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Global strategy update

Are markets cheering too soon?

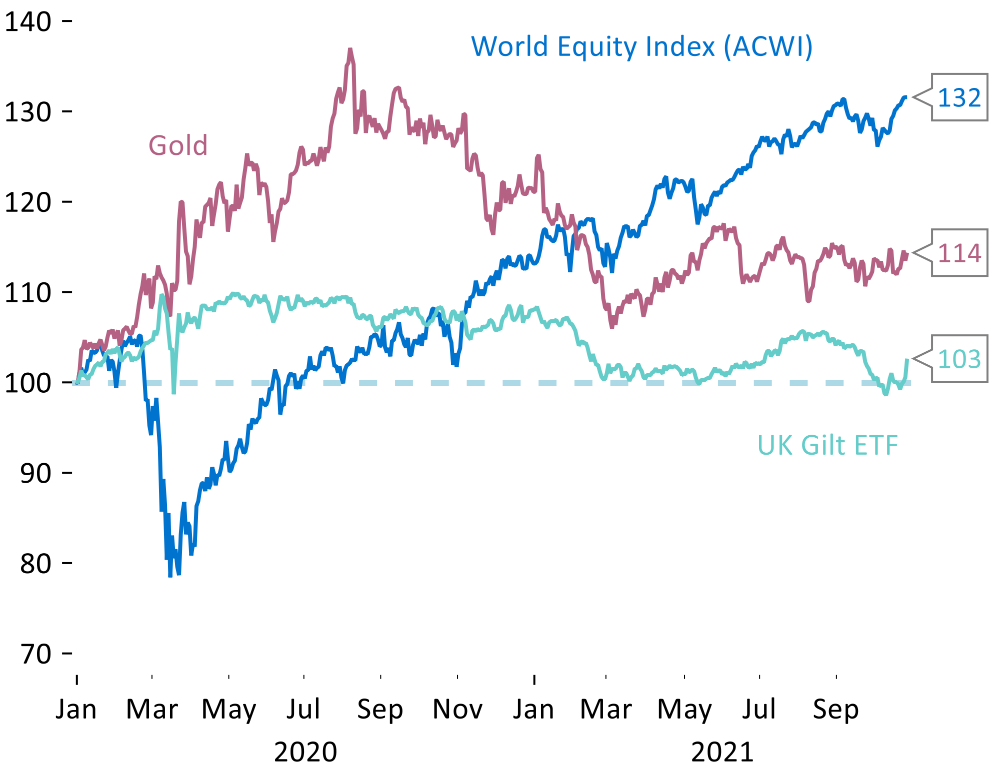
29 October 2021

Asset class performance since the start of COVID

Equities and oil lead – Growth outperforms - Volatility steadily declines

Equities rally, bonds & gold decline

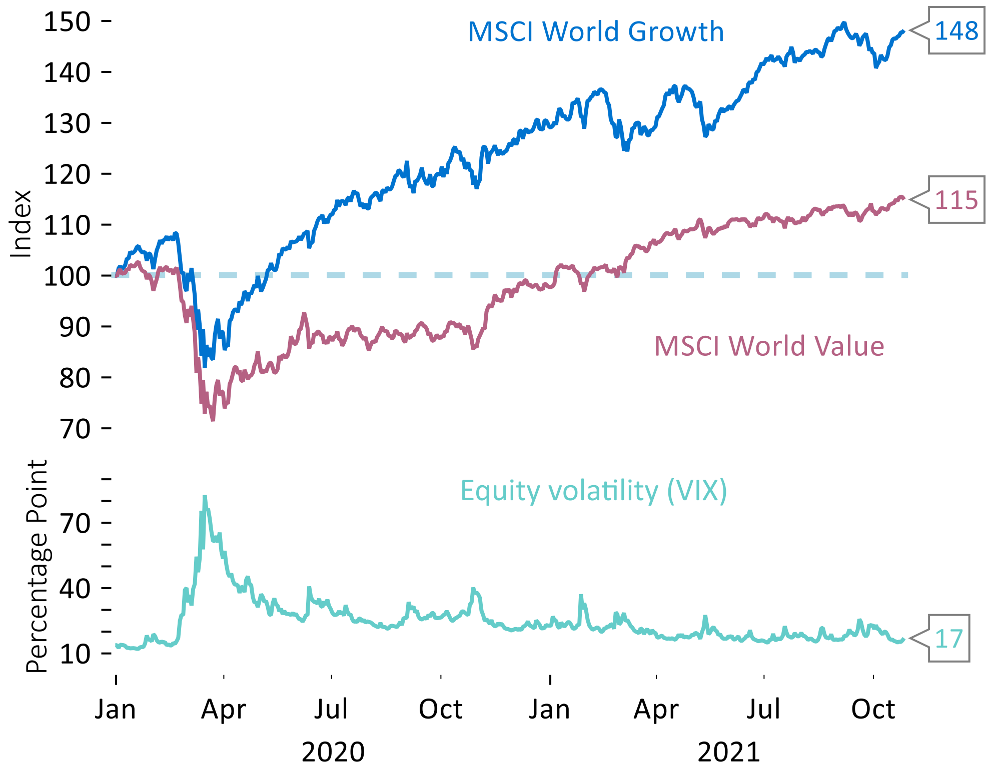
Global Asset Class Returns 2020 (GBP) to date



