

SARASIN  
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# Six Minute Strategy Are we going back to the Seventies?

March 2022



# Britain in the Seventies

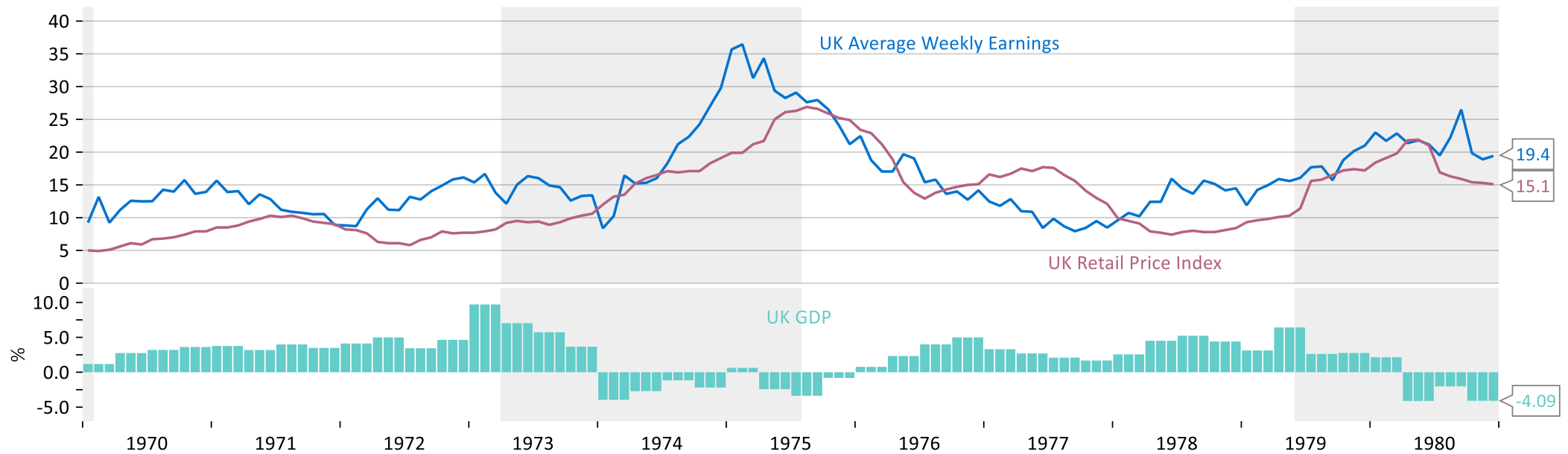


We are once again facing an energy shock, surging inflation and higher wages



Two recessions, wage surge and prices soar - stagflation

The Seventies (shaded areas mark UK recessions)



Source: Macrobond, 17.03.22

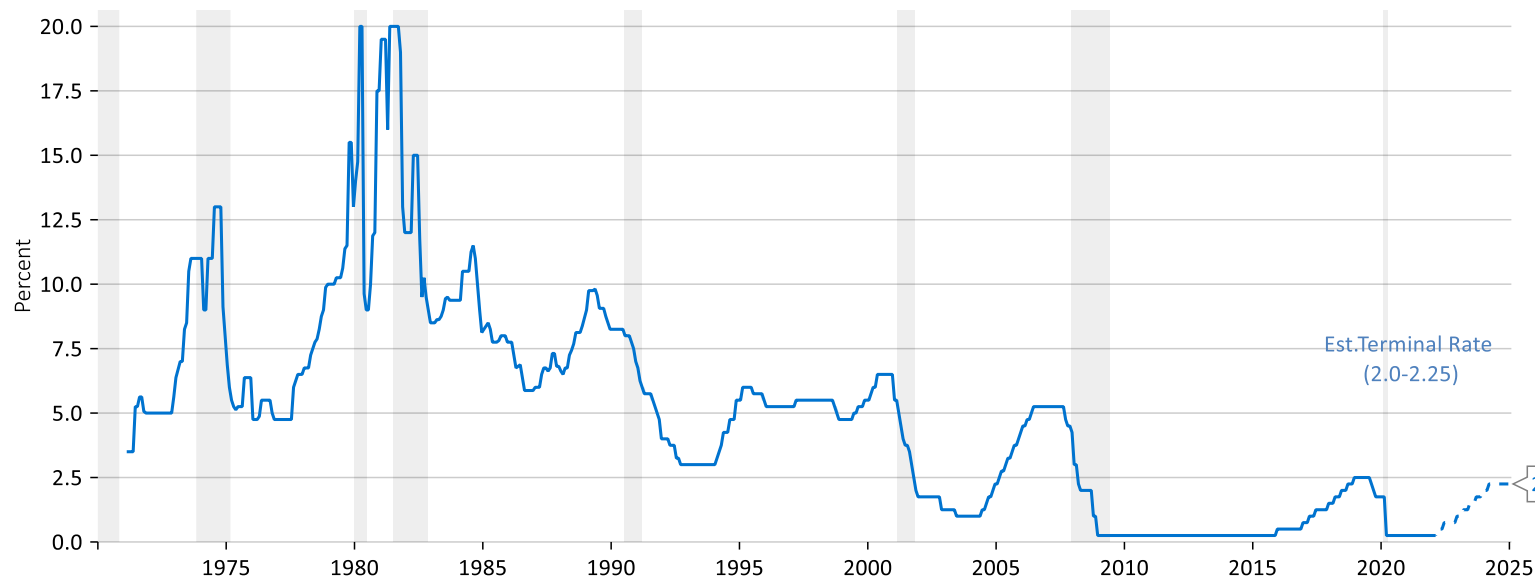
# So will it be different in the 2020's?

