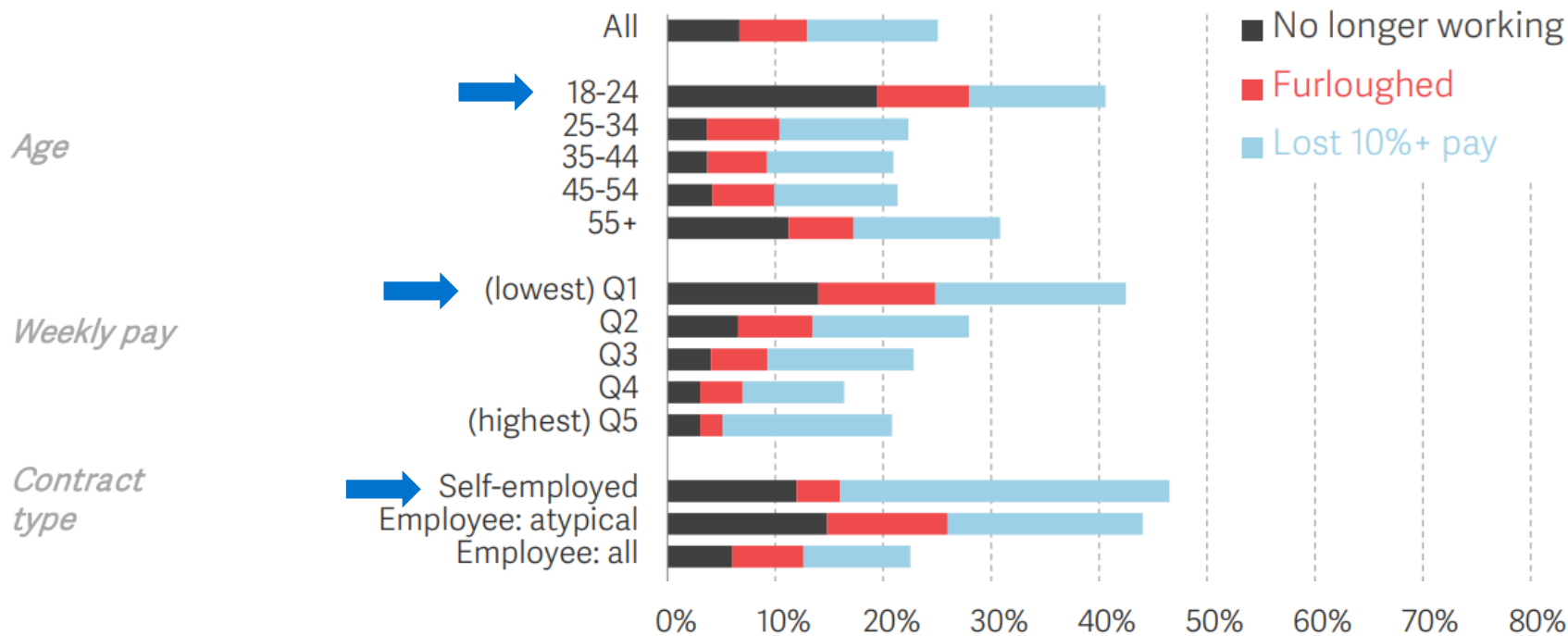
US Federal Reserve

Jan 26 2021

3. There is a powerful need for policy makers to ‘level up’ & help those in society most impacted by the Pandemic

 In the UK employment effects worst for young, low paid & those on insecure contracts

Proportion of people employed in February 2020 who in January 2021 were either no longer working, were furloughed, or whose earnings had fallen by 10 per cent (or more) compared to February 2020



Source: Resolution Foundation, February 2021

So we see Financial Repression here for some time yet...

