

Six Minute Strategy

UK focus – are we already running hot?

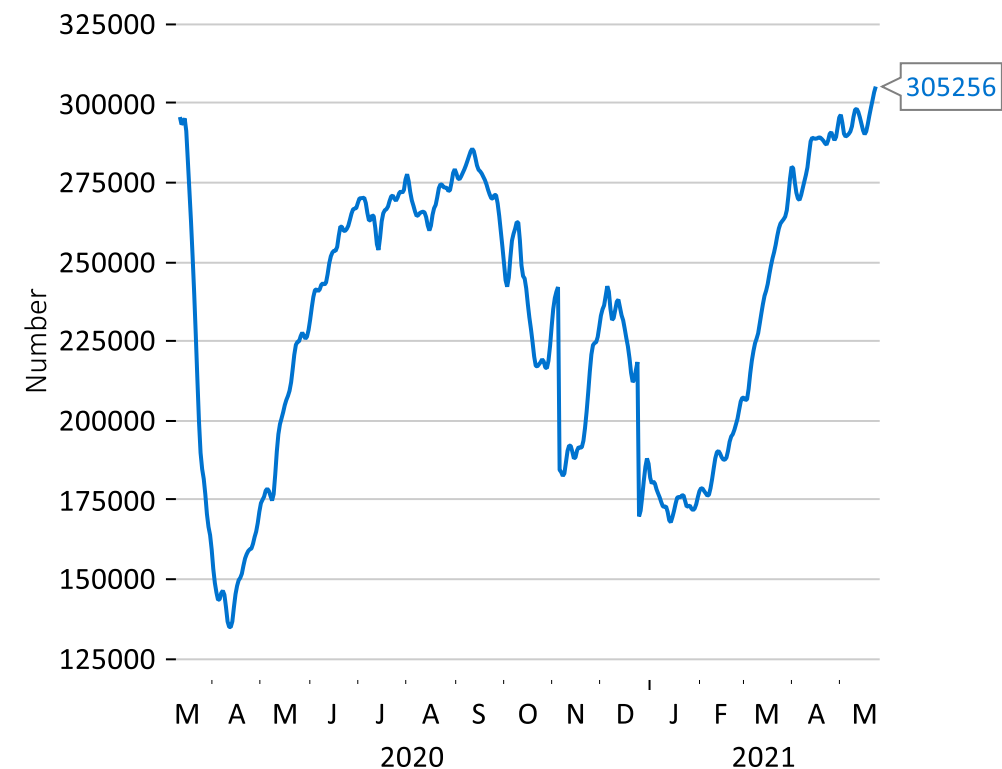
May 2021



UK economic activity normalising faster than expected

London traffic almost normalised

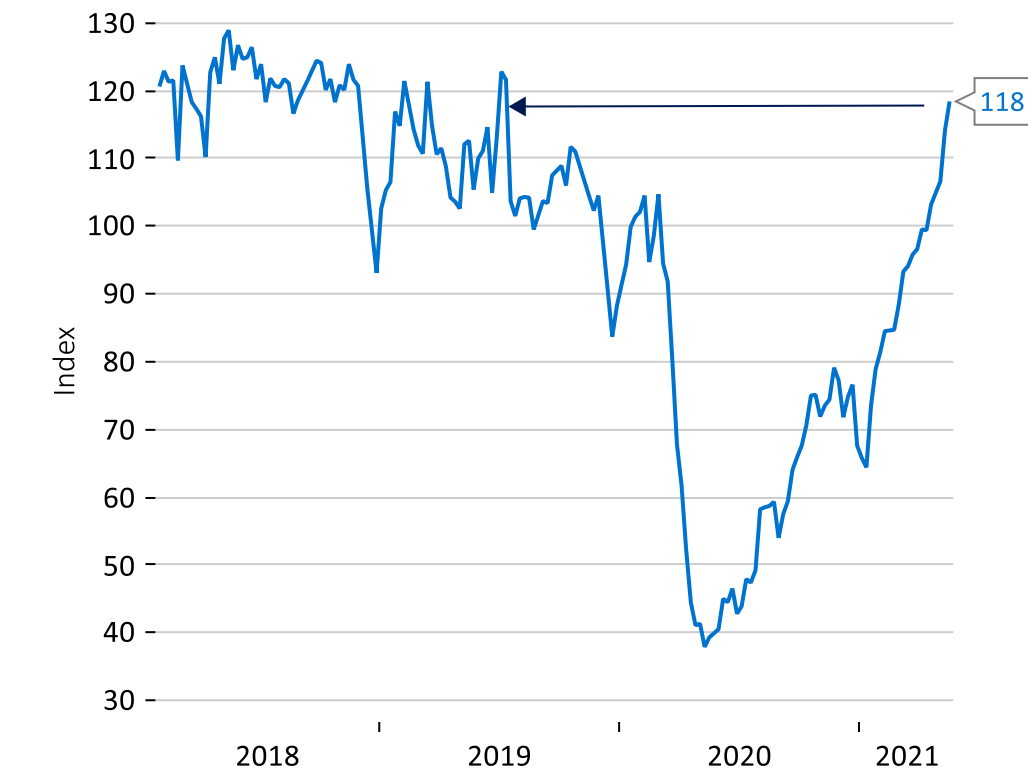
UK Traffic, Camera Activity, London Cars