## 1. The terminal level for US rates is likely far lower than in previous cycles



Sharp increases in rates have typically triggered recessions

US Interest Rates 1970 to date and US recessions (Shaded)



Source: Macrobond, 16.03.22

### Central bank forecasts 2022

- **Global Interest rates**  
7 rate rises US, 3 UK ,  
None Euro
- **QE:** To fall significantly  
from \$2.9tr in 2021, to  
\$470bn in 2022 &  
*negative \$ 1.1 trillion*  
(QT) in 2023
- **QT:** BOE begins Q2  
2022, Fed Q3 and ECB  
stops bond purchases Q3

## 2. Oil price shock in the 1970's was of a different magnitude

Not the same level of energy impact on the real economy

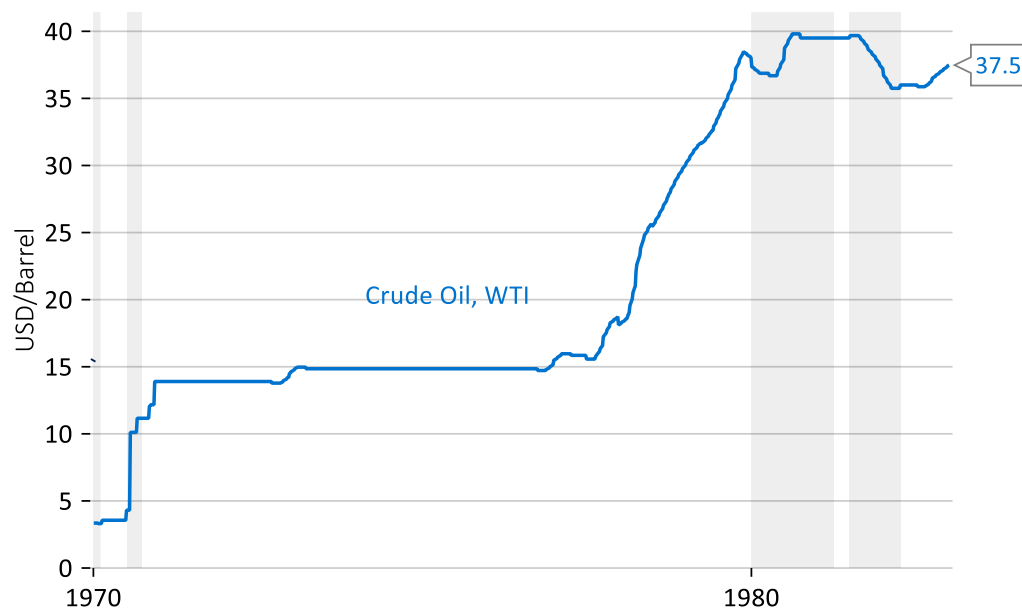


Oil prices rose almost 10 fold in the 1970's



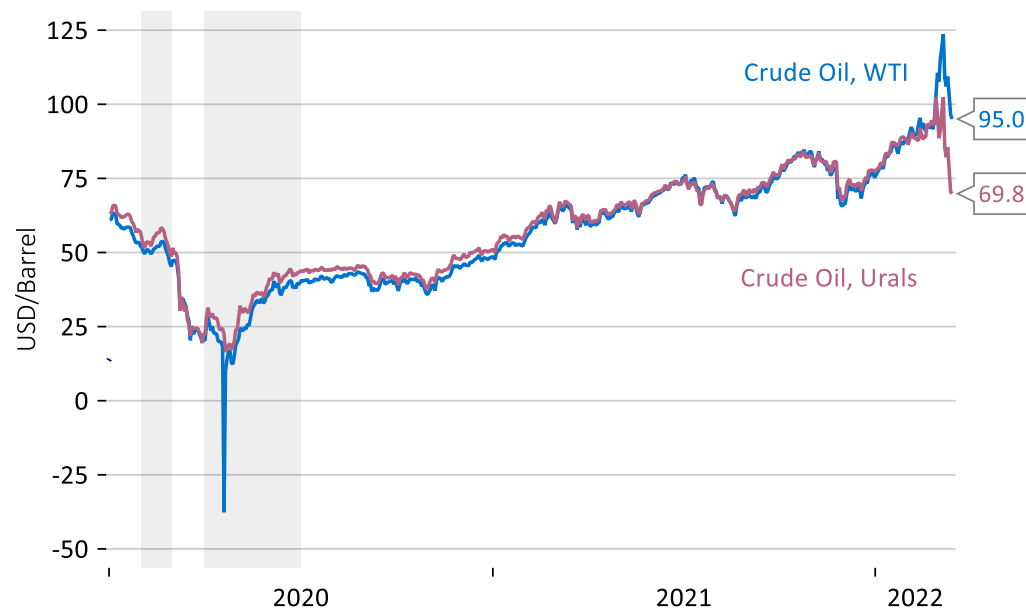
Oil prices today c.50% higher than pre-COVID

Crude Oil price and US Recessions (shaded)



Source: Macrobond, 17.03.22

Crude Oil price and US Recessions (shaded)



Source: Macrobond, 17.03.22

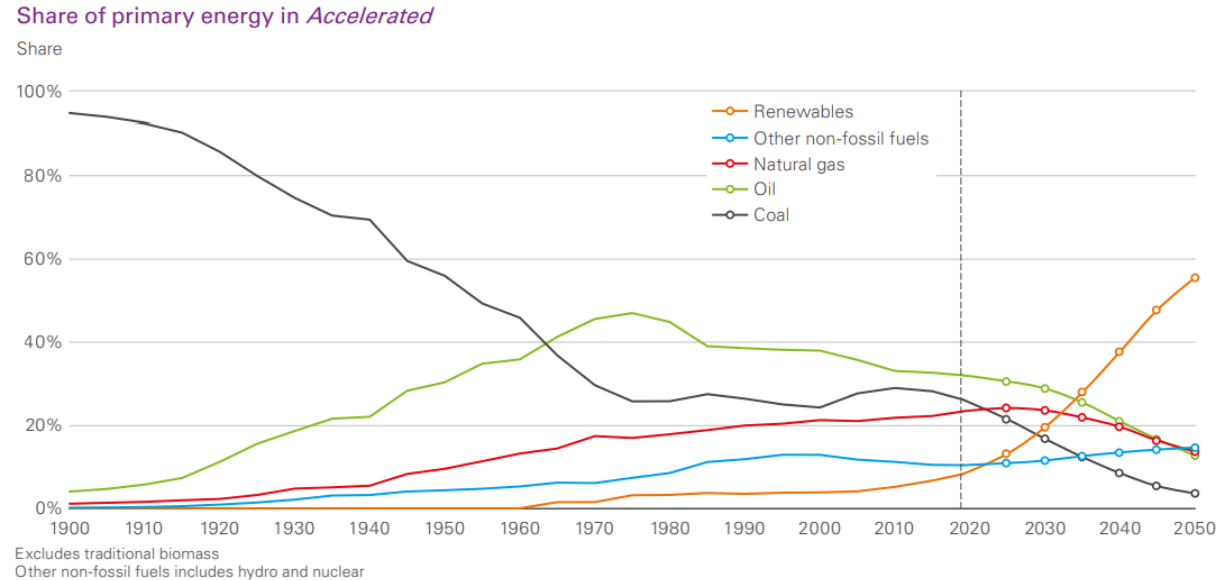
# 3. The nature of global energy markets has changed