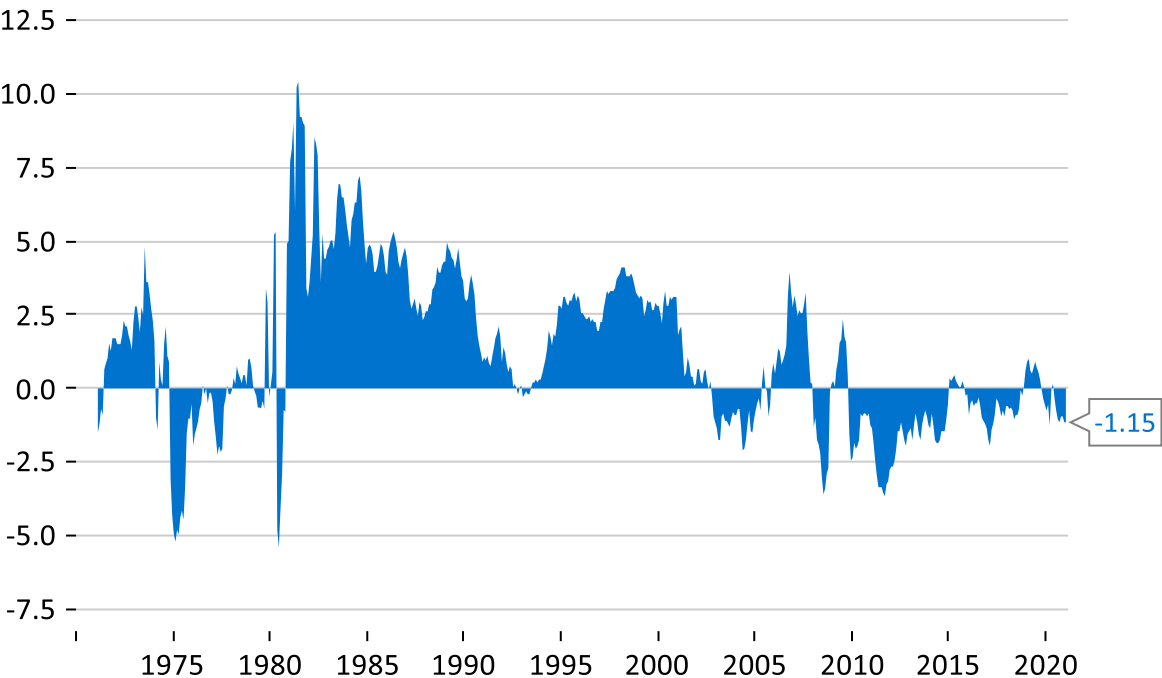


Negative T-Bond yields the norm since 2008

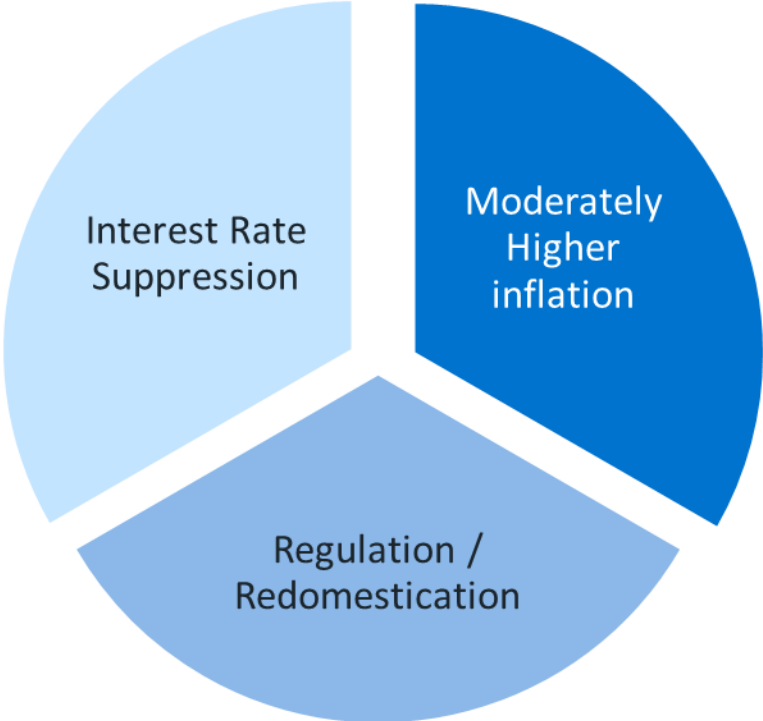


The Financial Repression toolkit

US Real Yields: 10 year Tr yields - Annual Inflation



