

Six Minute Strategy

Will central bankers hold their nerve?

May 2021

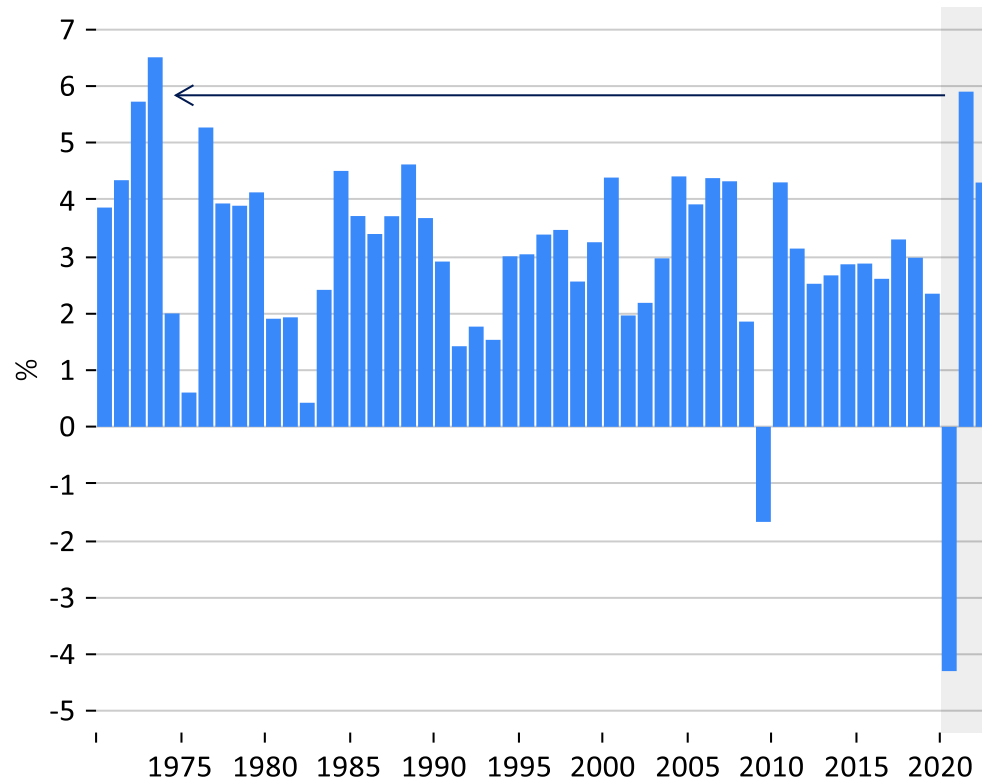


Global growth continues to accelerate as progress on vaccination continues in the developed world



