SARASIN MULTI-ASSET DYNAMIC FUND

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ECONOMIC AND FUND REVIEW

Major equity markets were little changed in May despite concerns about high inflation and restrictive monetary policy. The US Federal Reserve raised interest rates by half a percentage point, warning that more of the same may follow. US inflation for April eased somewhat to 8.3%, but this is still close to its highest level in 40 years. US bond yields fell to end the month lower, driving prices up. Earlier in the month, yields, which move inversely to bond prices, soared to the highest levels since 2018. Tight energy supplies continued to be a concern for investors. Oil prices rose after European leaders agreed to ban Russian imports due to the continued war in Ukraine.

In the UK, inflation also hit a 40-year high when it measured 9% in April. This prompted the government to announce its intention for implementing a windfall tax on oil and gas companies, to help mitigate the cost of living crisis. Meanwhile, China's zero-Covid strategy remained in place, even though the measures upended its economy, exacerbated concerns over global growth and constrained supply chains.

Merck contributed positively to the fund's returns as it continued its good performance. The US pharmaceutical company's cancer drug, Keytruda, remains the premium standard for treatment, attracting strong demand. The US broadband cable provider Charter Communications also boosted performance. The company's shares rebounded following a dramatic decline at the end of April. Concerns over the slowing growth of its net new broadband subscribers in the first quarter appear to have been overblown. Its most recent results showed overall adjusted-profit margins remaining stable despite an economic contraction and tougher competition.

Conversely, the large US retailer Costco detracted from performance. Concerns over consumer spending habits and the rising cost of living weighed on the share price. Costco has been an exceptional performer over the last two years, benefitting from strong American consumer spending thanks to substantial fiscal support. Amazon also became a casualty of inflation. The stock sold off after investors were surprised by the company's projection for rising expenses over the next quarter.

We reduced the fund's equity allocation in response to tightening monetary conditions and the strain on valuations. We sold out of Enel: the utilities company has expanded to such a size that maintaining growth will become more costly and difficult. We also reduced the fund's position in Broadcom. The semiconductor designer has been an excellent performer, but its valuation will likely come under pressure as US interest rates rise.

OUTLOOK

The outlook for inflation and the ongoing Russia-Ukraine conflict remain among the key concerns for investors. Raising interest rates amid a slowing economic environment – while also unwinding monetary stimulus – is leading to fears that this might induce a recession.

In addition, while China eased restrictions in Shanghai and Beijing, the government doubled down on testing stations even though Covid-19 cases are falling in most large cities. This reinforced our view that China will persist with their restrictive zero-Covid policy if cases are discovered. For global manufacturers, these are yet more reasons to shorten supply chains, bolster domestic production and sacrifice margins in return for the security of supply.

The long-term effects of Russian sanctions and rising oil prices due to the war in Ukraine will only be known in the months ahead. In the short term, we expect market volatility to remain heightened.

The invasion of Ukraine has come at a difficult time for the global economy. The crisis could depress growth, sustain uncertainty, and damage consumer and business confidence. The conflict has caused food prices to surge, while consumers have been hit with record-high energy costs.

As events are changing with remarkable speed, we continue to monitor risks to the outlook. We remain focused on high-quality assets that are well-positioned to withstand the implications of geopolitical events.

Other challenges also require close monitoring. Rising inequality must be tackled, while the climate crisis is an unprecedented threat to humanity. Corporations and investors have a role to play in both instances, seeking to support innovation and development through effective capital allocation.

Despite the challenges, we remain focused on the opportunities inevitably provided during times of great upheaval. Ultimately, central banks' reaction function to inflation and economic data will be the defining factor for asset markets over the next 12 months.

IMPORTANT INFORMATION

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