Source: Macrobond, 28.05.21

Job vacancies already above pre-crisis levels

UK Online job vacancies (Feb 2020 = 100)



Source: Macrobond, 28.05.21

At the current rate of 550k vaccine doses per day it will take c.3m months to reach 75% of the UK populations with a double dose
(Bloomberg Data 26/5/2021)

UK consumers and business firing on all cylinders

Retail sales and business sentiment setting new records – GDP forecasts rising sharply

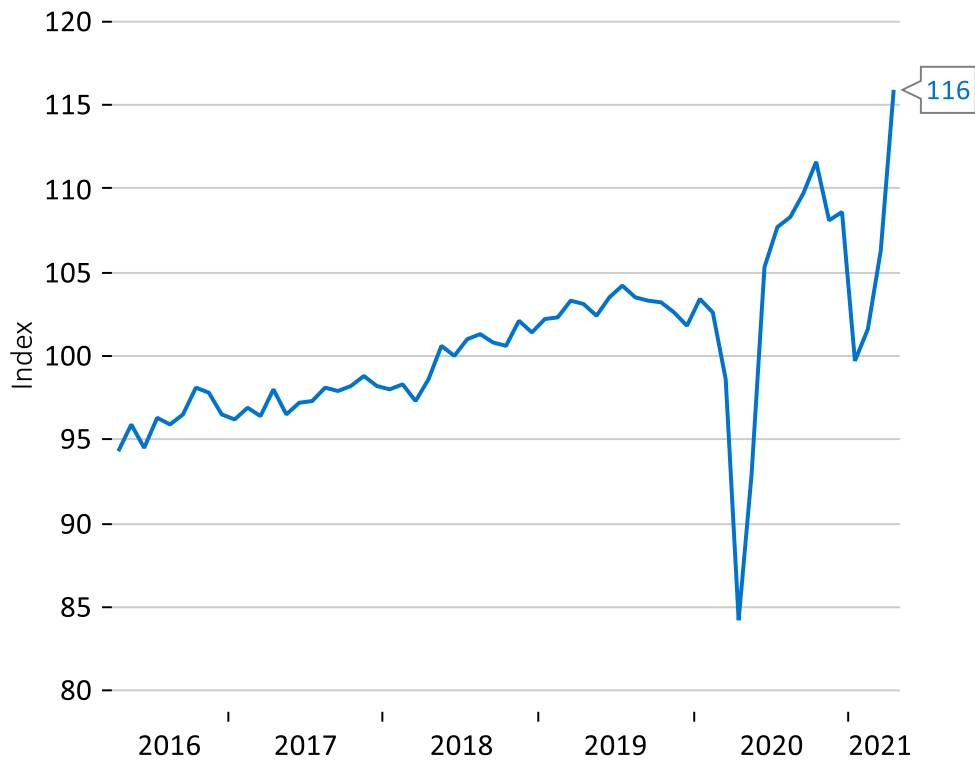


