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Six minute strategy

Why are equity markets rising?

Guy Monson

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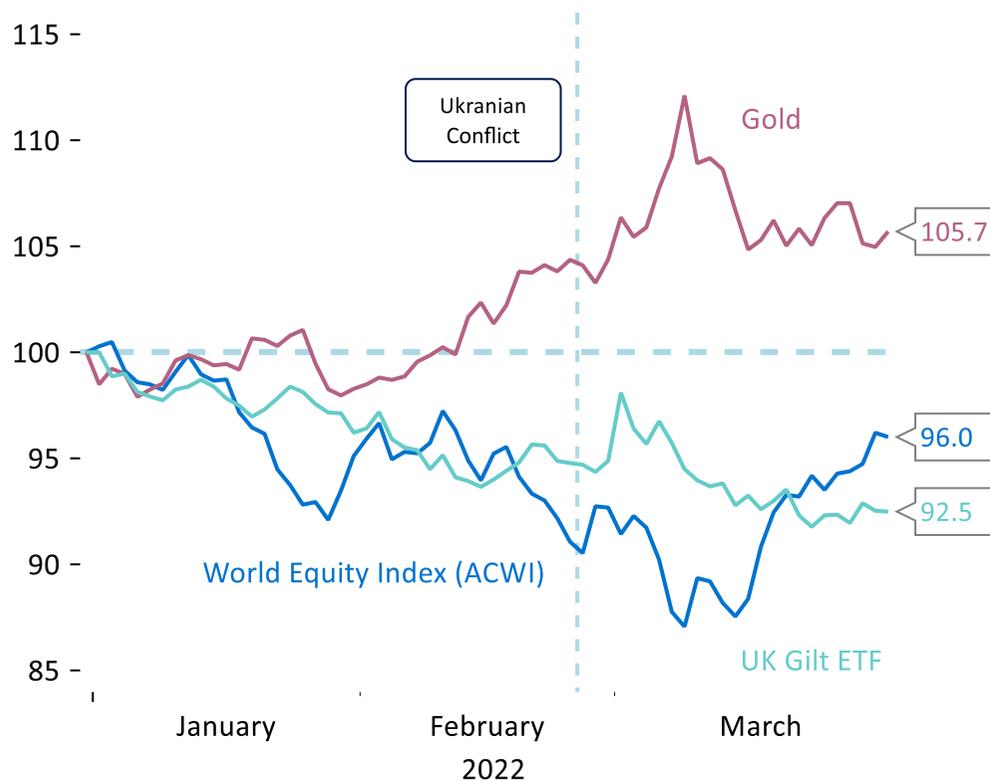
Asset class performance 2022 to-date

Equities recovery supported by robust earnings despite global uncertainty - Bonds decline