Source: Macrobond, 04.03.21



03

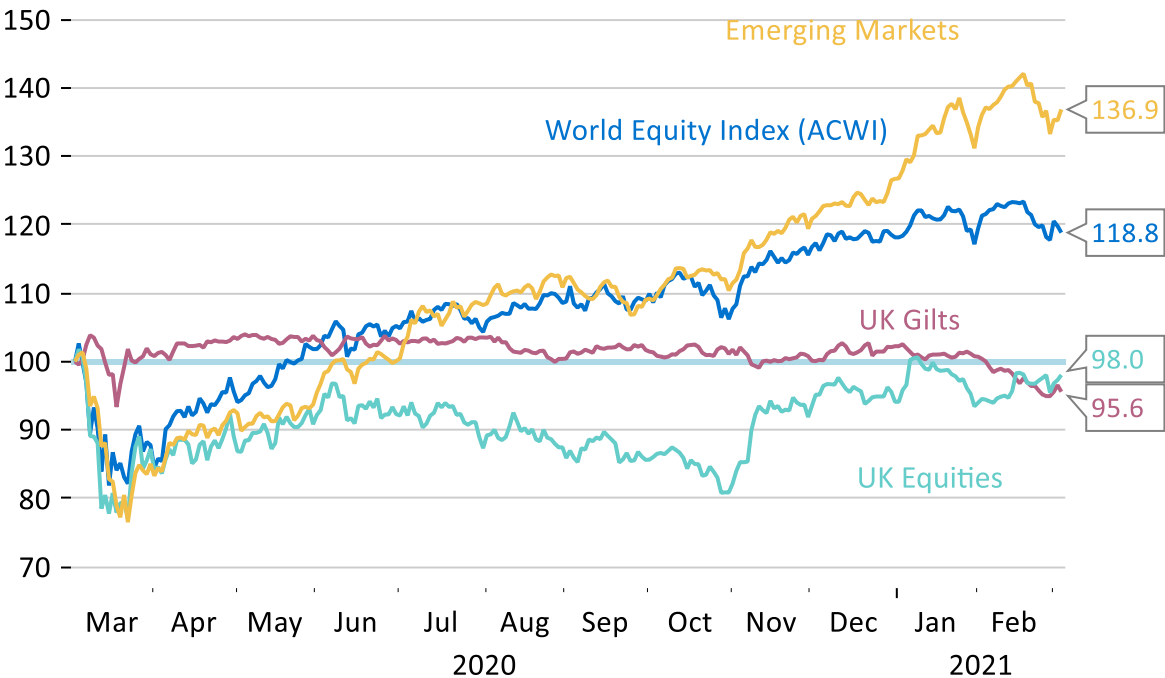
Should we remain overweight equities?

Market performance last 12 months

Emerging Markets lead a global equity surge - bonds fade - UK equity recovery begins

