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# Six Minute Strategy

# The dash for growth

June 2021

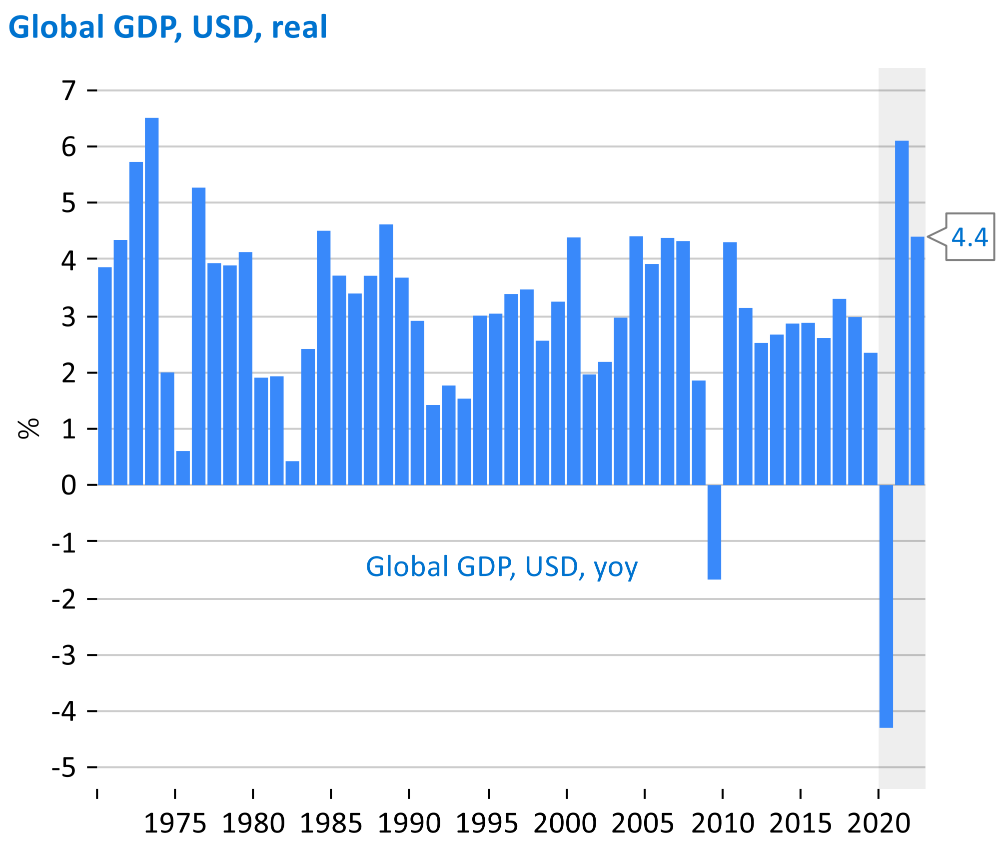
# **Global Economic outlook:** Upward revisions to global growth on the back of stronger US stimulus, vaccinations and adaptation

## GDP Growth forecasts, Annual average %

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| China | 2.3 | 9.0 (9.0) | 5.6 (5.7) |
| US | -3.5 | 6.8 (6.7) | 4.1 (4.1) |
| Eurozone | -6.7 | 4.6 (4.8) | 4.5 (4.5) |
| UK | -9.8 | 6.8 (5.6) | 5.2 (4.0) |
| Japan | - 4.7 | 2.3 (3.2) | 2.6 (3.3) |
| **World** | -4.3 | 6.1 (5.9) | 4.4 (4.3) |