Source: Macrobond, 28.10.21

Growth catches up to value as volatility falls

World Equity Style 2021



Source: Macrobond, 28.10.21

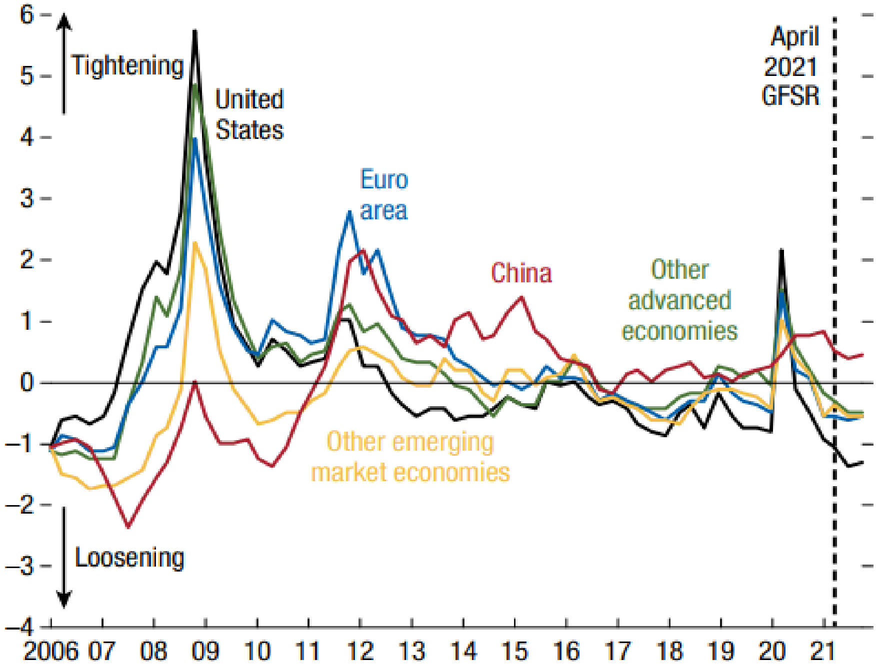
Why markets have rallied?

1. Financial conditions have been eased dramatically

Financial conditions have eased further (ex China)

Global financial conditions have eased further, on net, since the April 2021 GFSR ...