Equities rally, bonds decline & gold leads returns

Global Asset Class Returns 2022 to date

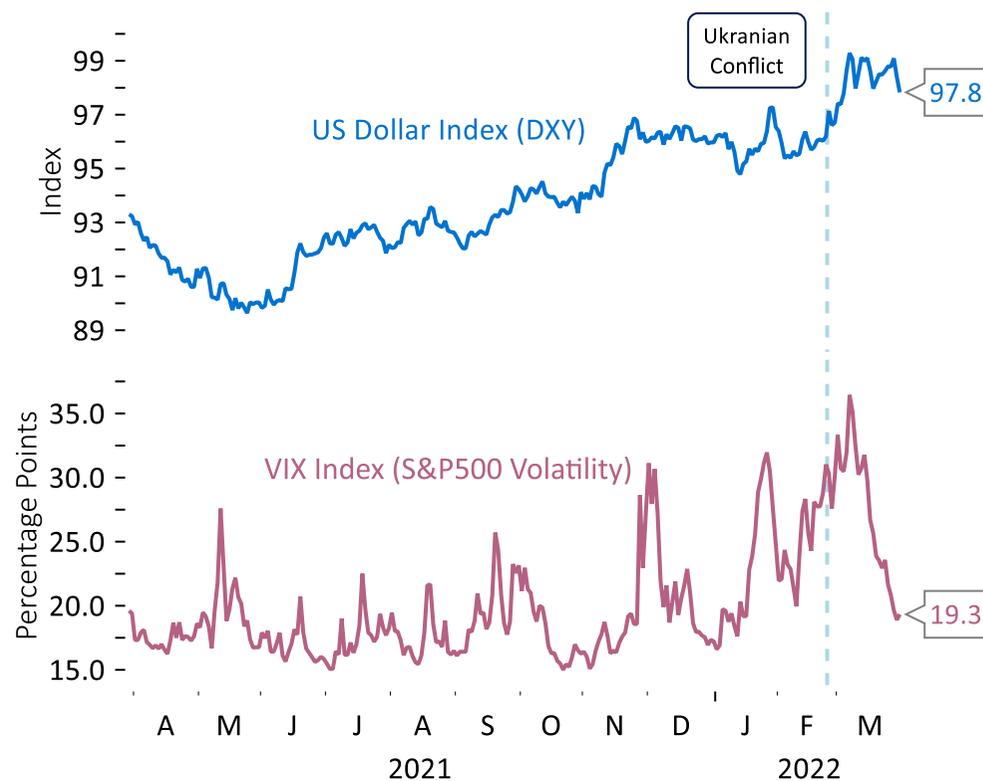


Source: Macrobond, 31.03.22



Dollar rally continues – Volatility subsides

US Dollar index and equity volatility (1Y)



Source: Macrobond, 31.03.22

1. NATO was the flash point – could neutrality be the solution?

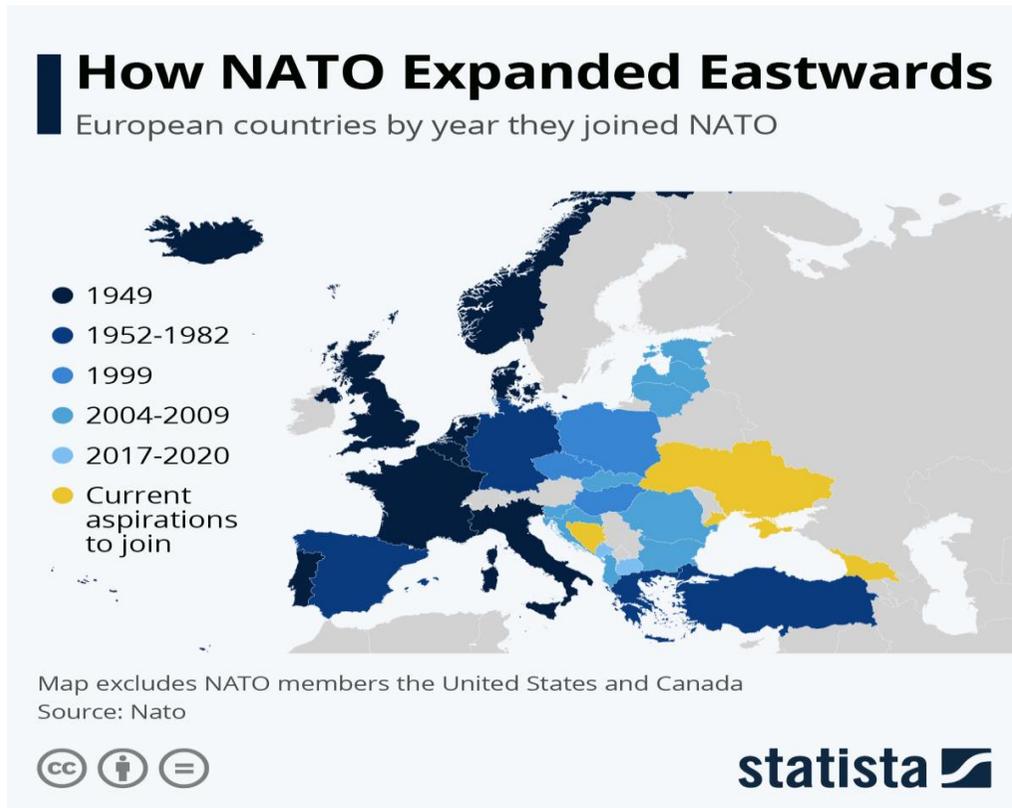
Russia watched with resentment as the transatlantic alliance nearly doubled its membership - would neutrality for Ukraine now be a solution?