2021 global growth forecast of 6% the strongest since 1973

Global GDP, USD, real

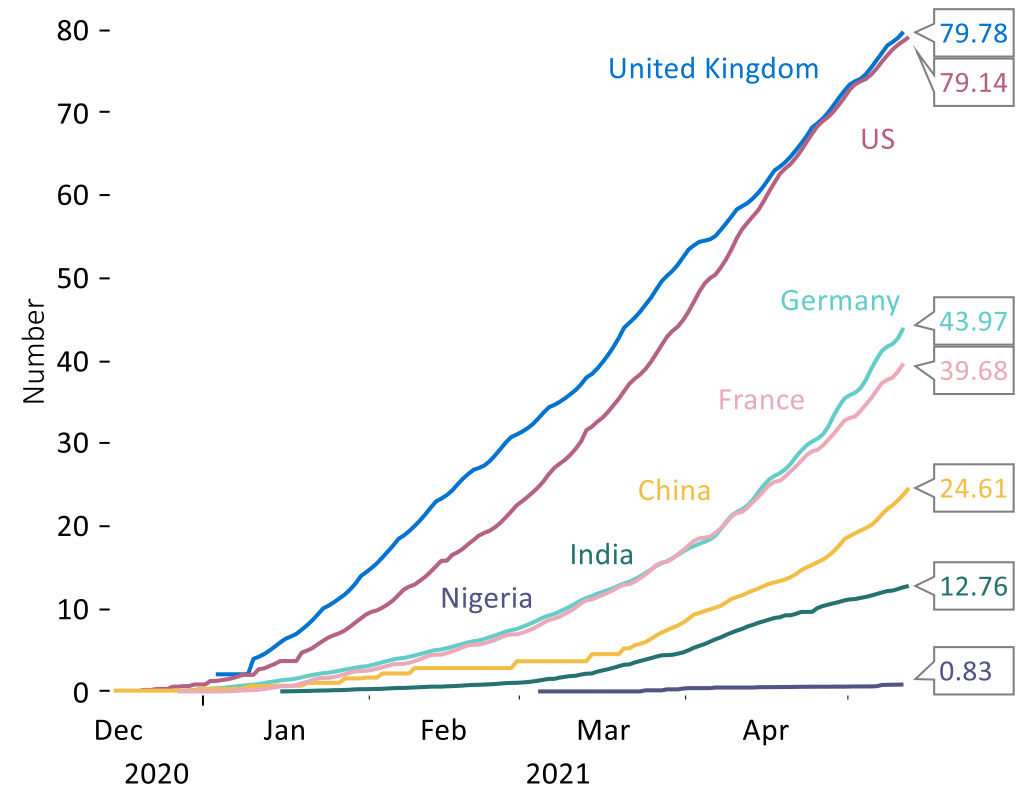


Source: Macrobond, 14.05.21



Vaccination rates accelerate – poorer countries need supply

COVID-19 Vaccination Doses Administered per 100 People



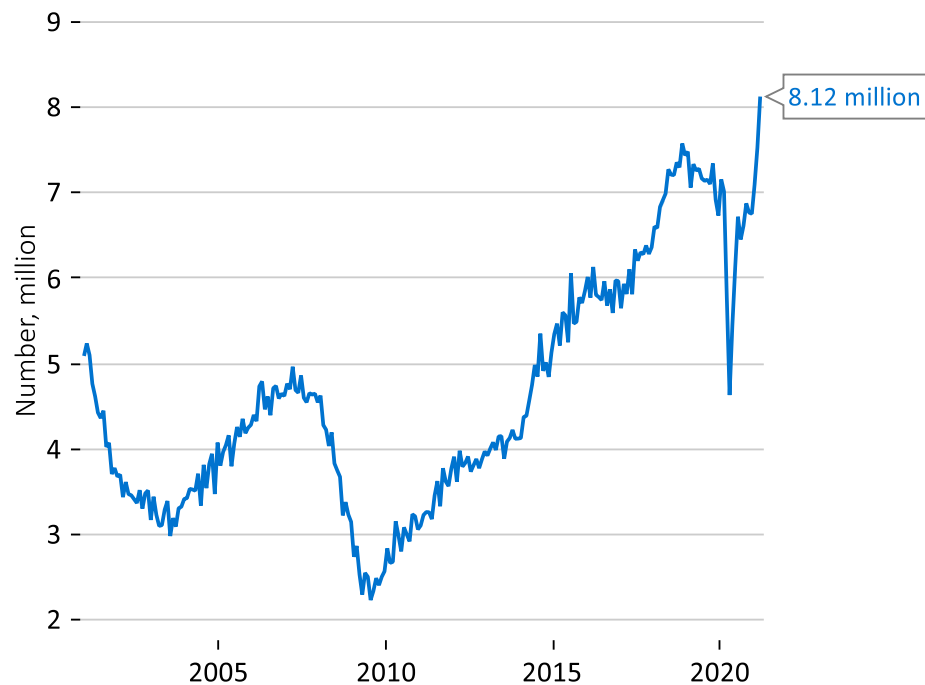
Source: Macrobond, 14.05.21

Economic recovery continues to accelerate – especially new job opportunities



US job openings rise to record as business re-hires

US Job Openings
(number of available positions)