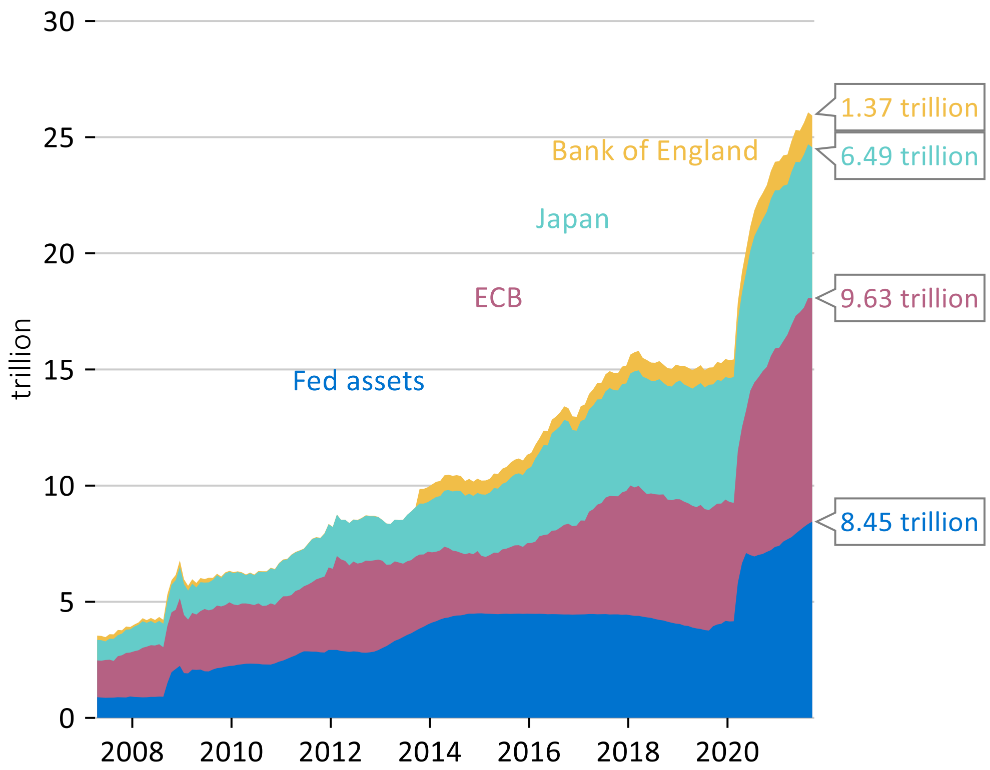
1. Global Financial Conditions Indices (Standard deviations from the mean)



Source: Bloomberg Finance, Haver Analytics, national data sources and IMF

Central Bank purchases will continue despite taper

Central bank balance sheet (USD, monthly)