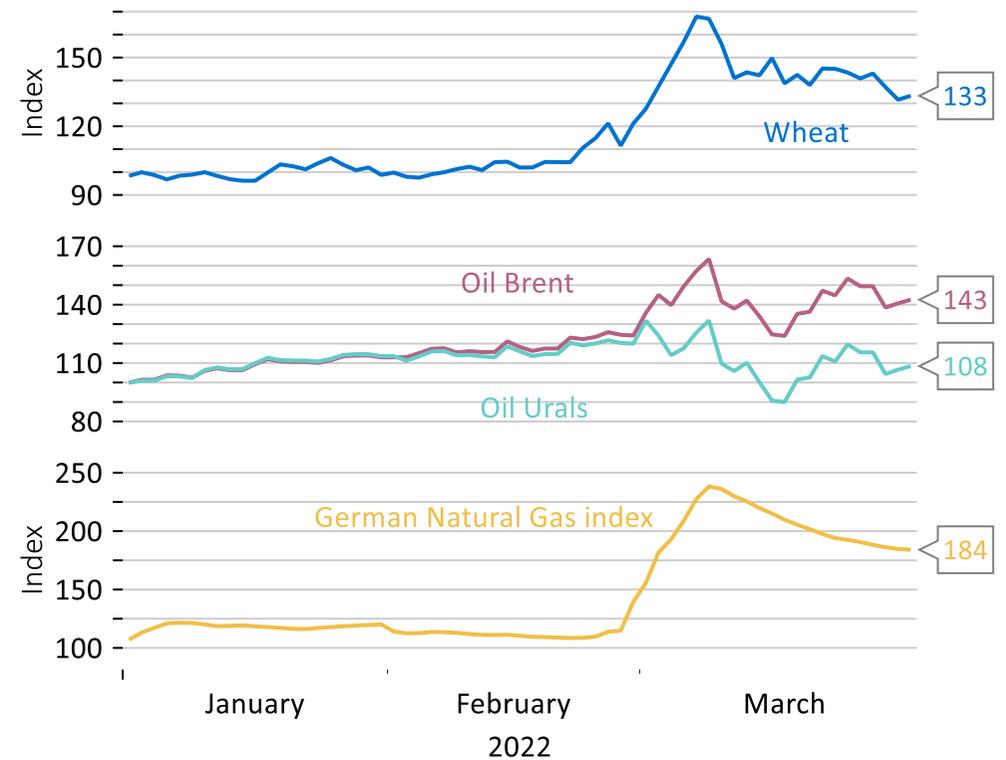
NATO's expansion – 15 new members since the Cold War



Key Russian commodity prices appear to be stabilising



Russian Key Export Commodity Prices (100 at 31/12/2021)