Consumers – retail sales climb 9.2% in April to record



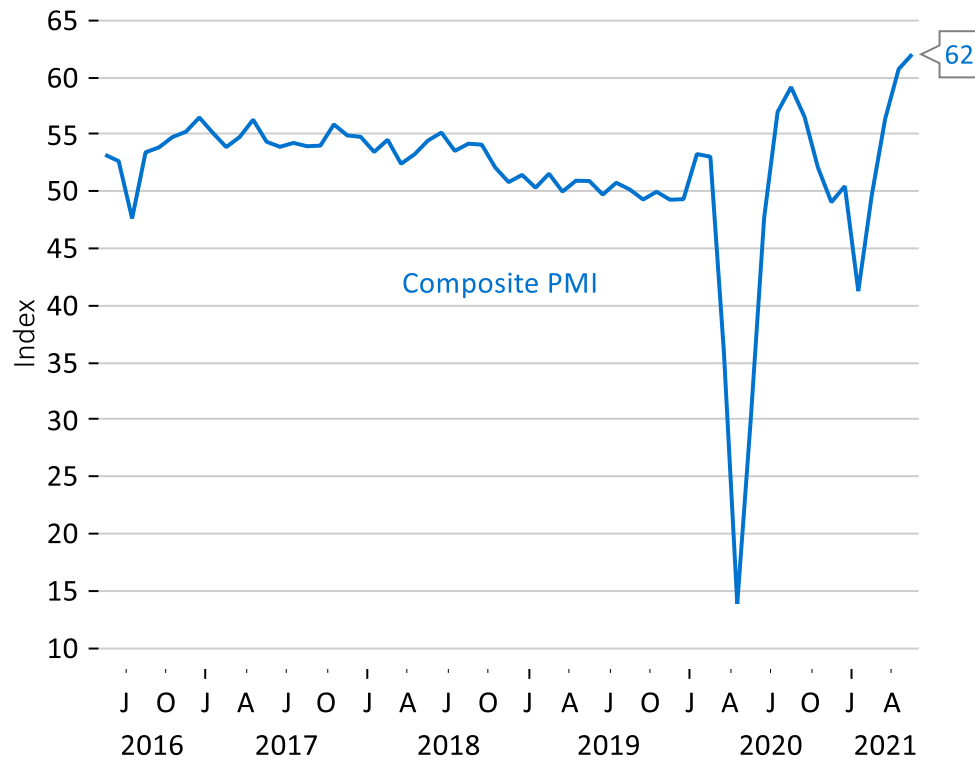
Business – sentiment highest since index began in 1998

UK Retail Sales Index (ex fuel)



Source: Macrobond, 28.05.21

UK Purchasing Managers Index (PMI)



Source: Macrobond, 28.05.21

UK GDP forecasts 2021 +7.25% and 2022 + 5.75%
(Bank of England, May 2021)

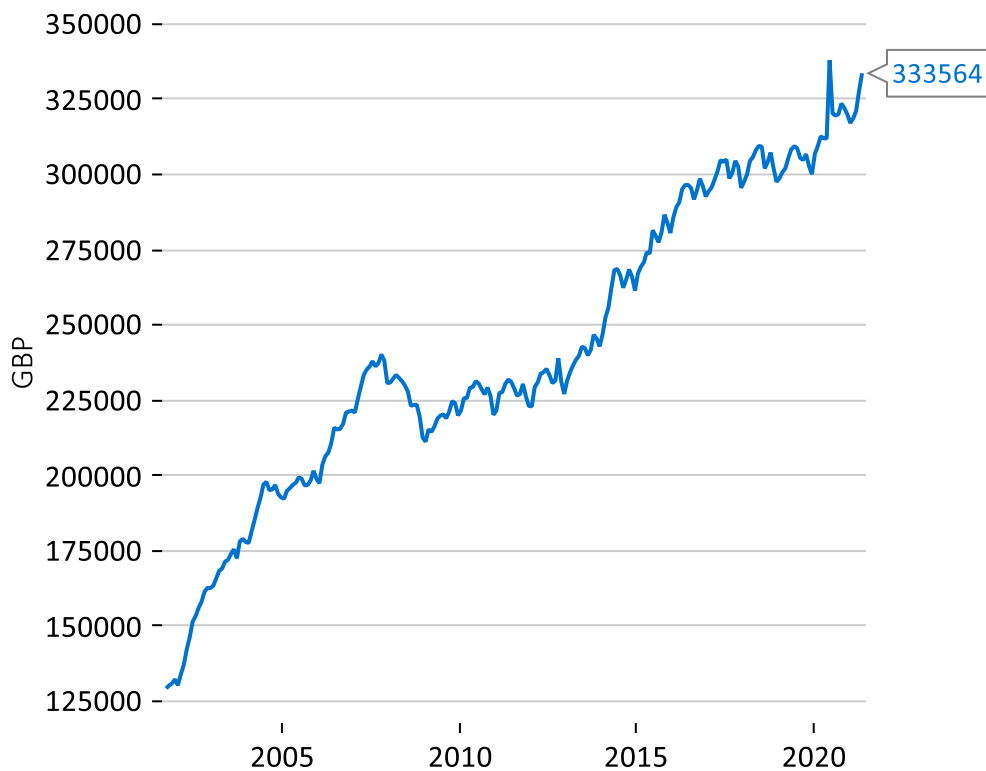
House prices & property completions already running hot