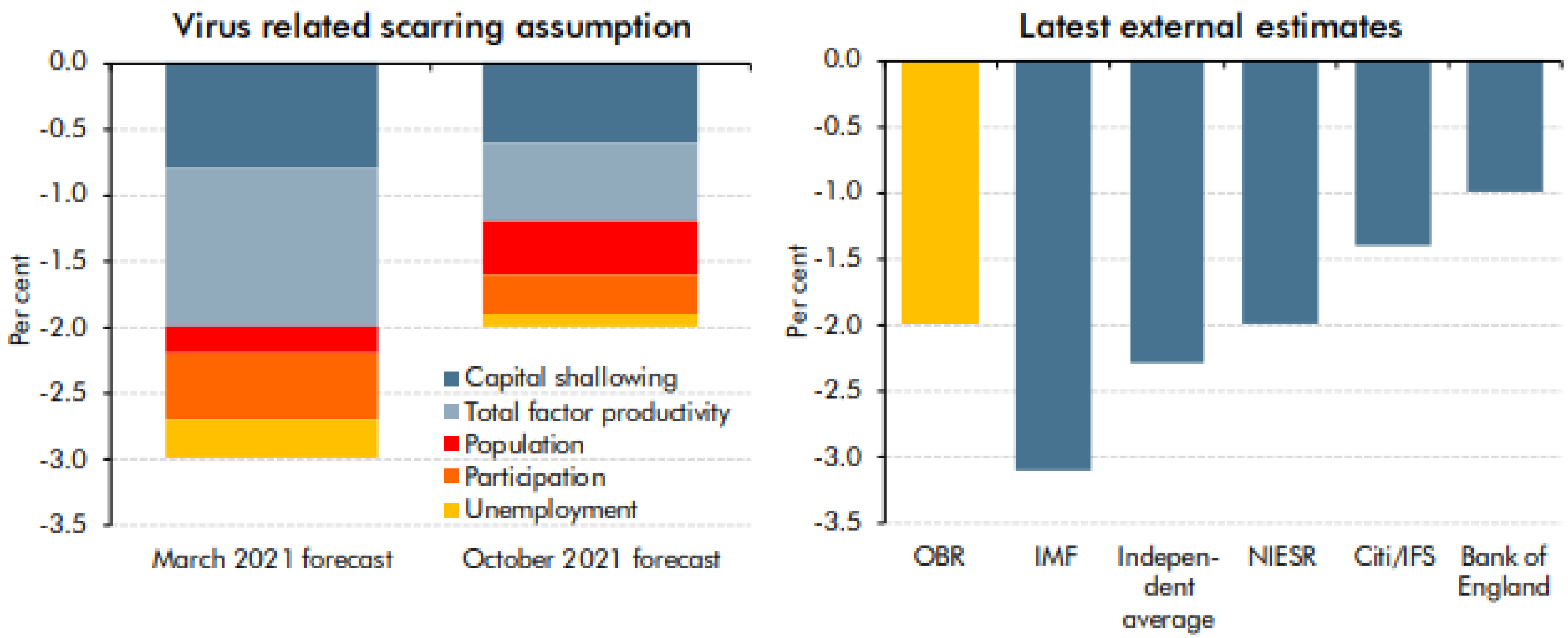
Source: Macrobond, 27.10.21

Source: Thomson Reuters and IMF October 2021

2. The long-term ‘scarring’ effect of the pandemic is likely to be less bad than feared…

Stronger investment, lower unemployment and better productivity all helped to mitigate scarring

Chart 1.4: Pandemic-related scarring assumptions



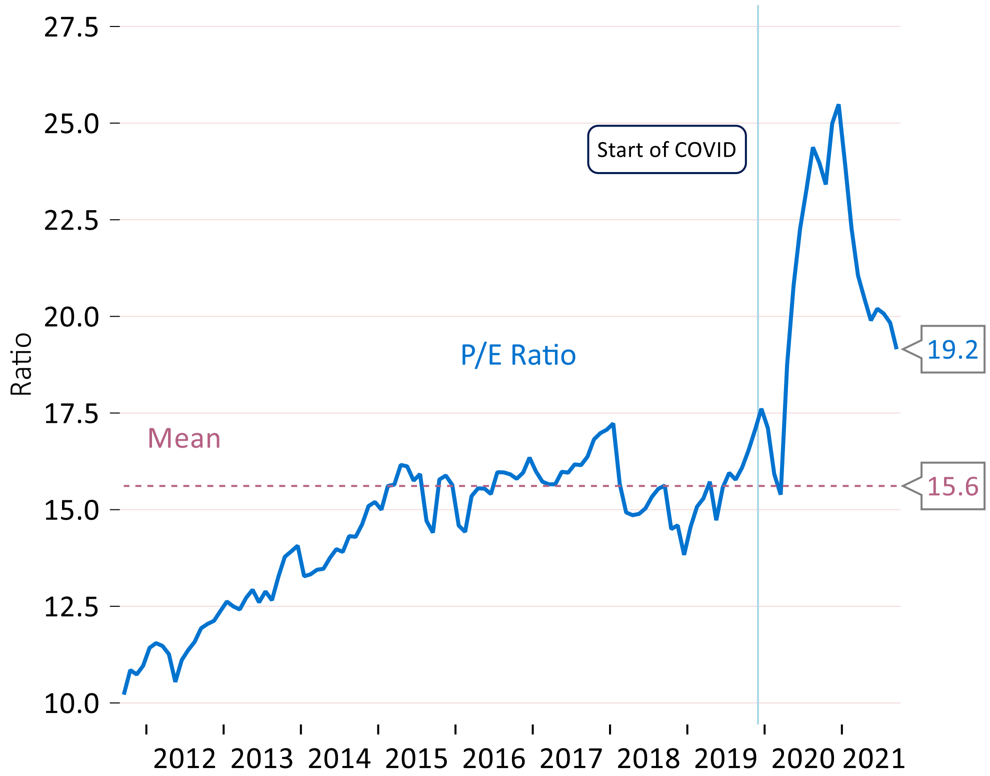
Note: IMF and Independent average are calculated as the differences between the pre-pandemic and latest projections of GDP up to 2024 in the *IMF's World Economic Outlooks* and the averages in the HM Treasury's *Forecasts for the UK economy* publications.
Source: Bank of England, HM Treasury, IFS, IMF, OBR