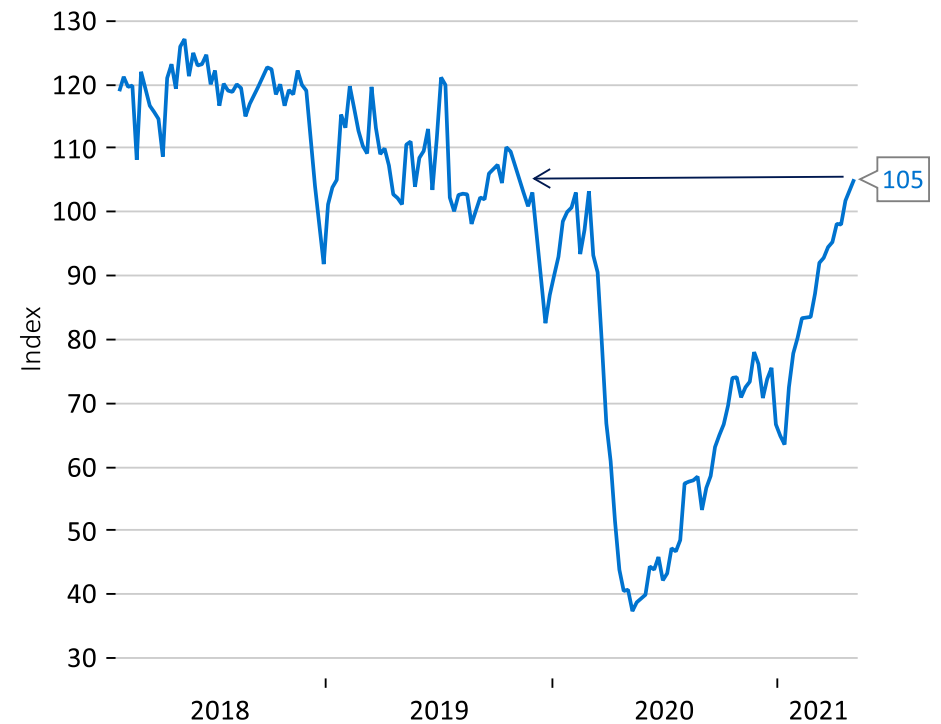


Source: Macrobond, 14.05.21



UK job advertisements above pre-crisis levels

UK Online Job Advertisements (rebased to 100 = Feb 2020)



Source: Macrobond, 14.05.21

Amazon hiring 75,000 workers, offering U\$1,000 signing on bonus, lifting hourly rate for new workers to U\$17 from U\$15 – McDonalds, Chipotle, KFC also hiring