Record property transactions and economic recovery are helping tax receipts

 Near record price for UK property coming to market

 Completions at record – stamp duty holiday to June 2021

UK Average House Price Rightmove



Source: Macrobond, 28.05.21

UK Residential Property Transactions Completions (HMRC), Volume



Source: Macrobond, 28.05.21

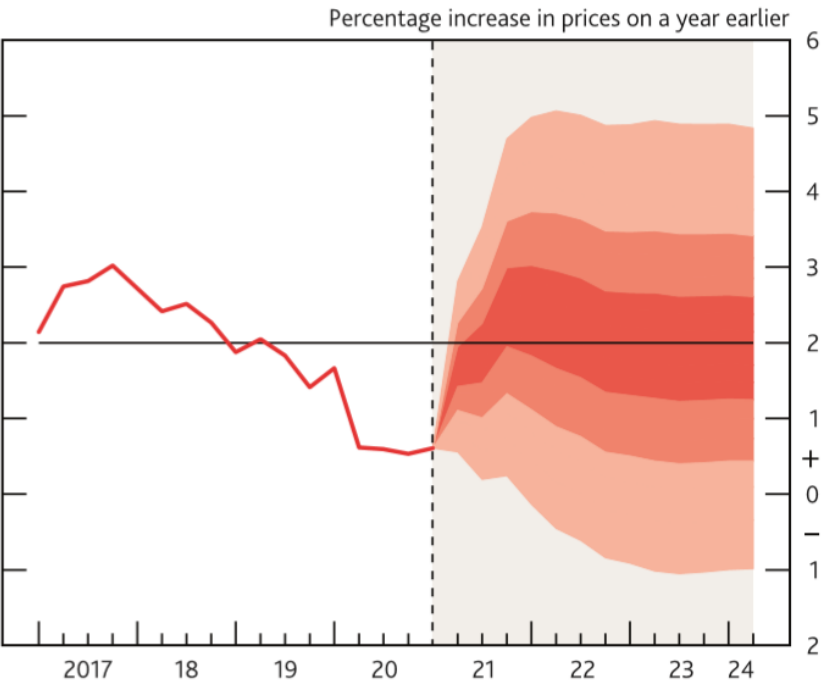
The UK budget deficit (PSNBex) for April 2021 came in at £31.7bn vs. OBR forecast of £39bn

UK inflation

CPI forecast to rise to 2.5% by Q4 2021, settling at 2% for 2022 – balance of risks to the upside