 Equity rally continues on election, Brexit and vaccine news

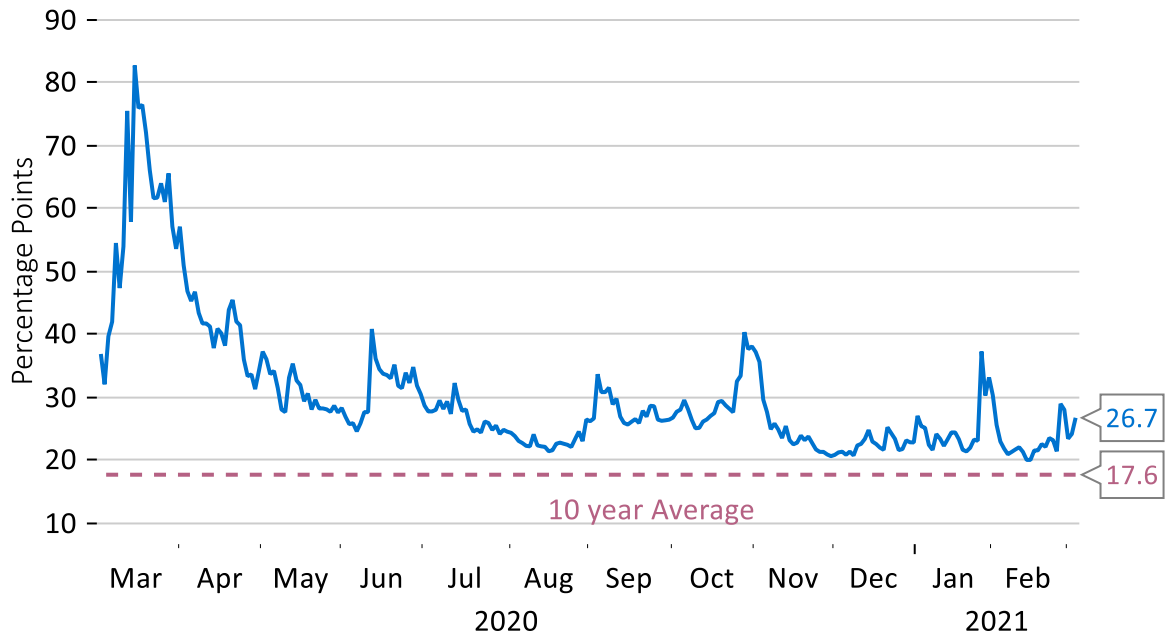
Global Asset Class Returns last 12 months (£)



Source: Macrobond, 04.03.21

 Volatility still stubbornly high

US Equity Volatility Index (VIX)
Last 12 months



Source: Macrobond, 04.03.21

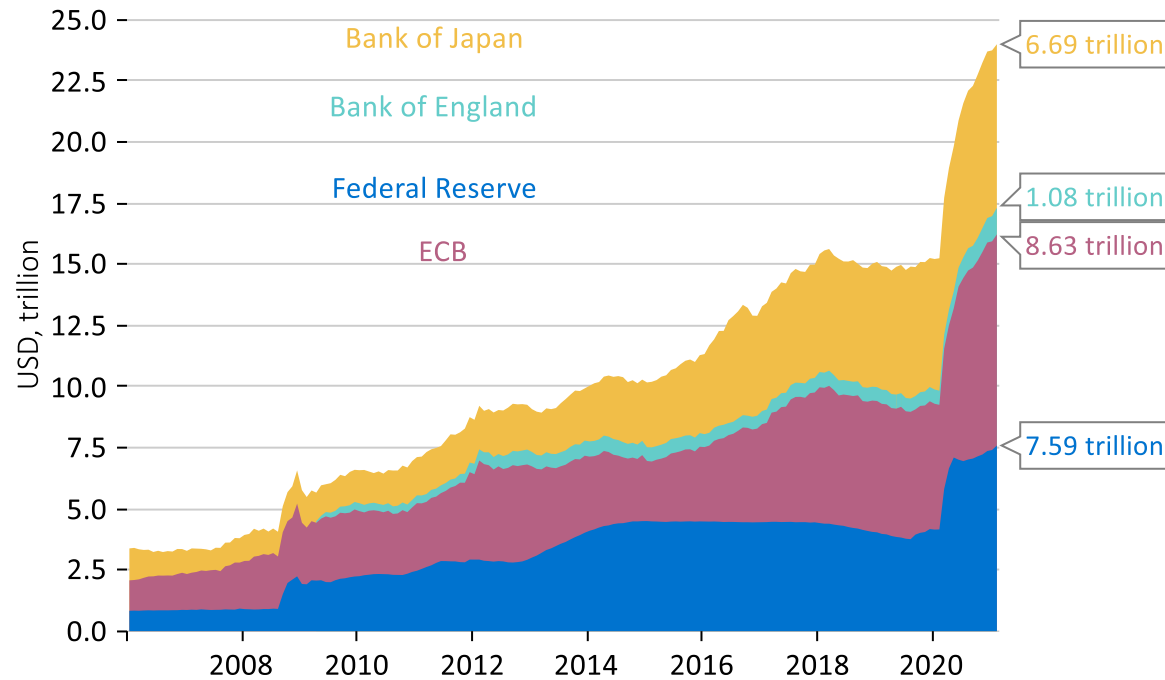
Why we are overweight risk assets long-term?