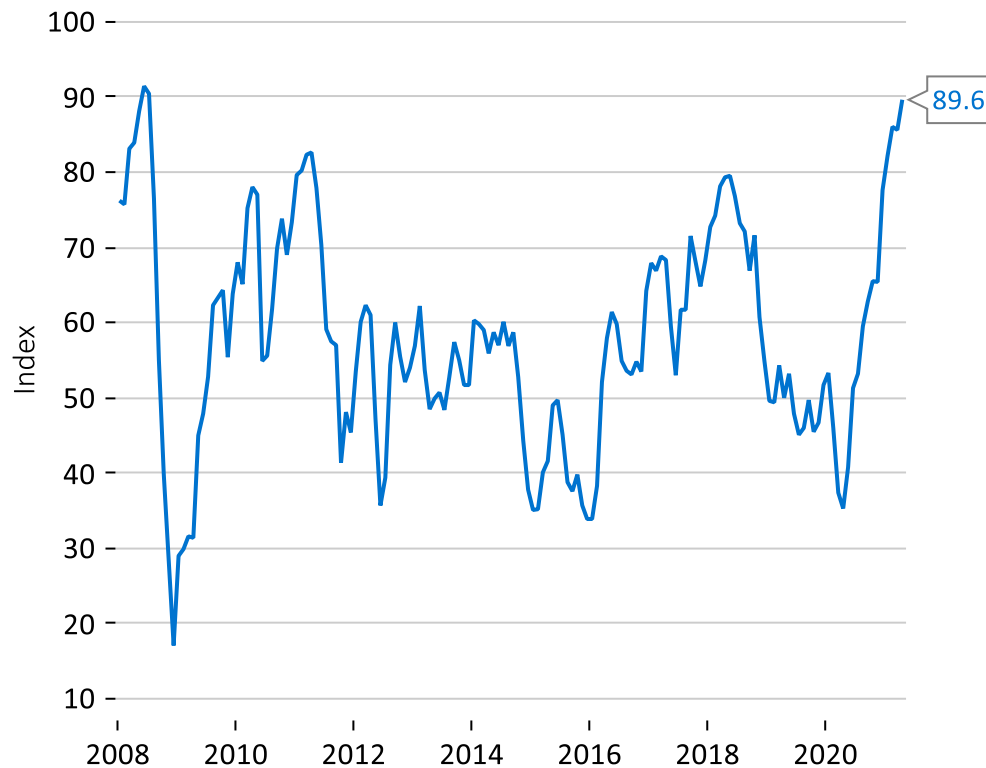
Supply chains fragile

Commodity price squeeze



12 year high in US manufacturing prices-paid survey

ISM US Manufacturing Prices, Index

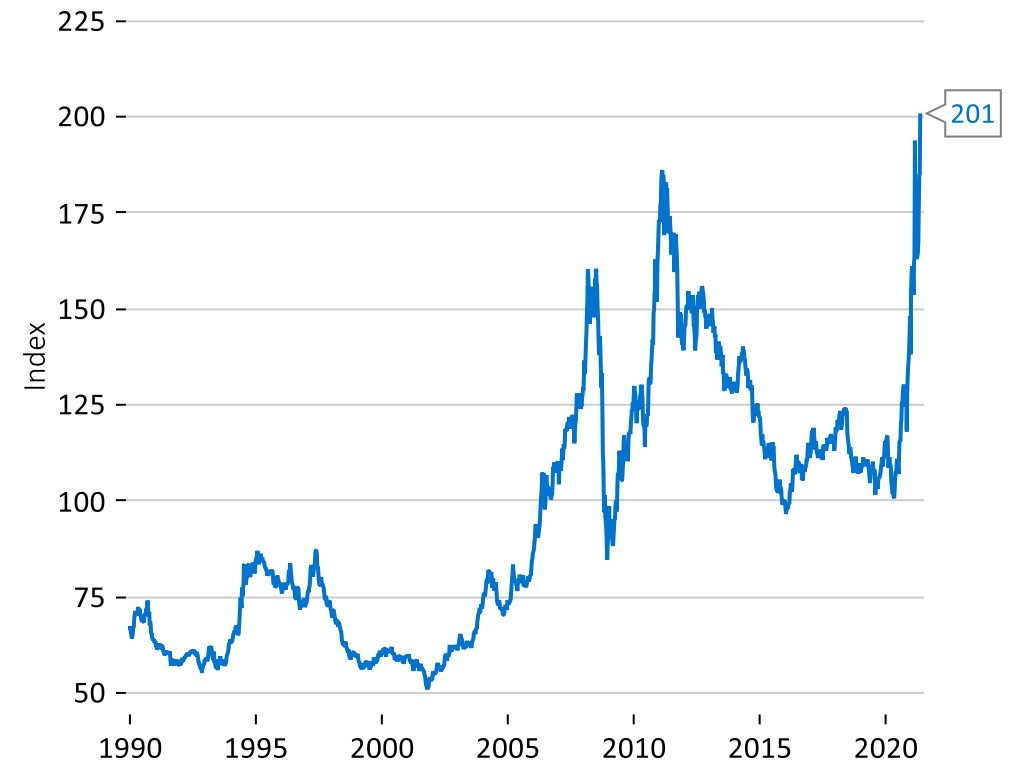


Source: Macrobond, 14.05.21



All time highs now breached for some commodity indices

The Economist All Items Commodity Index



Source: Macrobond, 14.05.21

“The delay between the placement and receipt of orders rose to 79 days – the most on record.”