May 2021 Bank of England forecasts

Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced

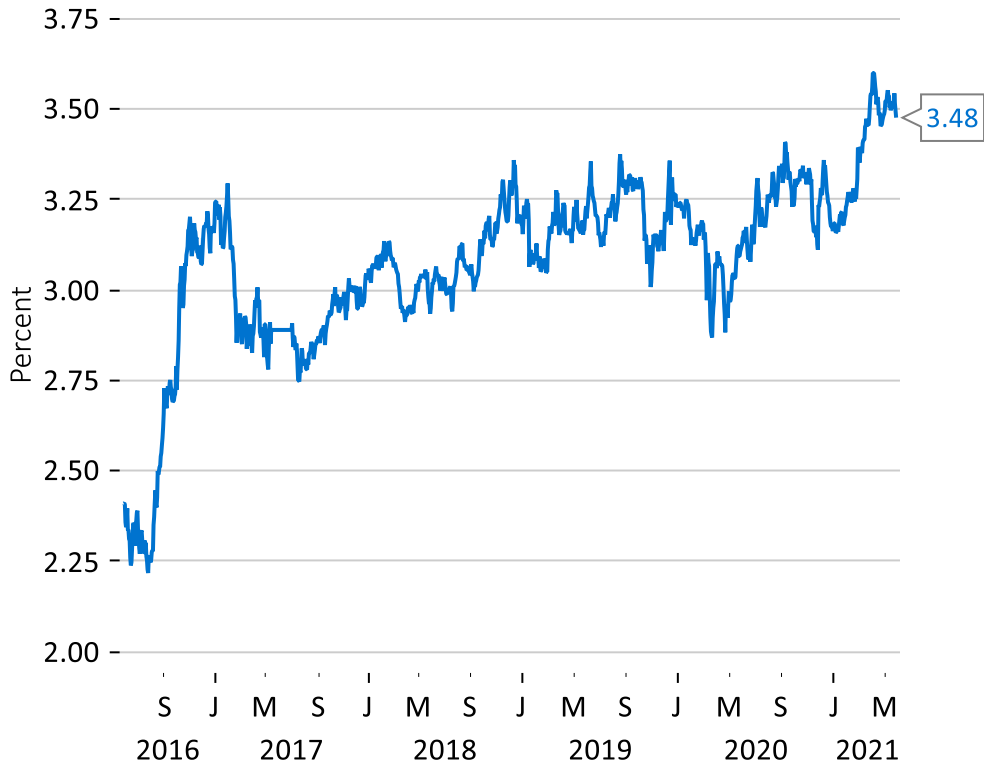


The fan chart depicts the probability of various outcomes for CPI inflation in the future.

Source: Bank of England Monetary Policy Report May 2021

Market derived inflation forecast (uses RPI)

Bank of England, Implied Inflation, 5 Year



Source: Macrobond, 28.05.21

“It is hard to find very many goods or assets which aren’t going up [in price] right now”