Note: parenthesis are GDP forecasts at time of IPC March 2021

## Global Real GDP Growth (USD terms)



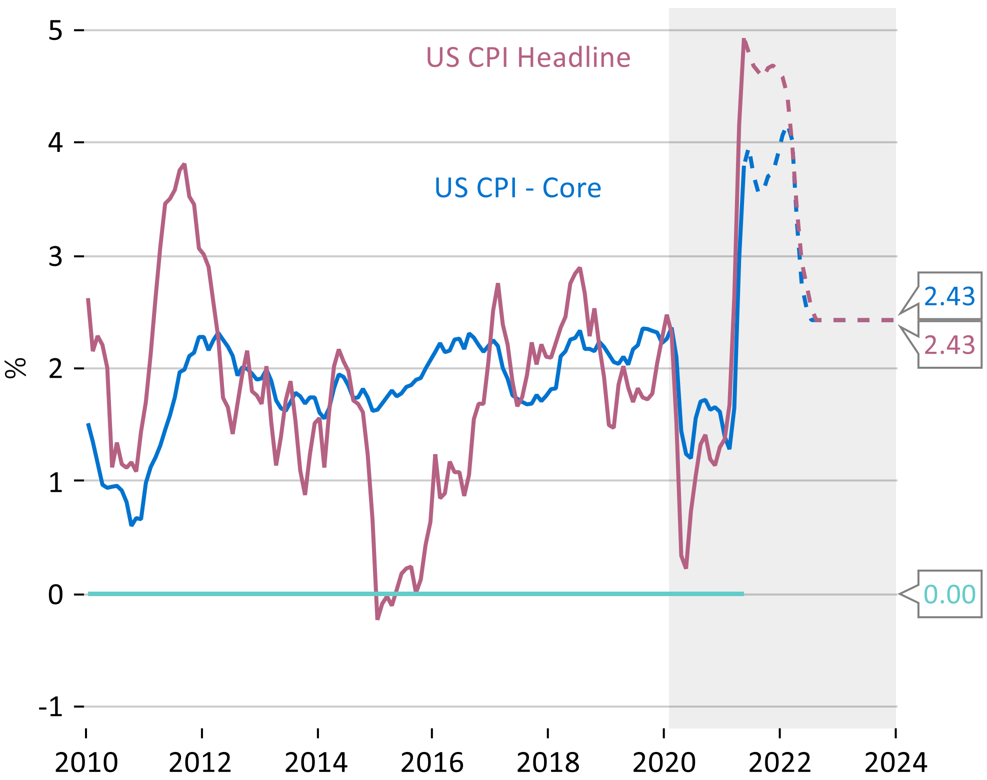

Source: Macrobond, 25.06.21

Source: Sarasin & Partners and Macrobond