1. Global Monetary & Fiscal/Green stimulus continues on an extraordinary scale...



Major central bank balance sheets are still ballooning

Central bank balance sheets (USD)

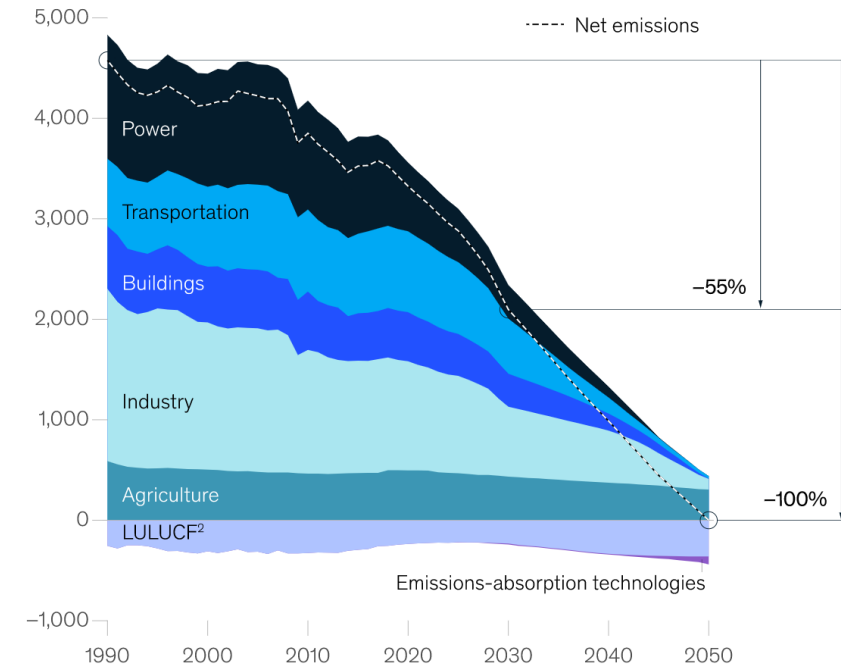


Source: Macrobond, 04.03.21



Net zero for EU requires c.\$25 Trillion of investment by 2050*

Total emissions per sector in cost-optimal pathway for EU-27,¹ megatons of carbon



¹Excluding international aviation and shipping.

²Land use, land-use change, and forestry entails all forms in which atmospheric CO₂ can be captured or released as carbon in veget in terrestrial ecosystems.