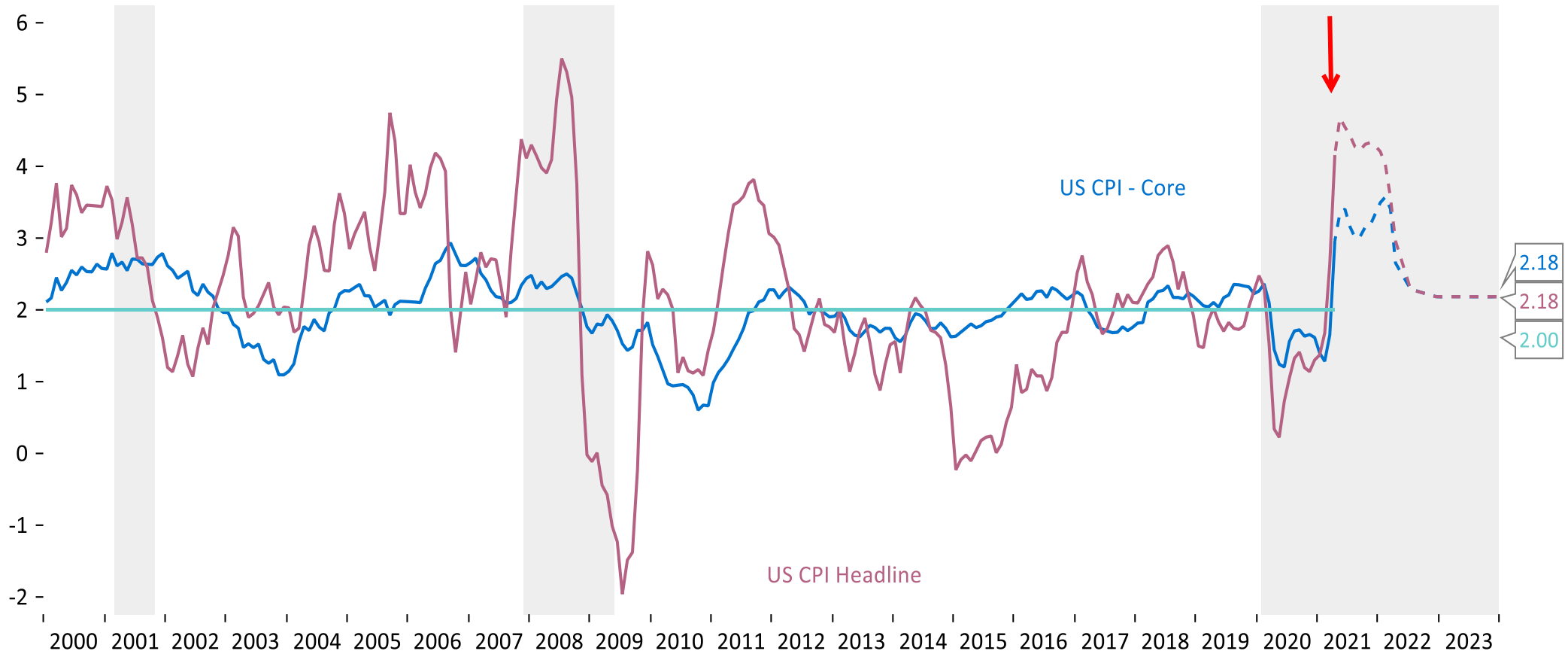
US Institute of Supply Management, March 2021

So what happened to the US CPI – is it all transitory? No

CPI rose 4.2% YoY in April – we now expect inflation to average 3.7% in 2021 and 2.2% in 2022*



Inflationary pressures expected persist through till July (0.4% MoM increases) when employment support runs out



Source: Macrobond, 14.05.21

*Sarasin & Partners, May 2021

The Fed's narrative

Six factors are temporarily pushing up inflation

1. Base effects
2. Higher energy prices
3. Supply bottlenecks
4. Fiscal stimulus (generous unemployment insurance)
5. Dis-savings / pent up demand

But...