# **US Inflation:** A decline from elevated levels is likely, but CPI will remain ahead of pre-crisis trend

## CPI @ 4% in 2021 and 2.4% in 2022

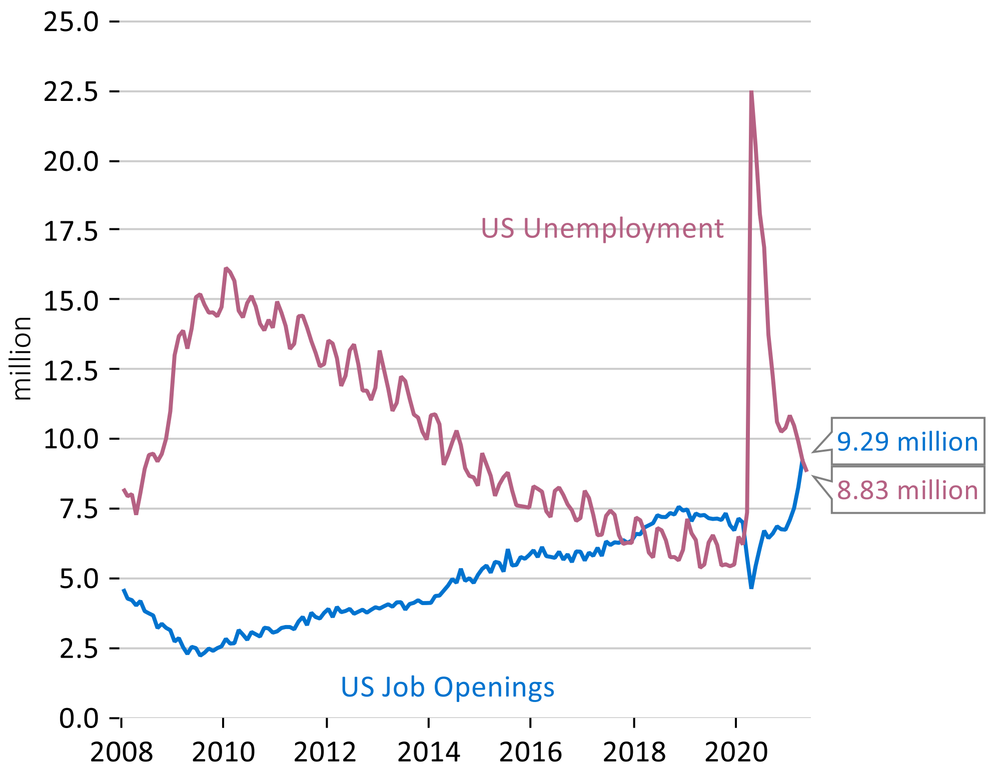
### US Core & Headline inflation




Source: Macrobond, 24.06.21