Source: Office of Budget Responsibility October 27 2021

Risk 1: Global equity valuations are elevated while earning revisions are turning downward

Valuations continue to climb to post tech bubble highs

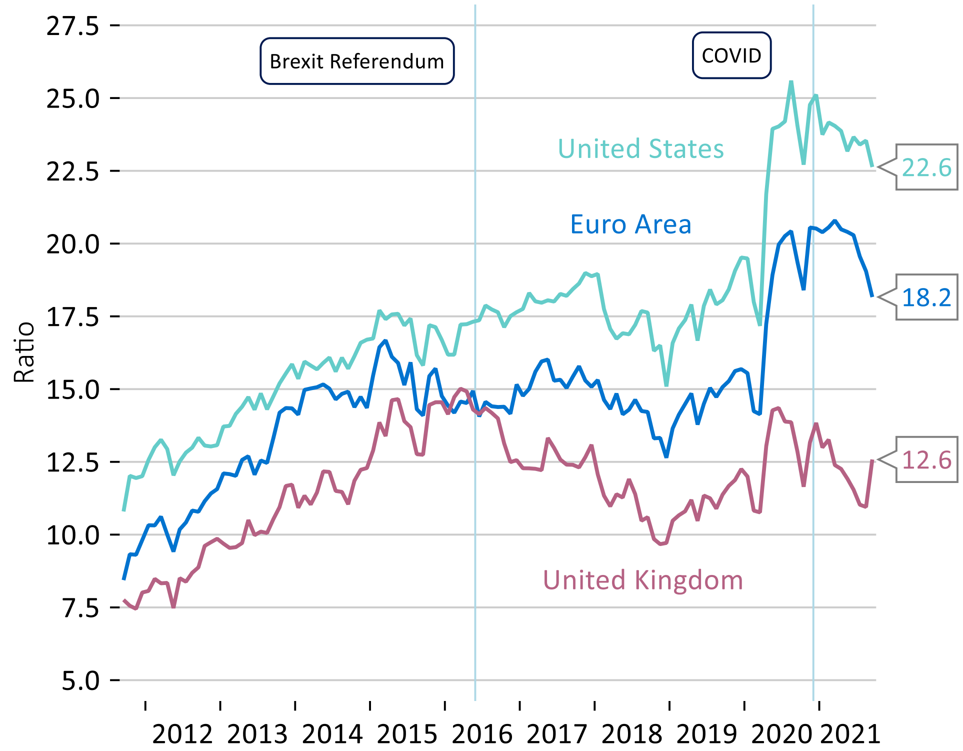
Valuation Global Large-Cap, 1 Year Forward (Factset)