Source: Macrobond, 31.03.22

Source: Statista/Council on Foreign Relations Feb 2022

2. Global Economy slowing but no recession yet in sight



GDP Growth forecasts, Annual average %

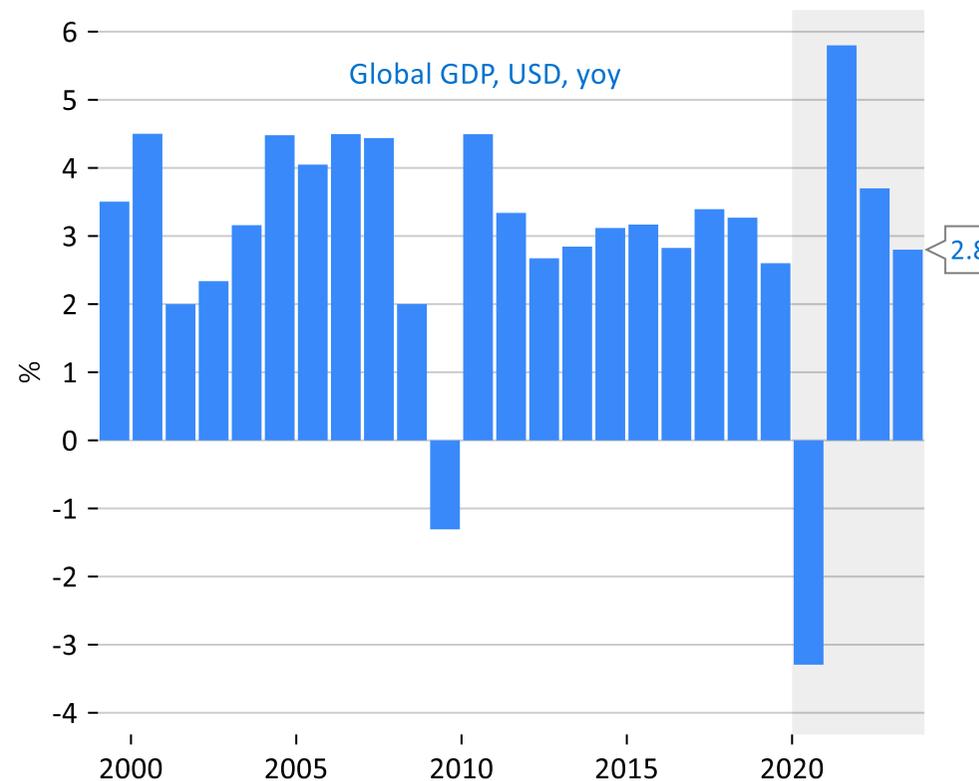
	2021	2022	2023
China	8.1	5.1 (5.0)	5.0 (5.0)
US	5.7	2.9 (3.8)	1.6 (2.3)
Eurozone	5.2	2.8 (3.8)	1.8 (2.4)
UK	7.2	4.2 (3.9)	1.1 (1.8)
Japan	1.7	2.3 (2.1)	1.5 (1.1)
World	5.8	3.7 (4.1)	2.8 (3.1)

Note: Figures in parenthesis are GDP forecasts at time Dec 2021



Global Real GDP Growth (USD terms)

Global GDP, USD, real



Source: Macrobond, 31.03.22

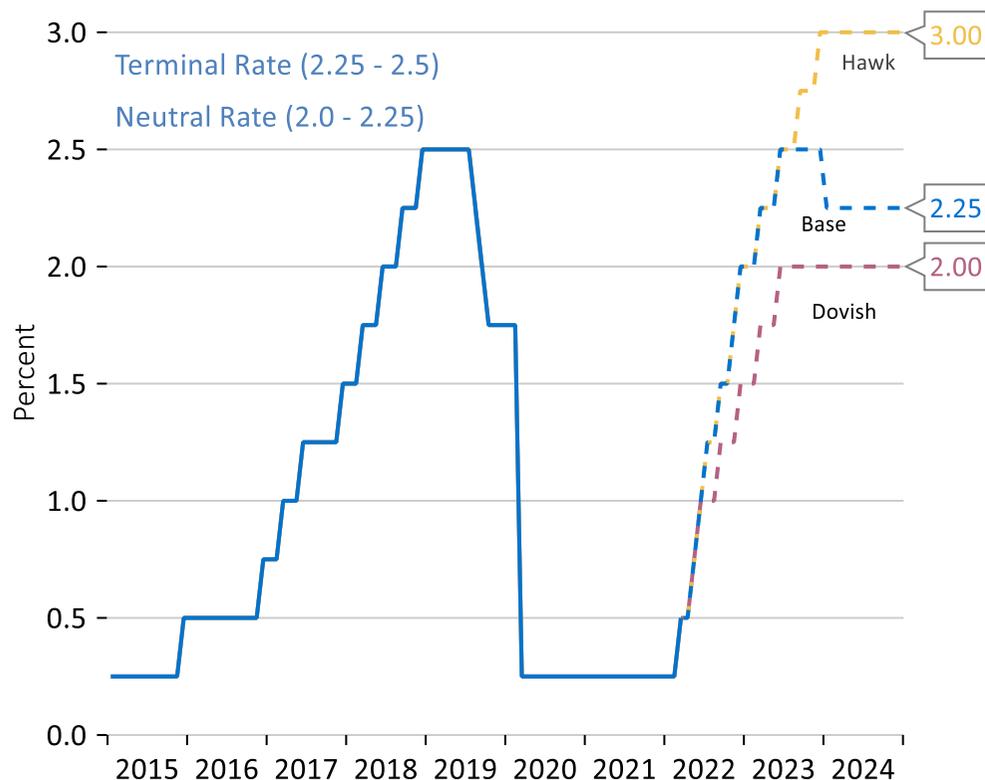
Source: Sarasin and Partners and Macrobond