## Labour markets already tight

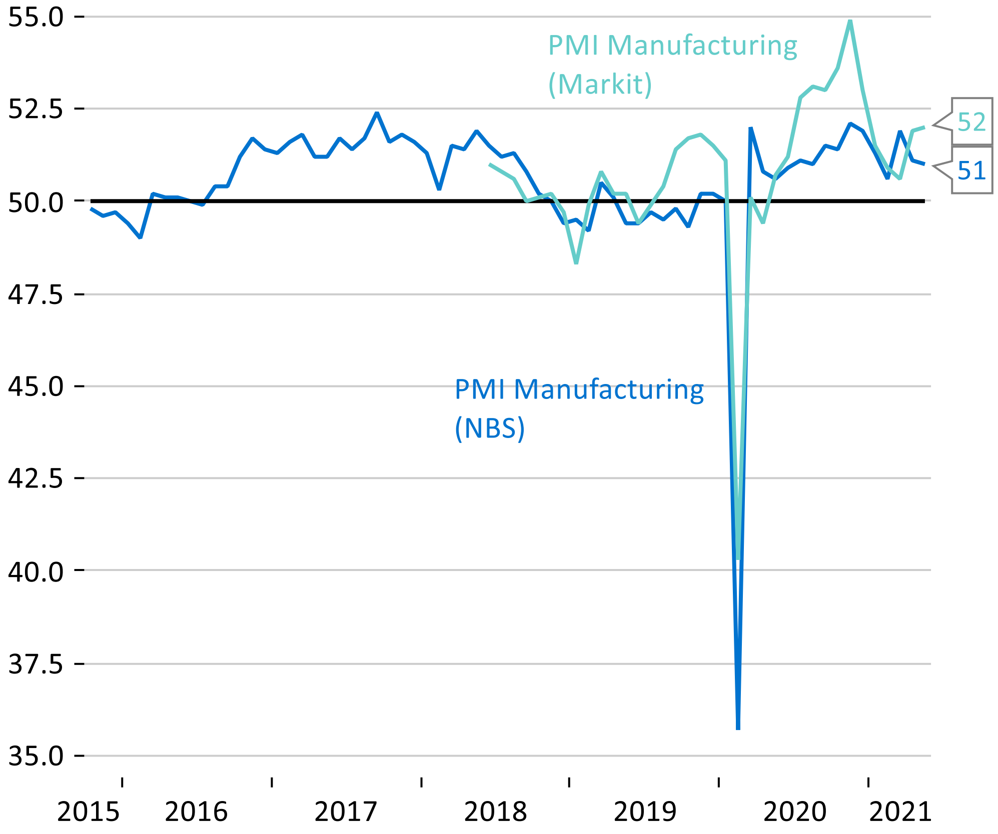
### US Unemployment & Job Openings




Source: Macrobond, 24.06.21

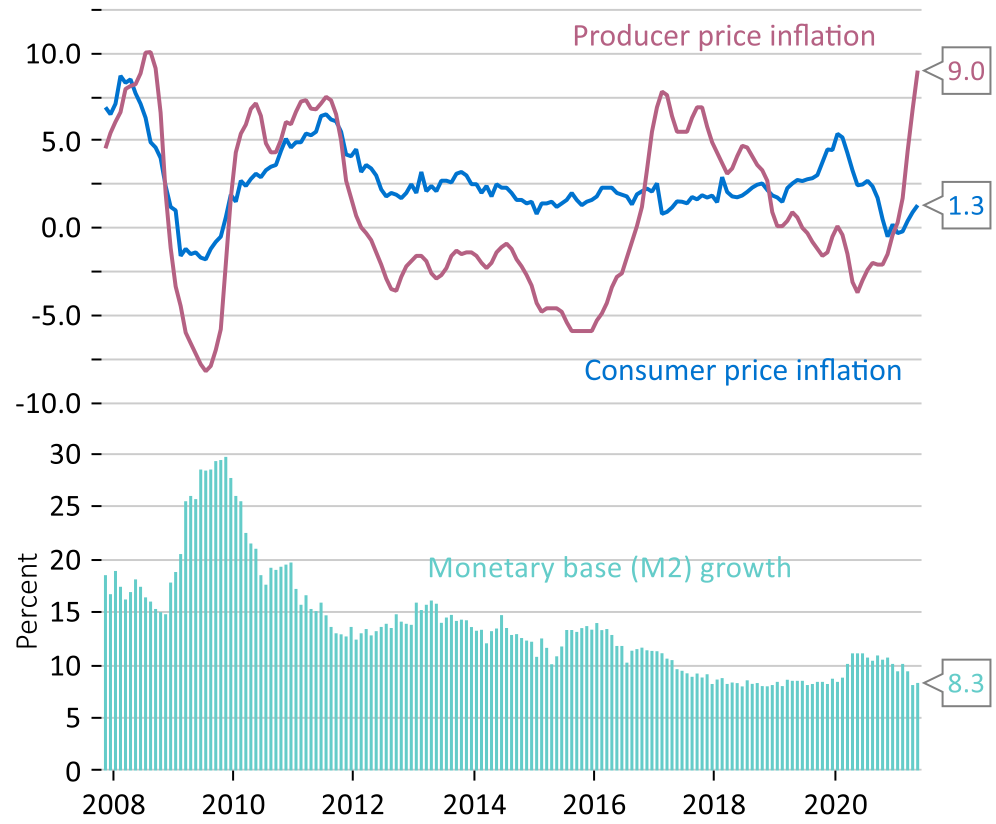
# **China:** Activity recently has moderated - margin squeeze for manufacturing continues