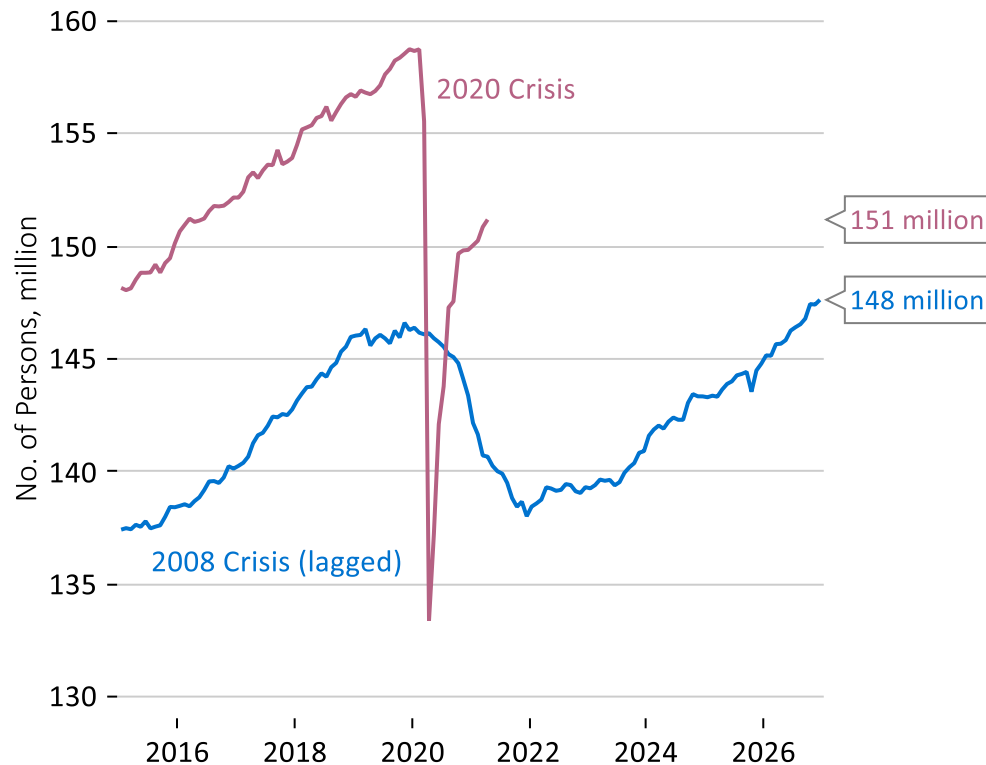
1. Shortages give producers pricing power that they will be reluctant to let go of right away.
2. Wage increases for new workers may cause firms to raise wages for existing workers in order to keep them. Consequently, there may be knock-on effects from the current wage increases.
3. The pandemic has also caused firms to restructure their supply chains, and, as a result, bottlenecks may last longer than currently anticipated as these supply chains are rebuilt.
4. There are also asymmetric price effects from cost shocks – prices go up very quickly but often tend to come down more slowly.

With 8m US jobs lost and an 'inclusive' employment goal the Federal Reserve will not change tack yet



