

# Six Minute Strategy

## Big changes, big challenges

October 2021



# The broad contours of the post-pandemic landscape

Ongoing COVID-related supply issues collide with a muscular social and climate agenda

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1. Inflation will be sticky – rolling supply shocks increasingly the norm
2. A ‘growth at any cost’ fiscal agenda
3. Levelling up is here to stay
4. The climate agenda is set to take centre stage
5. Inclusive employment suggests a higher tolerance for inflation

***Against this backdrop, recalibrating policy for a steady recovery will be a difficult balancing act***

# Global economic outlook: Less synchronized global growth, with upgrade to Europe, but downgrade to China and US



GDP growth forecasts, annual average %

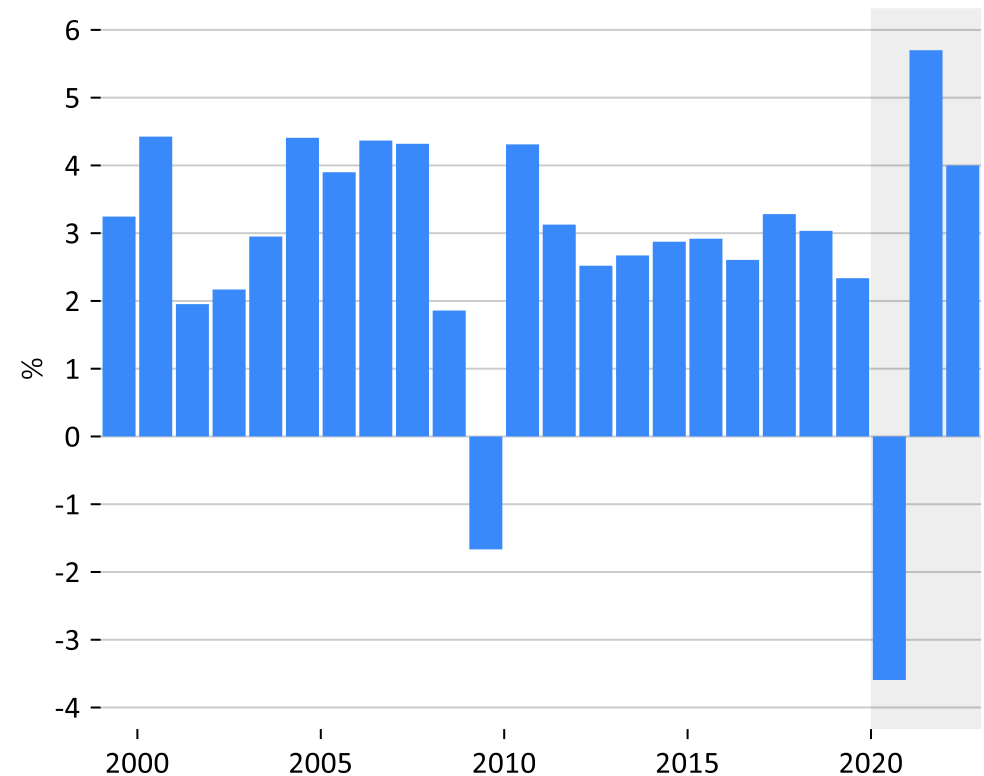
	2020	2021	2022
China	2.3	8.3	5.5
US	-3.5	5.5	3.1
Eurozone	-6.7	4.9	4.0
UK	-9.8	6.6 (6.8)	4.9 (5.2)
Japan	-4.8	2.4	2.5
<b>World</b>	<b>-3.6</b>	<b>5.7 (6.1)</b>	<b>4.0 (4.4)</b>

Note: Figures in parenthesis are respectively: GDP forecasts at time of IPC June 2021.