## PMI




Source: Macrobond, 25.06.21

## PPI likely to have peaked in May at 9%




Source: Macrobond, 25.06.21

# Global Outlook July 2021

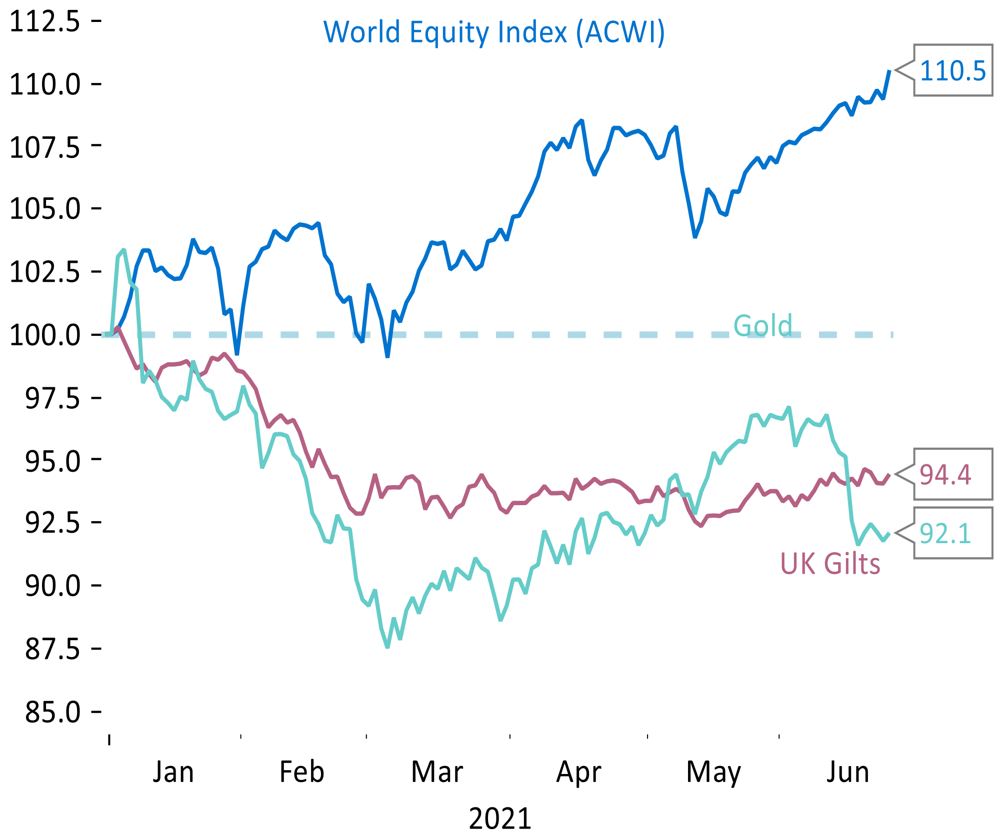
1. **Global economy** continues to accelerate: Upside risk to US. Downside risk to China. EU / UK risks are balanced.
2. **Inflationary pressures** to remain high for the next 18 months on the back of disruptions to inputs and labour supply. Beyond that, outlook depends upon whether Democrats retain control of House in Congress. Base case is for inflation to run at a moderately higher pace than the post GFC era – at about 2.3%.
3. **Monetary policy** to remain highly accommodative for the next 18 months.
   a. Fed purchases over the next 12 months to total 1.23trillion: 120bn/month till Jan after which it drops by 10bn/month.
   b. ECB purchases over the next 12 months to total 1.1trillion: 100bn/month till March 2022 after which it drops to 50/60bn per month via APP
4. **Interest rate increases** in the US will likely be at a faster clip than currently priced. Expect rate hikes to begin Q1 2023 and to reach terminal rate of 2-2.25% by Q4 2025.
5. **Global Political risks** have moderated with Biden White House
6. **Financial conditions** remain easy.