Renewables use surges while energy intensity continues to fall

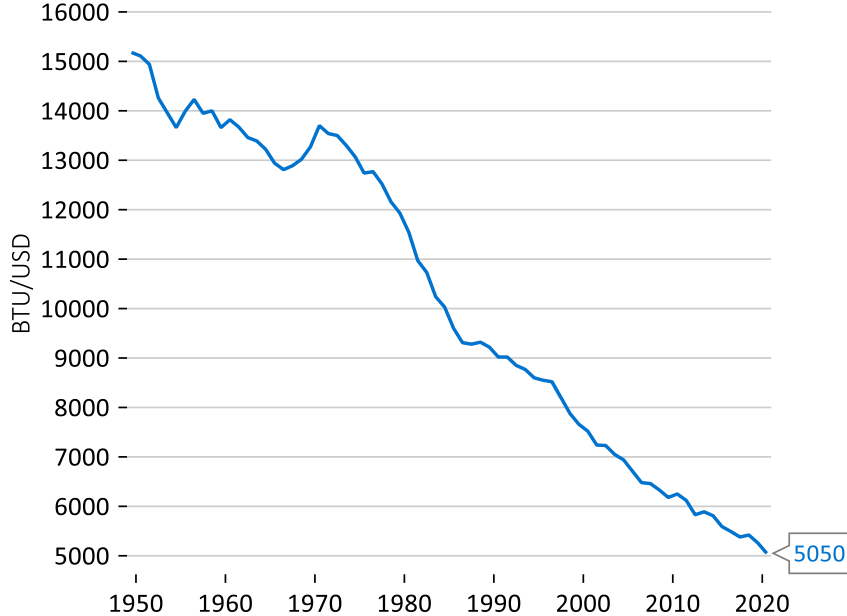


**The dominance of oil in primary energy set to fall sharply while energy efficiency continues to climb**

Changing nature of global energy markets: more diverse energy mix, increased competition and greater customer choice



**US Energy Intensity**  
Total Energy Consumption per Real Dollar of GDP



Source: Macrobond, 17.03.22

Source US Energy Information Administration 2019 & BP Energy Outlook 2022

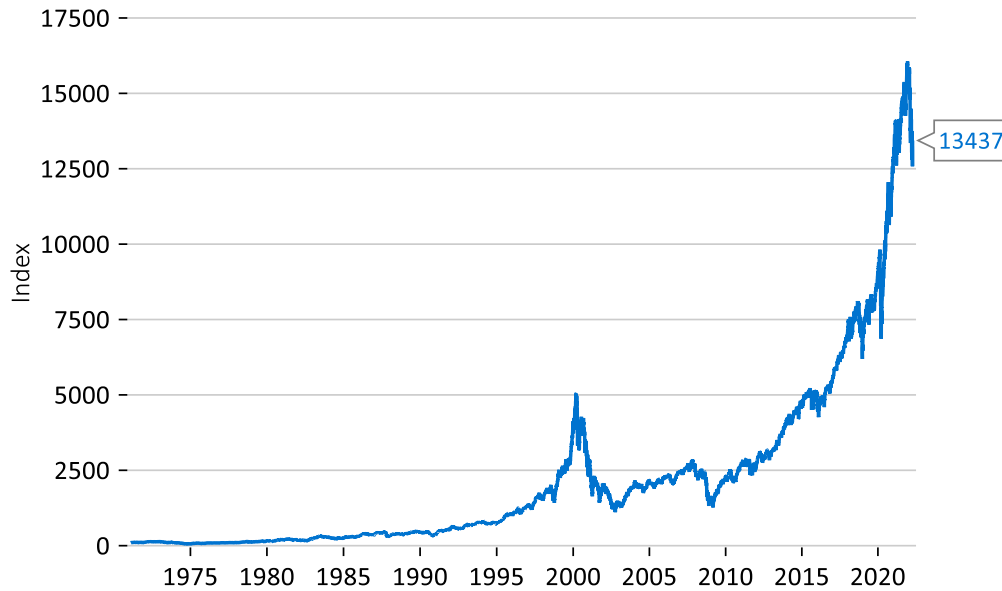
# 4. The growth of global technology & Chinese manufacturing