Employment has recovered rapidly compared to 2008

United States Number of People in Employment, 16 and Over

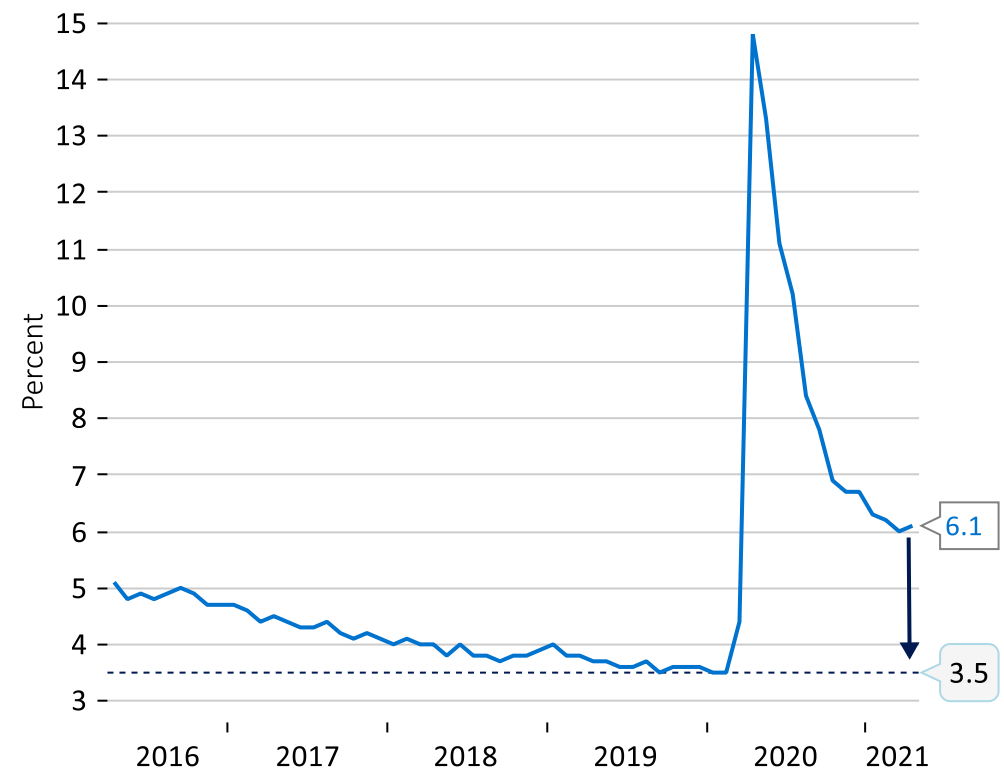


Source: Macrobond, 14.05.21



Our estimate of 'full' is an unemployment rate of 3.5%

US unemployment rate (%) & 'full' employment estimate



Source: Macrobond, 14.05.21. Estimates of full employment, Sarasin & Partners

“The maximum level of employment is a broad-based and inclusive goal that is not directly measurable”