Andy Haldane Many 2021 BoE Chief Economist

1. Sterling

Strong vaccination & employment data supportive of sterling

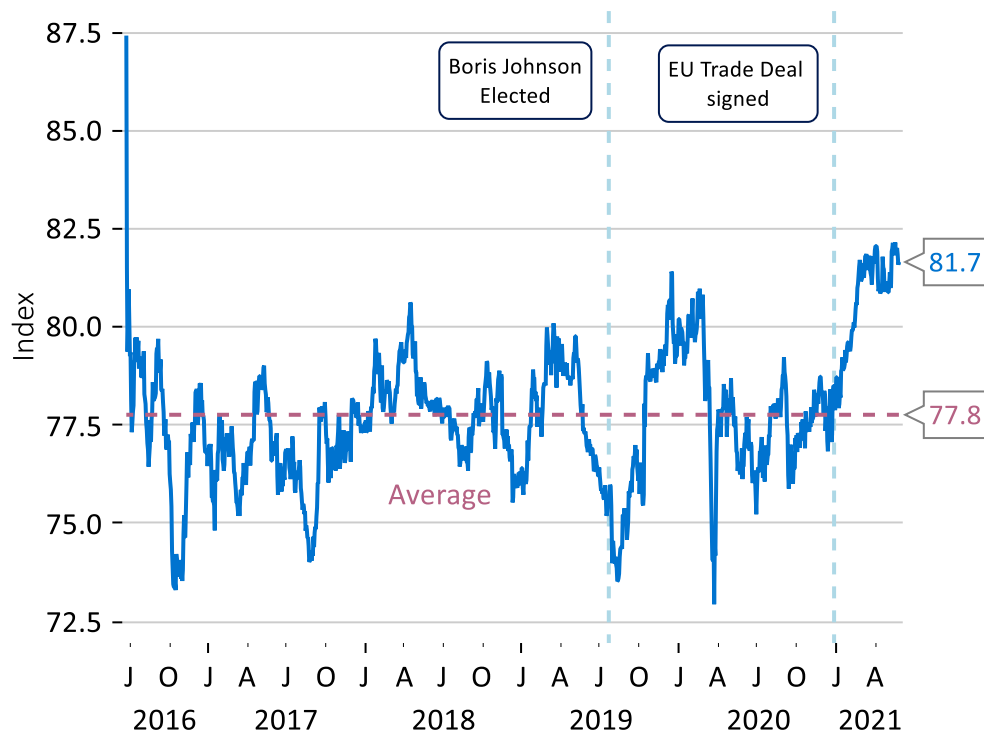


Sterling supported by end of Brexit uncertainty



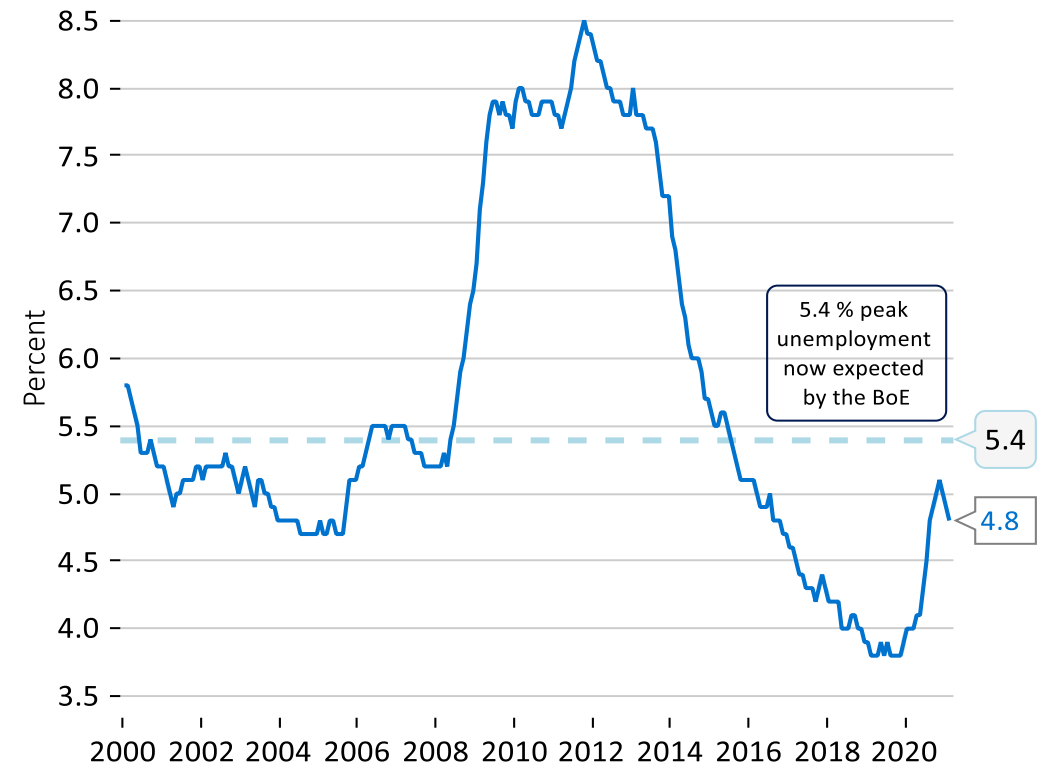
Bank of England estimate peak unemployment now 5.4%