Global real GDP growth (USD terms)

Global GDP, USD, real



Source: Macrobond, 01.10.21

# Evergrande crisis – how vulnerable is Chinese growth?



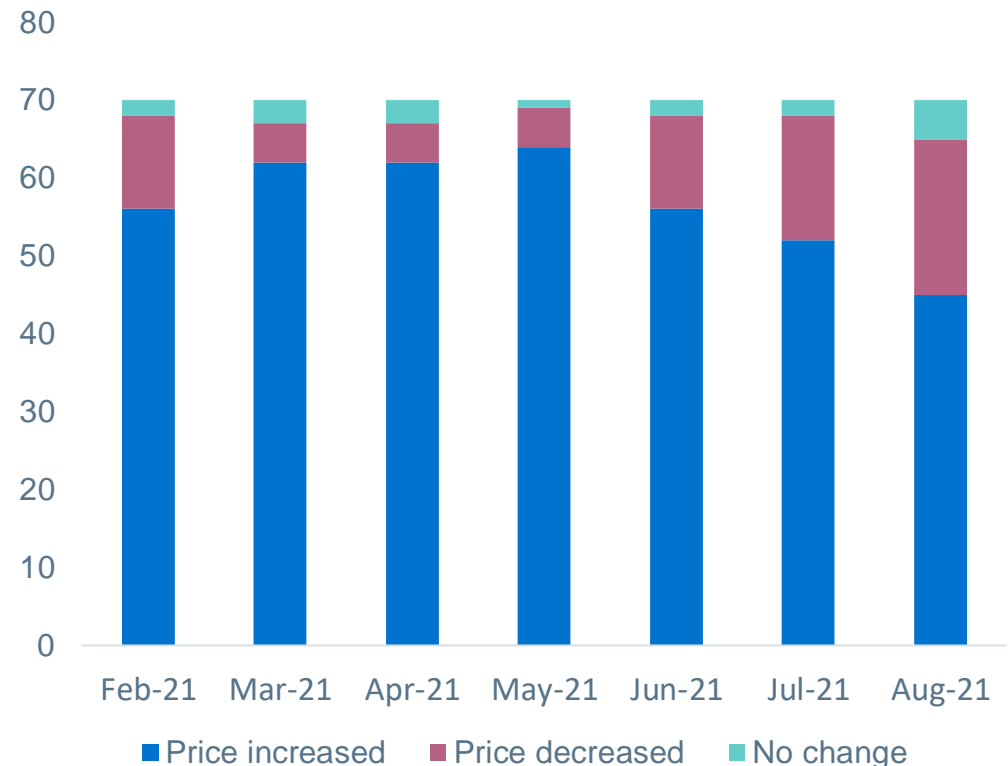
## Evergrande corporate profile

- **China's second largest developer**, 4% property sales, 123,000 employees and 3.8 million contractors
- **Liabilities** of ~\$300 billion (RMB 2 trillion) or around 6.5% of the total liability of China's property market (\$4.7 trillion)
- **Industry-wide problem** facing property developers, driven by tightening of government policy
- **Policy** large scale policy relaxation unlikely, but the PBOC cut RRR by 50bp in July and another cut is likely, plus local government support



## Increasing number of Chinese cities reporting falling prices

Property prices across 70-cities  
Monthly price change



Source: China's National Bureau of Statistics and Sarasin and Partners, September 2021

# Inflation outlook: Base effects, supply bottlenecks and capacity constraints in some sectors drive inflation higher in 2021