Source: Macrobond, 28.10.21

Variation in valuation by country/region now extreme

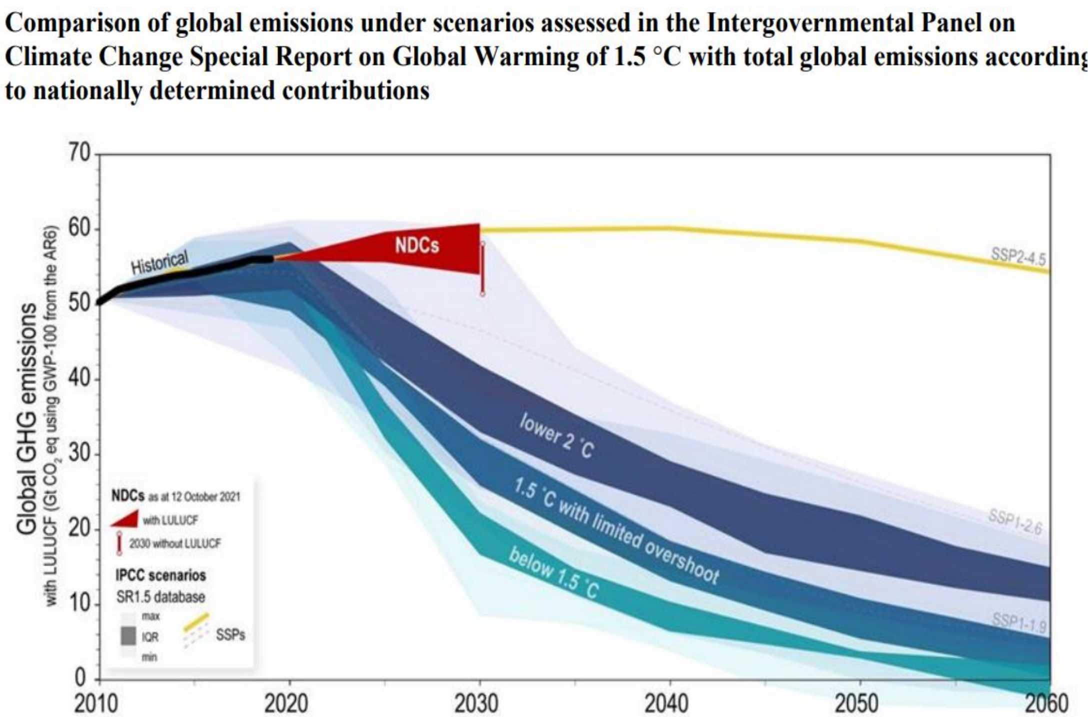
Forward PE Multiple Global Large-Cap (Factset)



Source: Macrobond, 28.10.21

Risk 2: The need for ambitious de-carbonisation targets is pushing energy prices higher