Bank of England Sterling index since Brexit Vote



Source: Macrobond, 28.05.21

UK Unemployment Rate



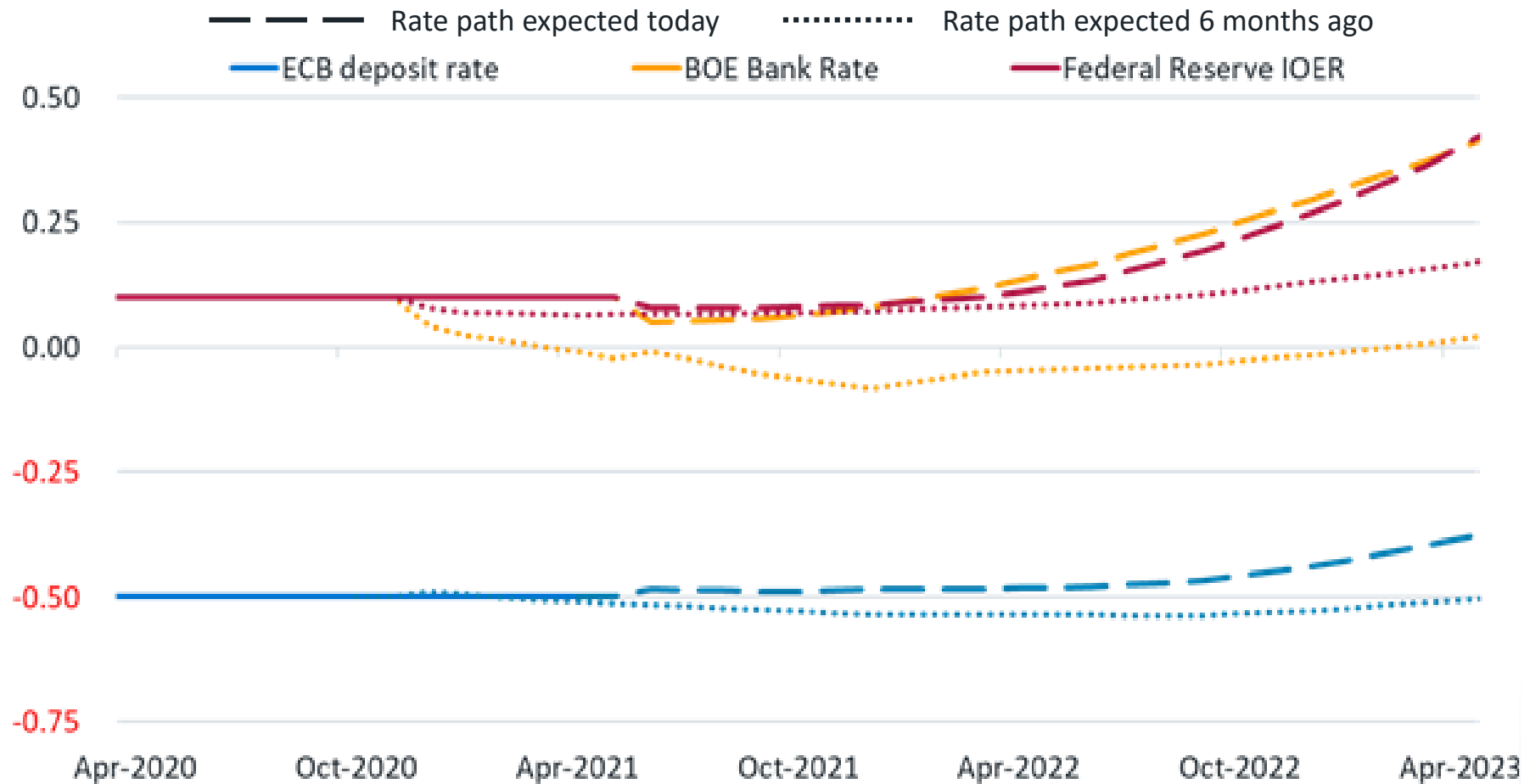
Source: Macrobond, 28.05.21

2. Rates

Markets suggest UK rates lift-off in late 2022 – only six months ago they saw negative rates



Market derived forecasts for bank rates in the US, UK and Eurozone now and six months ago



Source: Sarasin & Partners, 13.05.21. Bloomberg. Derived from market data from Eurodollar, Euribor and Short Sterling interest rate futures and FRA/OIS swap spreads for the next twelve IMM dates. IOER stands for "Interest on Excess Reserves"