The impact of technology and flexible Chinese manufacturing will mitigate inflation pressure



## The growth of technology

United States Nasdaq, Composite Index

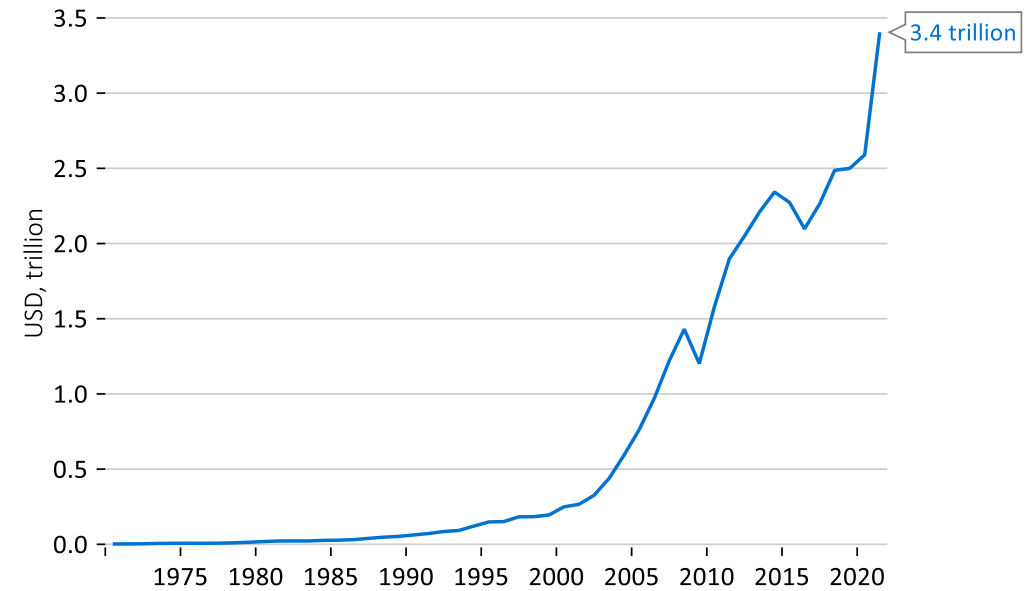


Source: Macrobond, 17.03.22



## Chinese exports limit pricing power across the world economy

China, Foreign Trade, Total Export Value, USD



Source: Macrobond, 17.03.22

# 5. Where is the greatest inflation risk - most likely in labour markets where there are elements of the 1970's

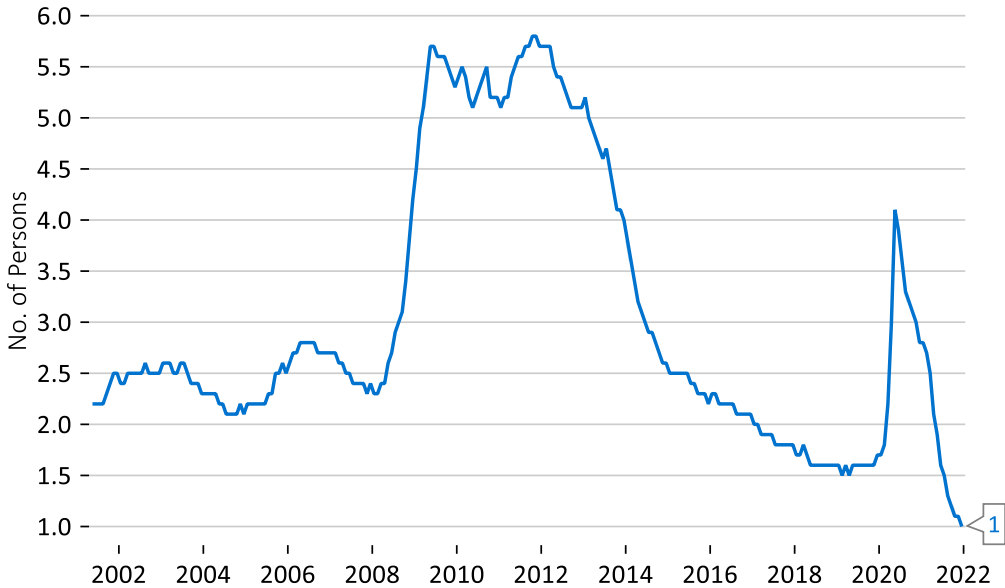


Weekly average earnings are climbing as unemployment falls



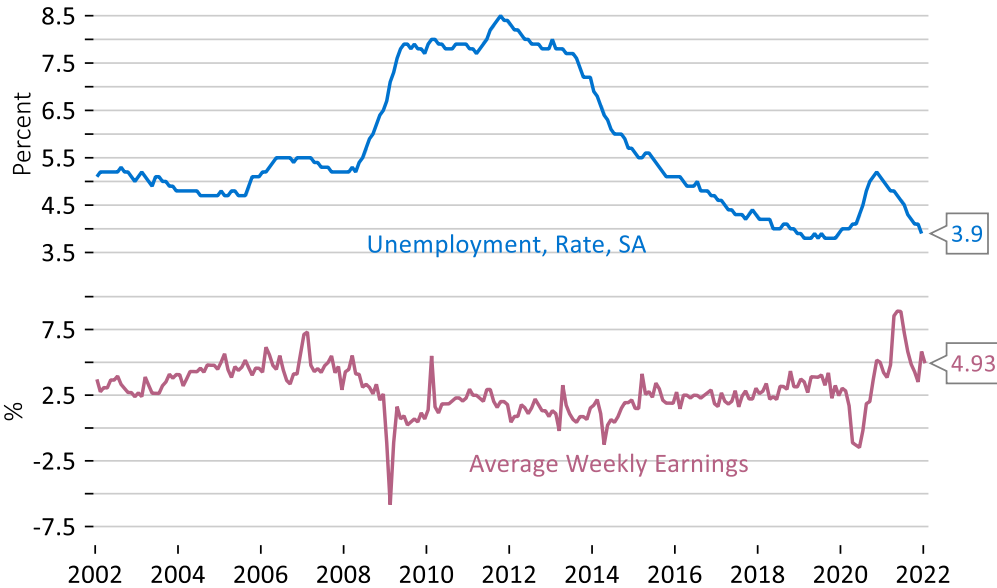
Just one person chasing every vacancy – a record

UK Number of Unemployed People Per Vacancy



Source: Macrobond, 17.03.22

UK Unemployment and Earnings



Source: Macrobond, 17.03.22

It's tightness in the labour market that concerns me most"

Andrew Bailey BOE Nov 2021

Source: BOE Monetary Policy Report Nov 2021

# Outlook: Early stages of energy price shock – global economy remains resilient – echoes of the 1970’s in wage pressure



## Global strategy update – March 2022

<b>Bonds</b>	<p><b>Strong underweight</b></p> <ul style="list-style-type: none"> <li>• Strong UW Government Bonds – global inflationary pressures remain elevated</li> <li>• UW Investment Grade Credit – yield spreads too narrow – UK charity &amp; infrastructure issues offer social impact benefits</li> </ul>
<b>Equities</b>	<p><b>Neutral</b></p> <ul style="list-style-type: none"> <li>• Global Neutral – earnings remain robust but central bank liquidity support fading</li> <li>• UK Neutral - dividend support and valuation attractive – M&amp;A likely</li> <li>• EM Neutral - policy tightening and virus risks still acute – political risk on the rise</li> </ul>
<b>Alternatives</b>	<p><b>Strong Overweight</b></p> <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 central bank policy error and political risk</li> </ul>
<b>Cash</b>	<p><b>Strong Overweight</b></p> <ul style="list-style-type: none"> <li>• No currency preference</li> <li>• Consider portfolio insurance</li> </ul>
<b>Risks</b>	<p><b>Current:</b> Valuations stretched, bond market risk as policy tightens, inflation higher for longer on energy shock</p> <p><b>Longer-term:</b> Tight labour markets, China/Taiwan, real bond yields normalise, climate transition risks</p> <p><b>Ukraine:</b> Russia ceases European gas exports, NATO dragged into border war, further nuclear warnings</p>

Source: Sarasin & Partners, March 2022



# Important information

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