Source: UNFCCC; McKinsey analysis

McKinsey
& Company

Source: McKinsey & Co, 2020

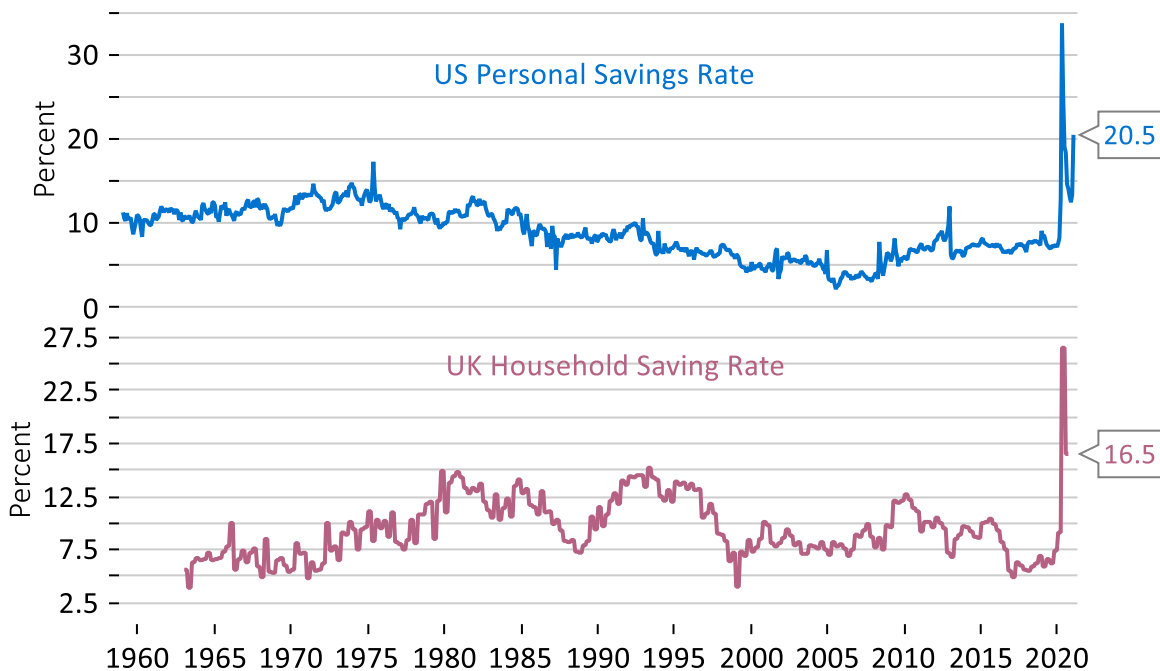
2. Personal savings and liquidity are high