# **Equities:** Market performance 2021-to-date

## Equities lead global asset returns – value style outperforms – volatility falls

### Equities rally, bonds & gold decline

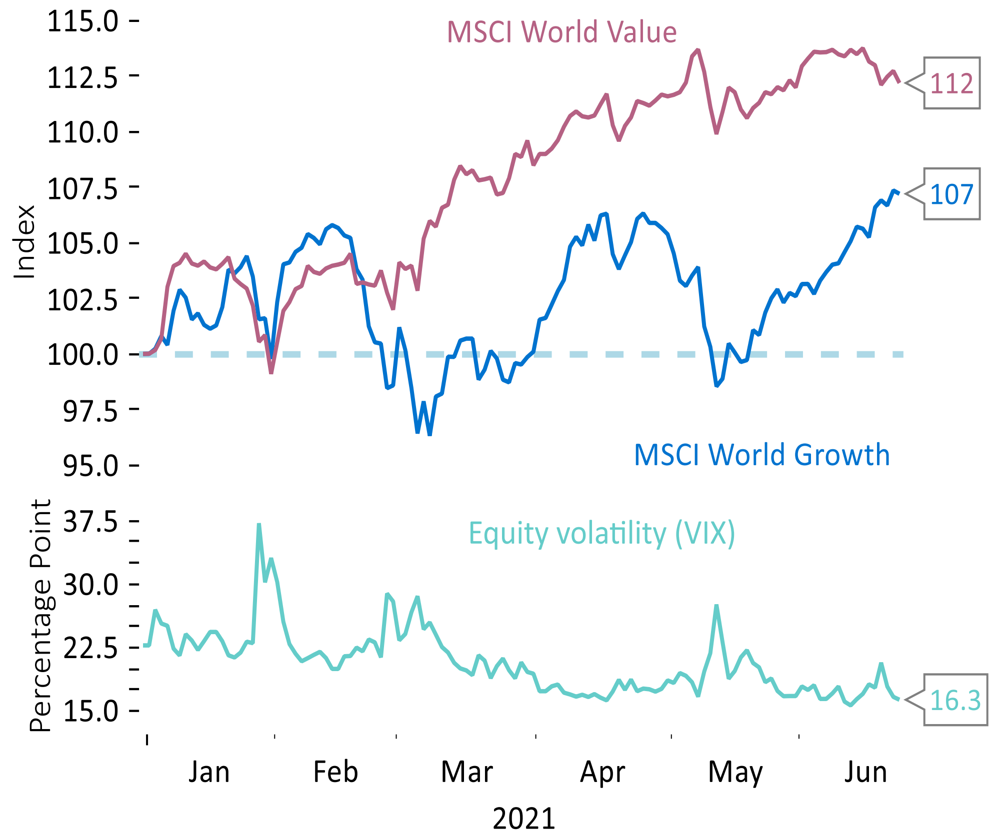
**Global Asset Class Returns 2020 (£) to date**