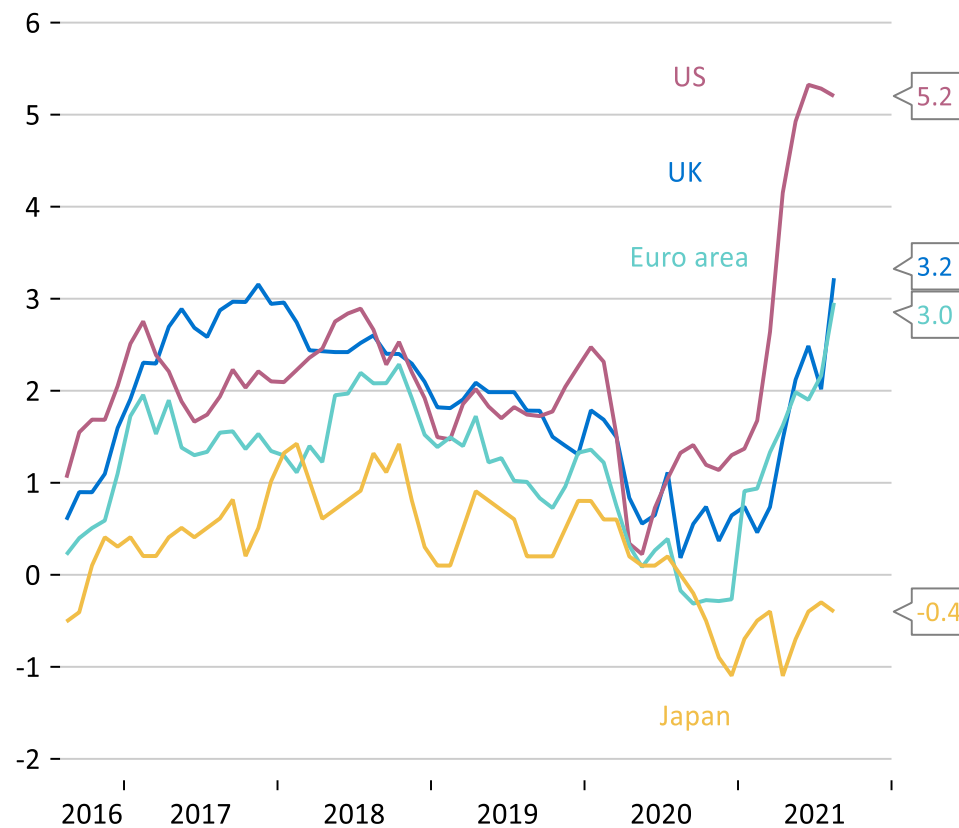


Inflation forecasts, annual average %

	2020	2021	2022
China	2.5	0.9	1.6
US	1.2	4.4	3.6
Eurozone	0.3	2.2	1.7
UK	0.9	2.1	2.9
Japan	0.0	0.0	0.4



Consumer price inflation (yoy)



Source: Macrobond, 01.10.21

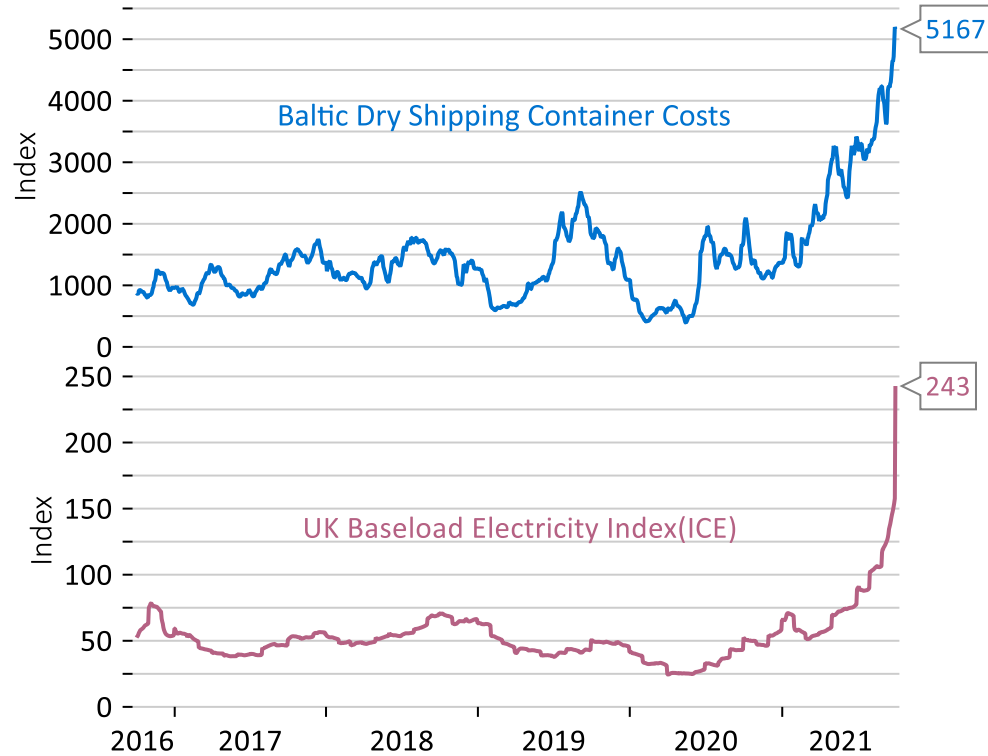
# Supply chain disruptions to weigh on growth for some time