3. Policy normalisation: Faster but not higher - uncertainty prevails

A highly uncertain phase for policy

Trajectory for US rates

Path of policy normalisation in the US



Source: Macrobond, 31.03.22

Assumptions

- **Neutral rate:** 2.25%
- **Base:** Economy slows to below trend (circa 1.5%) as Fed takes rates above neutral. Similar playbook to 2015 -2019
- **Dove:** Sharp slowdown in economy in 2023 prevents full normalisation. Economy slows to stall speed - below 1%.
- **Hawk:** Economy slows to trend (circa 2%) as Fed takes rates above neutral to bring unemployment back to natural rate.

Unknowns:

- *Pace of Balance Sheet unwind (QT)*
- *Monetary policy works with 'long and variable lags' as US is a highly dis-intermediated financial system*

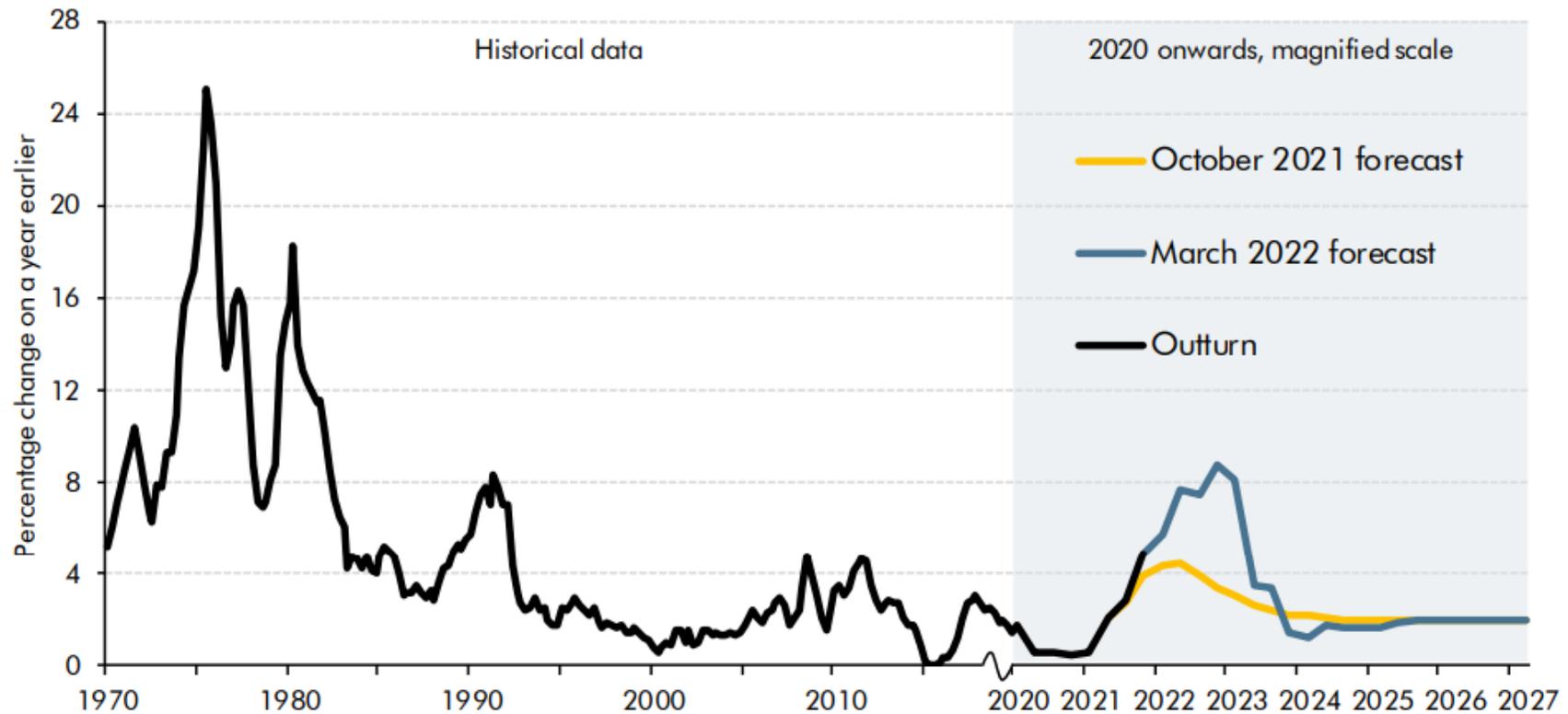
UK: Trajectory for inflation (OBR forecast)