Source: Macrobond, 25.06.21

### Value lead widens over growth – volatility falls

**World Equity Style 2021**

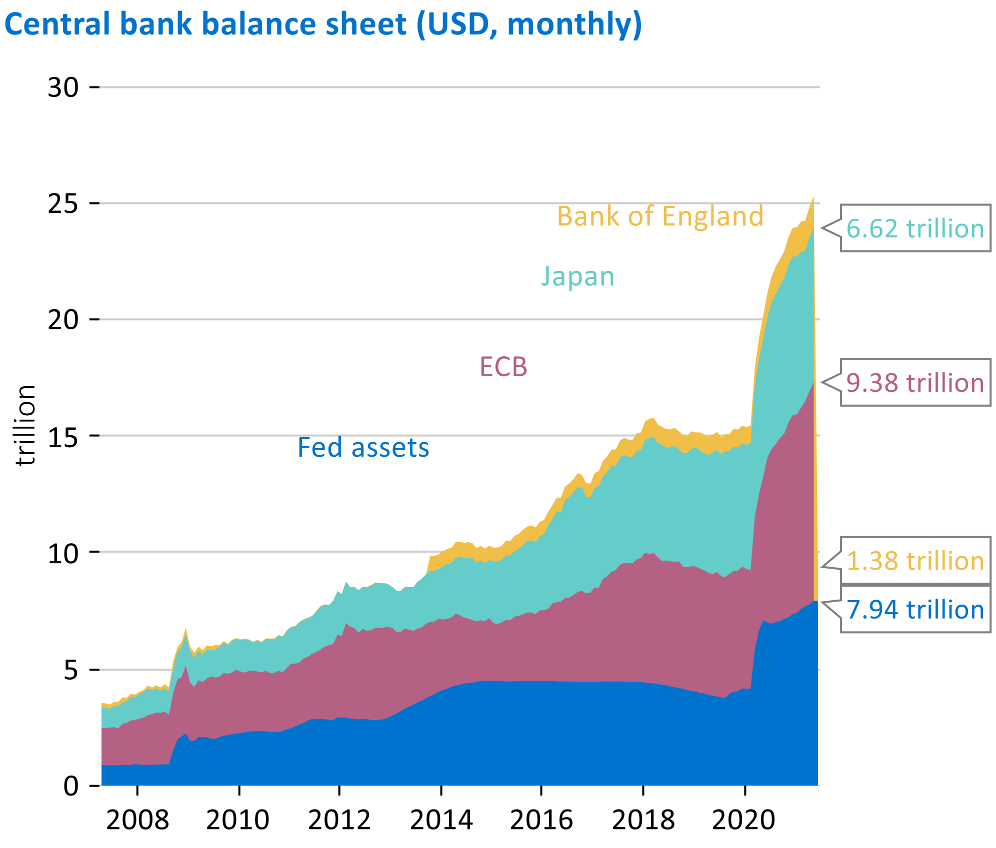



Source: Macrobond, 24.06.21

# So why do we remain positive on risks assets?

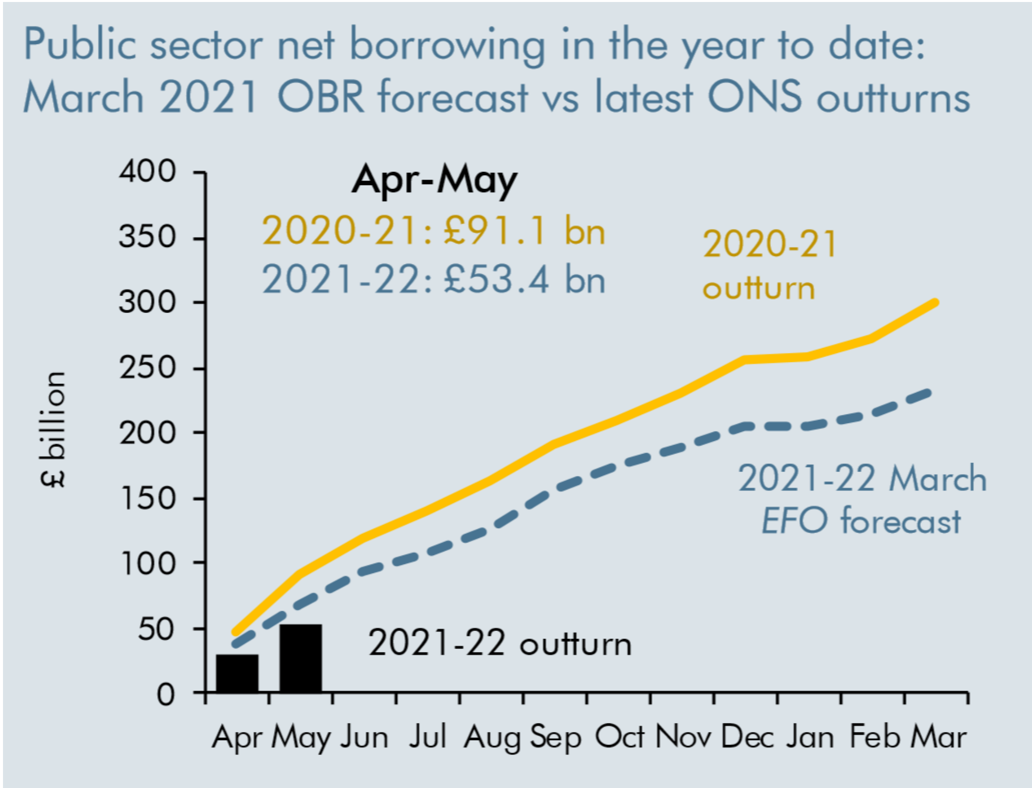
## 1. Continued central bank buying & lower debt supply…

### Fed & ECB will purchase 2 Trillion of assets in next 12 months




Source: Macrobond

### Strong global growth means lower govt. bond issuance




Source: OBR June 2021

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# 2. **Climate:** New commitments = Accelerated Capex