GM has paused production at most of its US assembly plants following Toyota, Ford and others

 **Transport and energy costs surge**

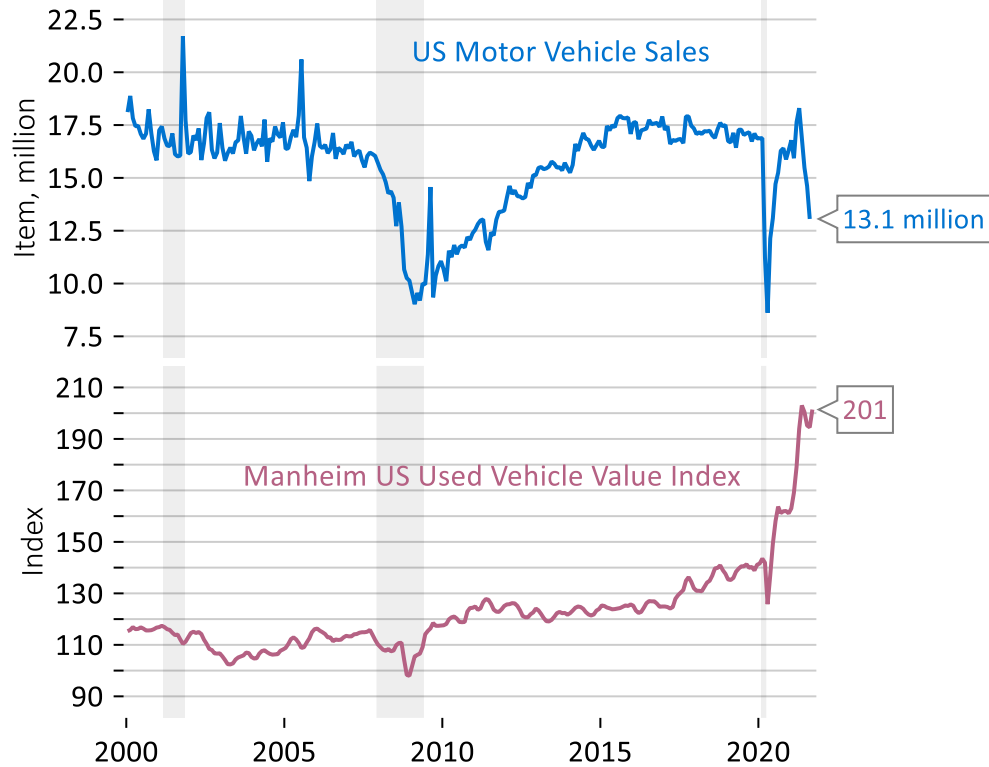
 **Global auto production shortfall estimated at 6-7m units**