3. Equities & bonds

Equity valuations supported by yield premium – gilt yields trending higher

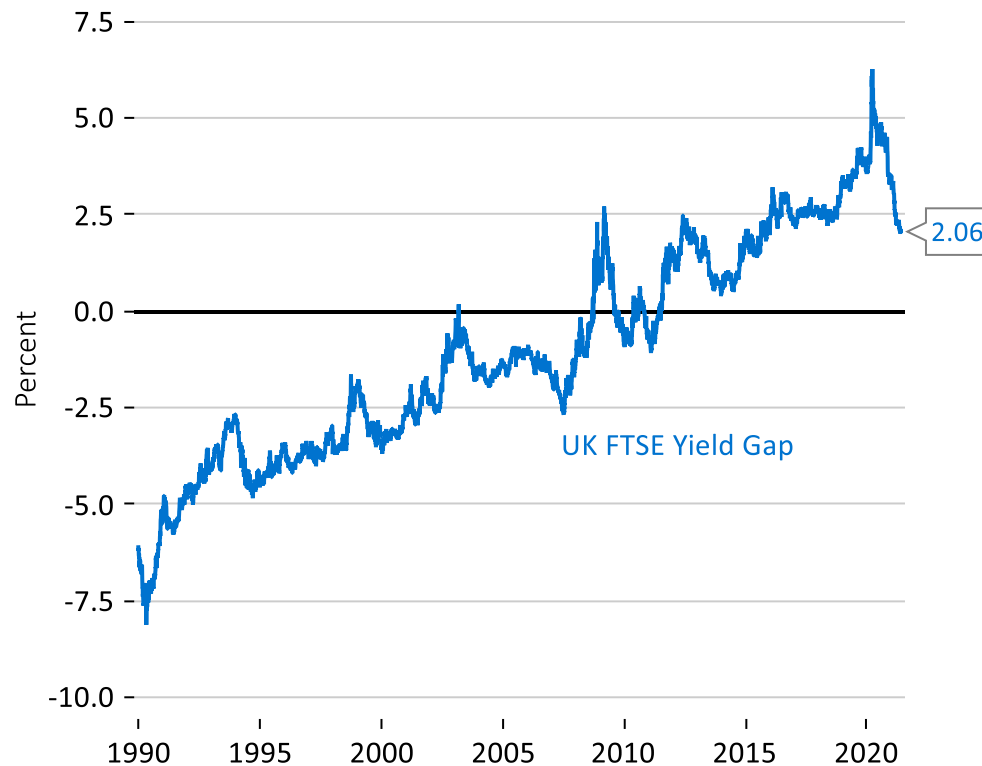


Despite higher bond yields UK dividends still attractive



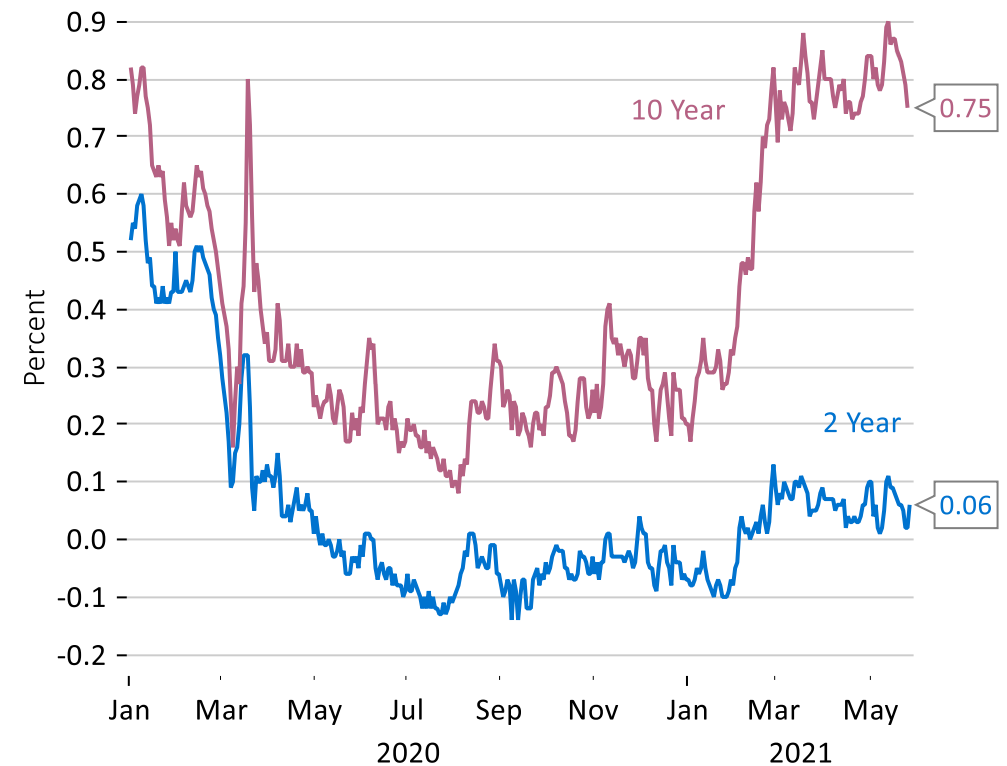
UK Gilt 10 year yield forecast 0.75-1.25% 2021*

Equity dividend yield less UK 10 year bond yield



Source: Macrobond, 28.05.21

UK Government Bond Yields



Source: Macrobond, 28.05.21

* Sarasin & Partners forecast

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