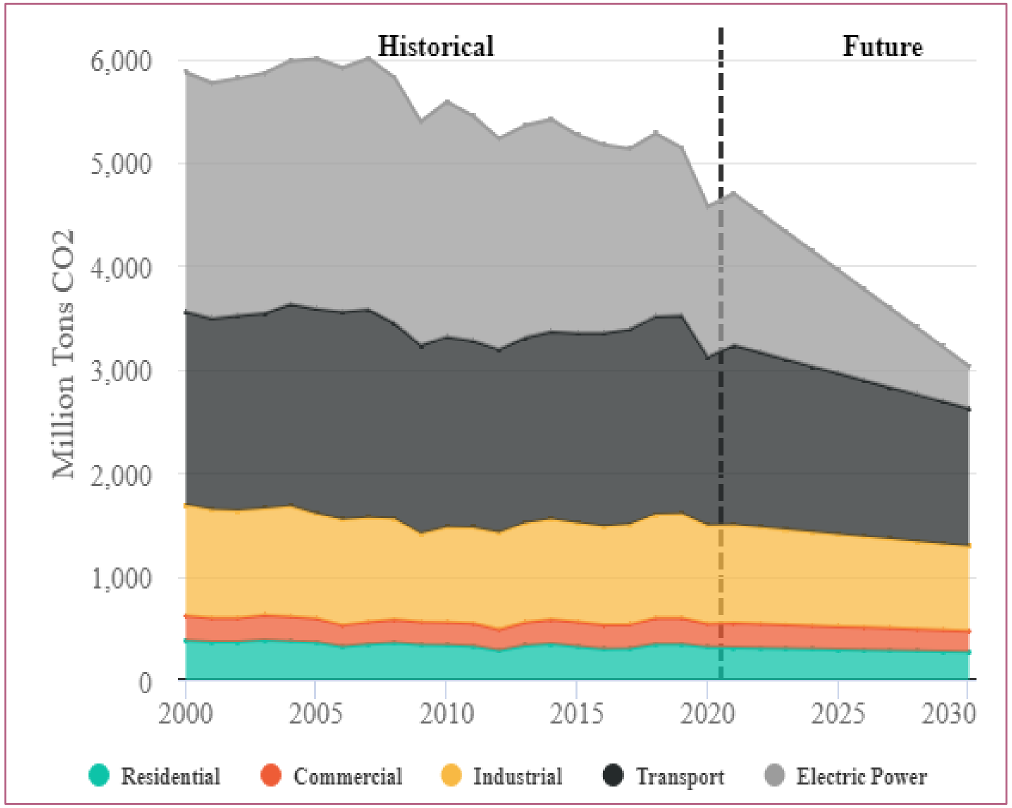
To mark 'Earth Day', 22 April, US President Biden hosted a climate summit of world leaders

Source: Wikipedia

**Key new commitments made on emissions**:

- US: 50% reductions below 2005 levels by 2030
- China: Reduce coal use 2026-30 & carbon neutrality 2060
- Japan: 46% emissions reductions by 2030
- EU: 55% reductions by 2035 below 1990 levels
- UK: 78% reductions by 2035 below 1990 levels

**US $CO_2$ Emissions – ambitious power & transport decarbonisation needed by 2030**




Source: Breakthrough Institute, 22.4.2021

# Strong economic momentum & generous financial conditions still favour risk assets

## Global strategy update July 2021

| | |
|---|---|
| **Bonds** | Strong Underweight<br>• Strong UW Government Bonds – economies running 'hot' implies upside risks for yields<br>• UW Investment Grade Credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits |
| **Equities** | Overweight<br>• OW Global – continued QE by central banks and negative real bond yields support valuations<br>• OW UK – dividend support attractive – fund flows return as Brexit deal settles<br>• OW EM – global vaccine roll out accelerates – valuation attractive |
| **Alternatives** | Overweight<br>• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain<br>• OW Uncorrelated Alternatives – gold positions as hedge against policy error |
| **Cash** | Overweight<br>• Favour cash holdings rather than risk capital loss in bonds<br>• No currency preference given similar macroeconomic policies/rates worldwide<br>• Consider portfolio insurance |
| **Risks** | Current: Unequal distribution of vaccines, disorderly bond markets, valuations stretched<br>Longer-term: Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan |

# Important information

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SARASIN
& PARTNERS

Juxon House
100 St Paul’s Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www. sarasinandpartners.com