Inflation shock severe but not comparable to the 1970's



UK inflation set to peak at close to 9% - returning to target range only in 2024. A wage-price spiral the key risk...

Chart 1.1: CPI inflation



Source: Bank of England, ONS, OBR

4. Corporate earnings robust and dividend growth still strong



Global earnings now well surpass pre-COVID levels

Global Earning Per Share (EPS) 1 year forward (FactSet)
(Factset 31/12/2018 = 100)



Source: Macrobond, 31.03.22



Extraordinary recovery in global dividends

Global Dividend Growth Rate 1 year forward (FactSet)



Source: Macrobond, 31.03.22

While equities have de-rated amidst record share buy-backs...

As policy rates start to normalise COVID-led PE multiple expansion has reversed

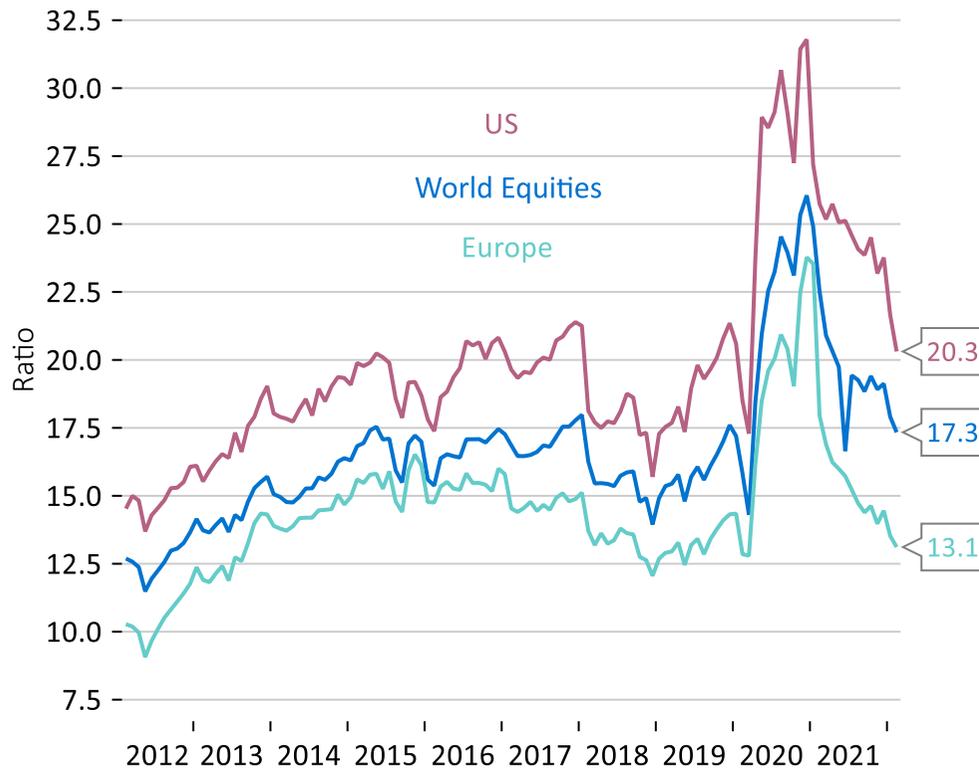


A substantial de-rating of equities has now taken place



US Share buy-backs have hit new highs

Equity Indices 1 year forward PE (Factset)



Source: Macrobond, 31.03.22

S&P500 Share Buy-Backs



Source: Macrobond, 31.03.22

Important information

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