Saving rates & money market funds still support retail investment flows



Personal savings rates soar under lockdown

Personal Saving Rates

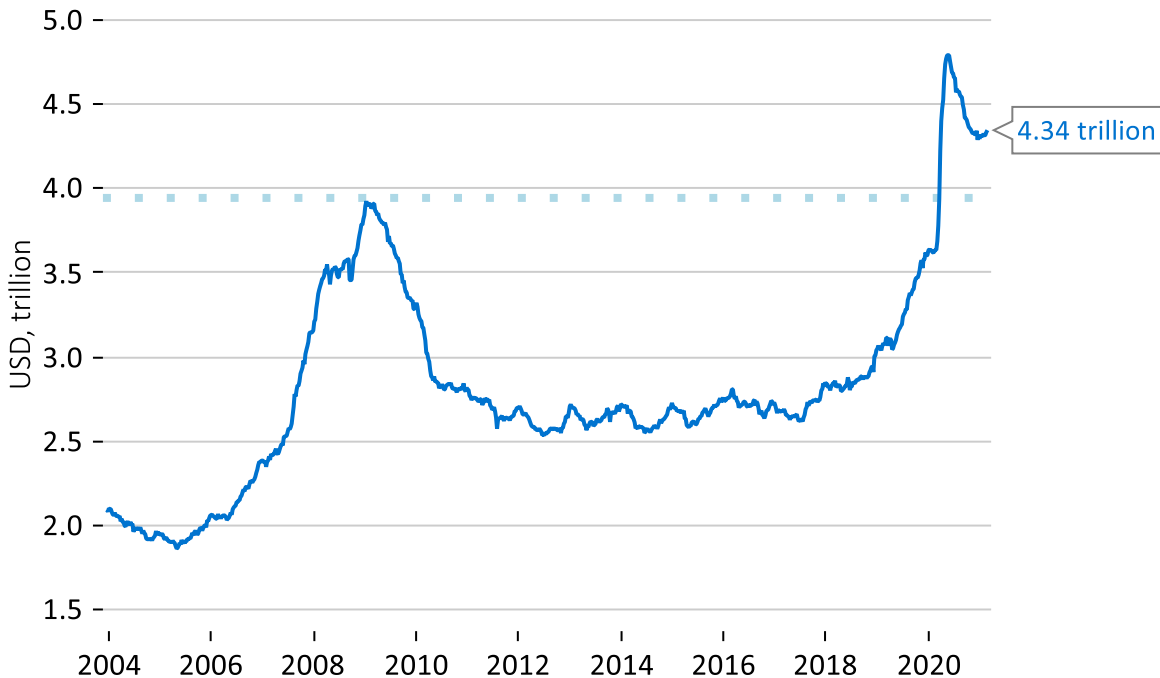


Source: Macrobond, 04.03.21



US Money Market Funds assets balloon

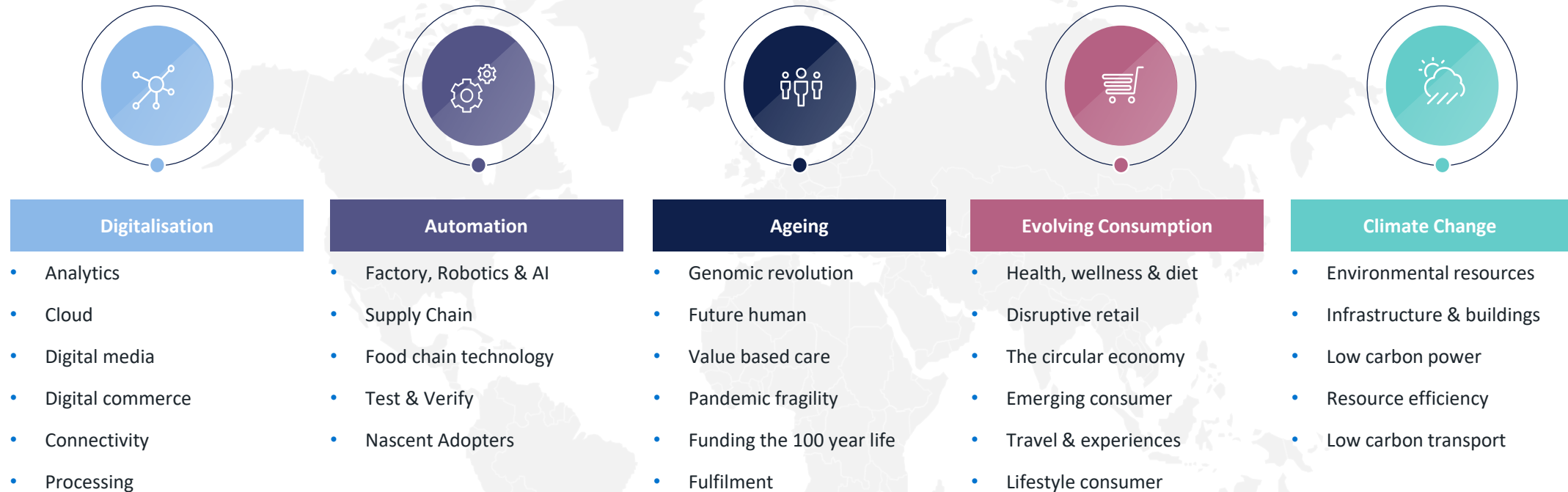
US Total Money Market Fund Assets, USD



Source: Macrobond, 04.03.21

3. Our five secular investment themes remain resilient

Mega-themes and sub-themes



Investment themes leading to companies with sustainable long-term businesses

Vaccine aids recovery - central banks remain supportive

Fiscal and monetary policy the most expansionary in post-war history



Global strategy update March 2021

Bonds	Underweight <ul style="list-style-type: none">• UW Government Bonds – upward drift in US and global yields in 2021 - US 10 Yr. Treasury fair value 1.50%• UW investment grade credit – after a strong H2 2020 spreads offer little compensation for post COVID risks
Equities	Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, earnings have scope to surprise on the upside in 2021• OW UK equities – valuations attractive, flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia managed COVID well –commodity/energy rally supports other EM
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• Neutral Uncorrelated Alternatives - Gold a hedge against policy error but vulnerable to any reset in rates
Cash	Underweight <ul style="list-style-type: none">• Central Bank commitment to zero or negative yields for multi-year period• No currency preference
Risks	Current: Resurgence in virus variants in 2021, disorderly bond markets Longer-term: Economic and social scarring from lockdown, valuations stretched, balance sheet impairments only clear in 2021 and beyond

Important information

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