**Squeeze on transport and energy costs**



Source: Macrobond, 01.10.21

**US Auto Sales and Second Hand Prices**



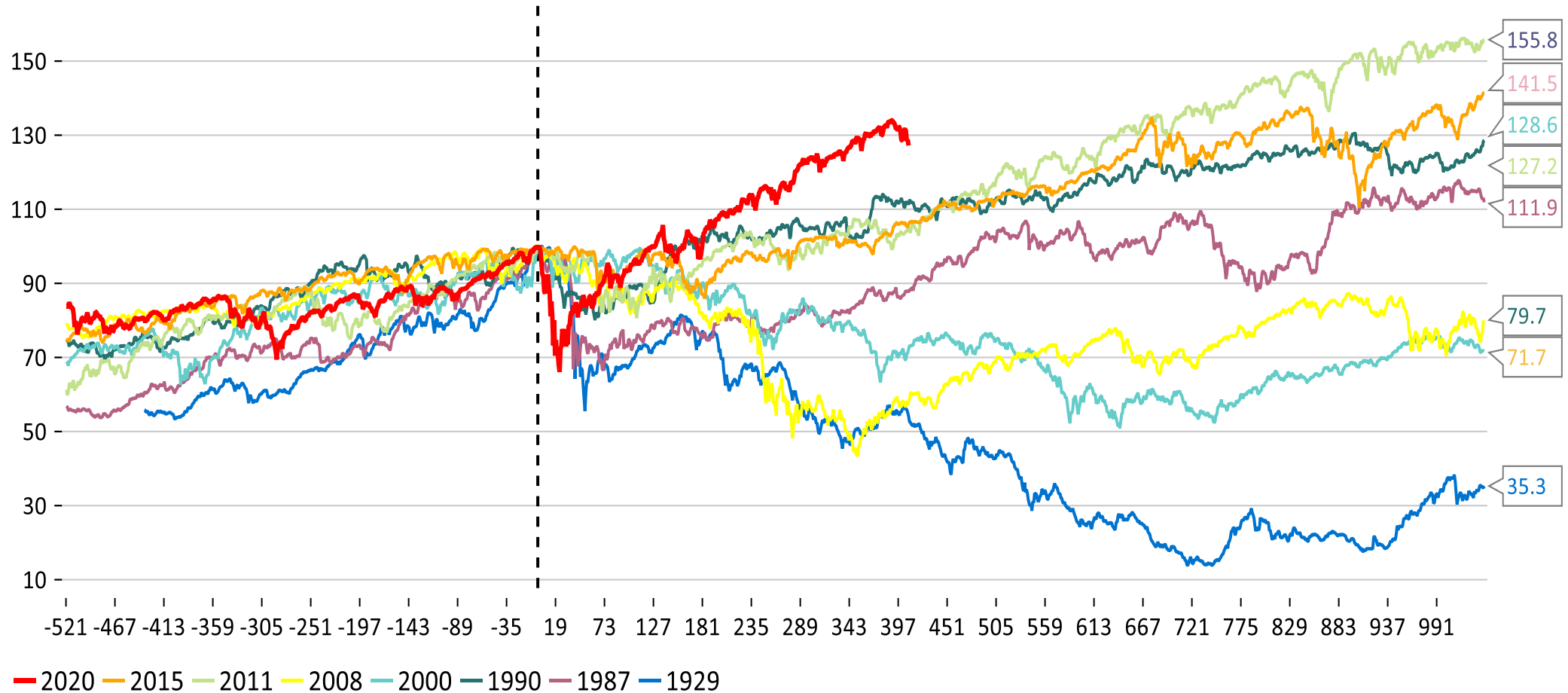
Source: Macrobond, 01.10.21

# An unprecedented market recovery

The 2020/21 rally from post-COVID lows is without historic precedent



S&P 500 corrections from peak (peak = 100)



Source: Macrobond, 2021

# Strong earnings momentum & still generous financial conditions continue to favour risk assets



Global strategy update October 2021

<b>Bonds</b>	<b>Strong underweight</b> <ul style="list-style-type: none"><li>• Strong UW government bonds – global inflationary pressures remain elevated</li><li>• UW investment grade credit – yield spreads narrow – UK charity &amp; infrastructure issues offer social impact benefits</li></ul>
<b>Equities</b>	<b>Modest Overweight</b> <ul style="list-style-type: none"><li>• OW global – earnings remain robust with central bank support will remain generous despite taper</li><li>• UK – dividend support and valuation attractive</li><li>• EM – recent underperformance offers opportunities as vaccine roll-out accelerates</li></ul>
<b>Alternatives</b>	<b>Overweight</b> <ul style="list-style-type: none"><li>• OW other alternatives – infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain</li><li>• OW uncorrelated alternatives – gold positions as hedge against policy error</li></ul>
<b>Cash</b>	<b>Overweight</b> <ul style="list-style-type: none"><li>• Risk of policy error high in US &amp; China</li><li>• No currency preference given still similar macroeconomic policies/rates worldwide</li><li>• Consider portfolio insurance</li></ul>
<b>Risks</b>	<b>Current:</b> Unequal distribution of vaccines, valuations stretched, inflationary pressures not transitory <b>Longer term:</b> Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan

# Important information

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