Climate: An ‘urgent need’ for more global ambition UN 10/21

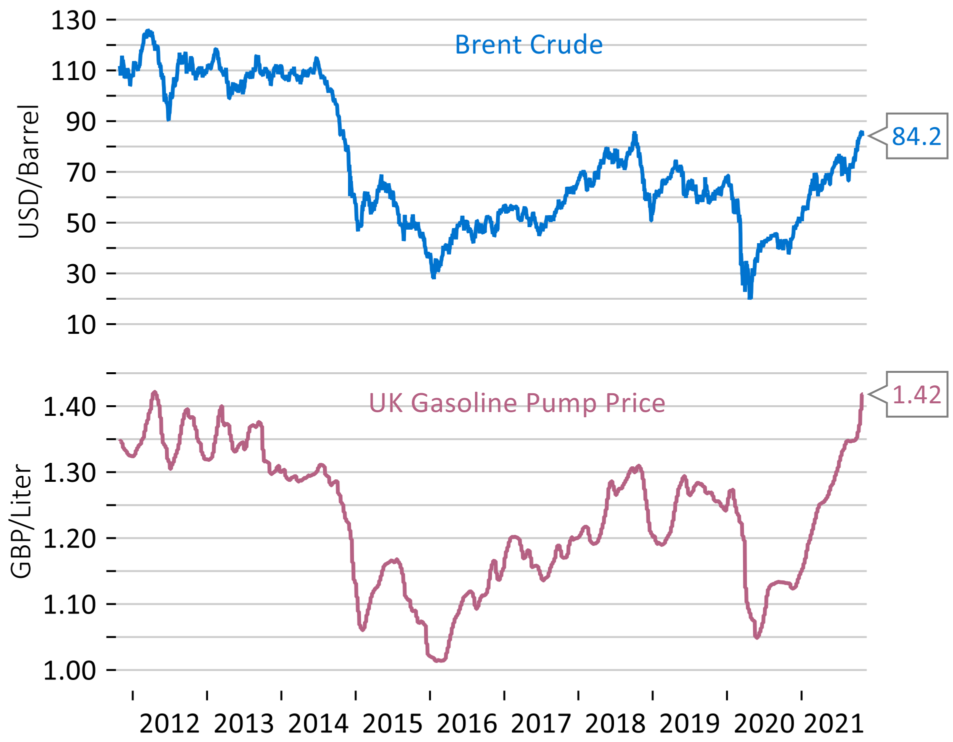


Source: UN Framework on Climate Change 12.11.2021

NDC – Nationally Determined Contribution, LULLUCF = Land Use, Land Use Change & forestry, SSP = Shared Socio-Economic Pathway