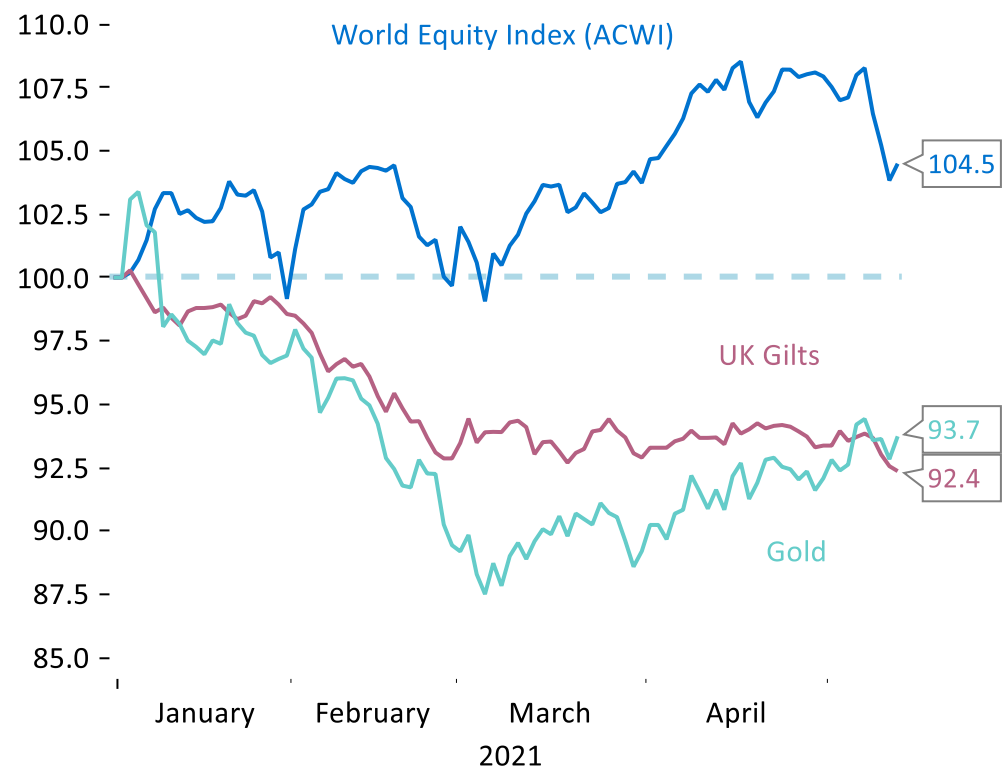
Federal Reserve 26.1.2021

Market performance 2021-to-date

Higher yields, more volatility, equity leadership changes

Equities rally – bonds and gold decline

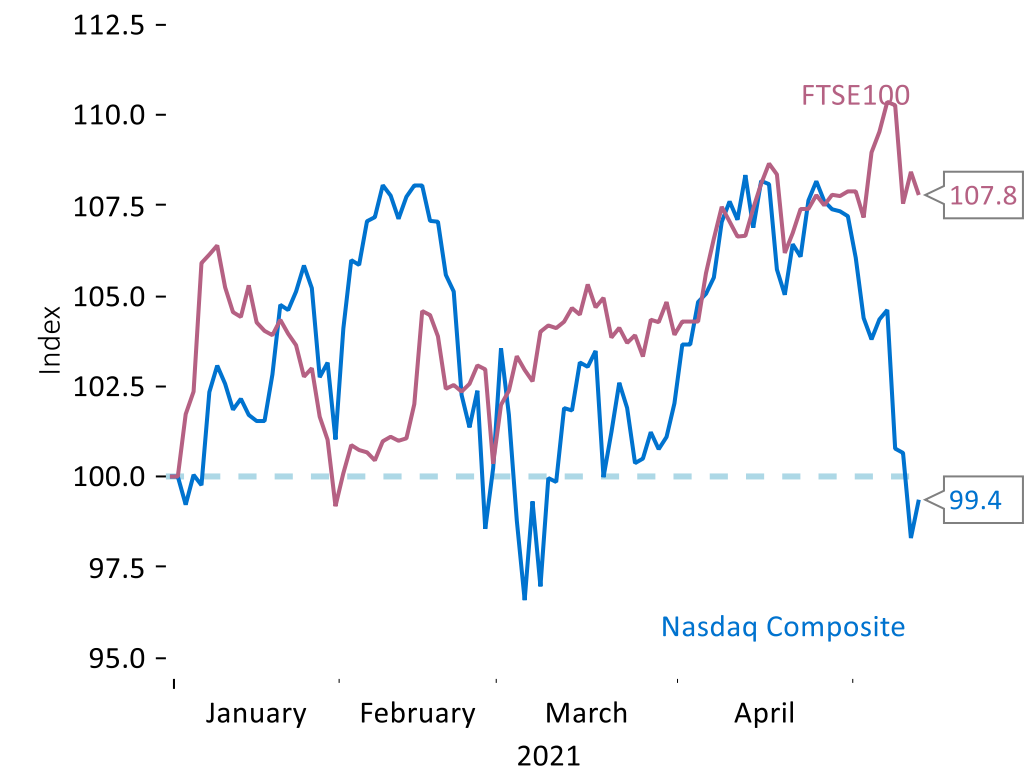
Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 14.05.21

UK, US equities – a reversal of fortunes

FTSE100 and Nasdaq performance (£)



Source: Macrobond, 14.05.21

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