Global oil prices surge – UK pump prices near all time highs

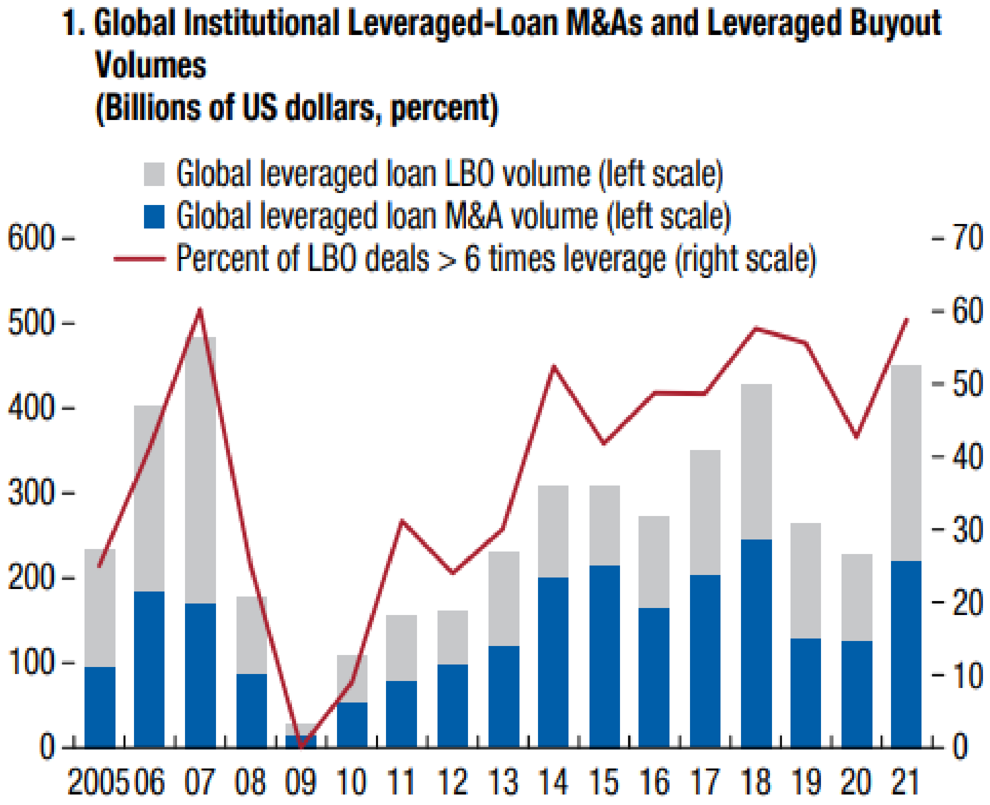
World Oil Price and UK Pump Price



Source: Macrobond, 28.10.21

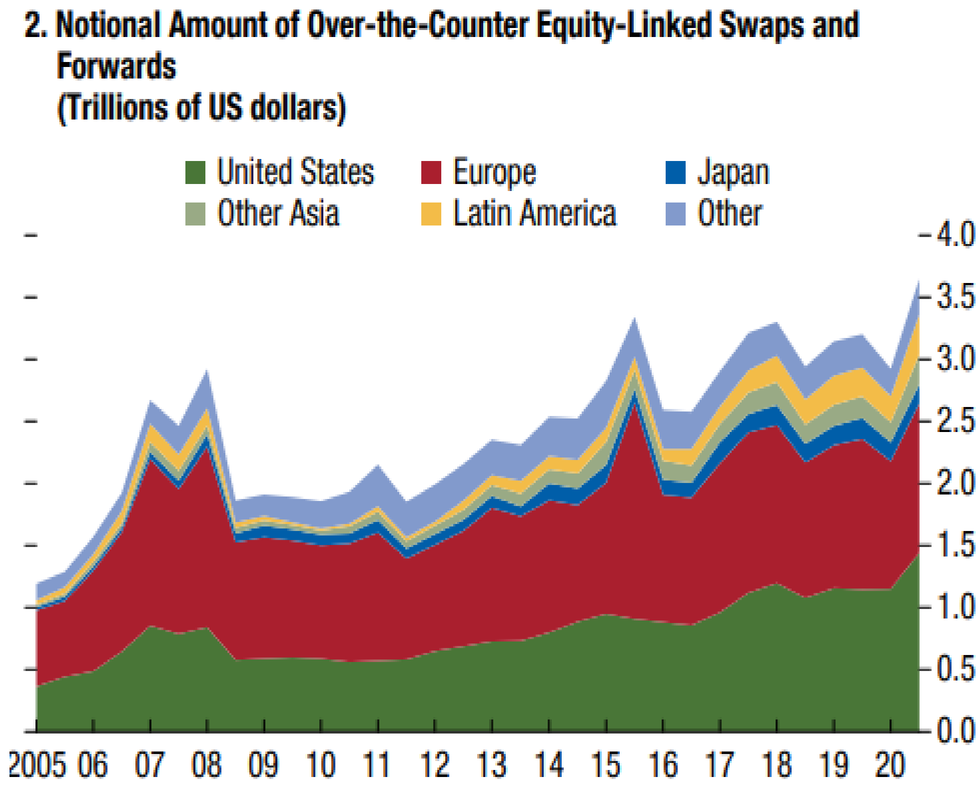
Risk 3: The IMF sees signs of financial excess emerging once again

Leveraged buy-outs back at 2007 peak levels



Source: BIS and IMF October 2021

Unlisted derivatives volumes are at new highs



Source: BIS and IMF October 2021

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

Global strategy update – October 2021

Bonds	Strong underweight • Strong underweight government bonds – global inflationary pressures remain elevated • Underweight Investment Grade Credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits
Equities	Overweight global, UK and EM • Overweight global – earnings remain robust with central bank support still generous despite taper • UK - dividend support attractive – fund flows return as Brexit deal settles • Emerging markets – recent underperformance offers opportunities as vaccine roll-out accelerates
Alternatives	Overweight • Overweight other alternatives– infrastructure and renewables beneficiaries of fiscal spend – liquidity issues remain • Overweight uncorrelated alternatives – gold positions as hedge against policy error
Cash	Overweight • Risk of policy error high in US & China • No currency preference given still similar macroeconomic policies/rates worldwide • Consider portfolio insurance
Risks	Current: Unequal distribution of vaccines, valuations stretched, inflationary pressures not transitory Longer-term: Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan

Important information

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.

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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