

The bear market in everything

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May 2022

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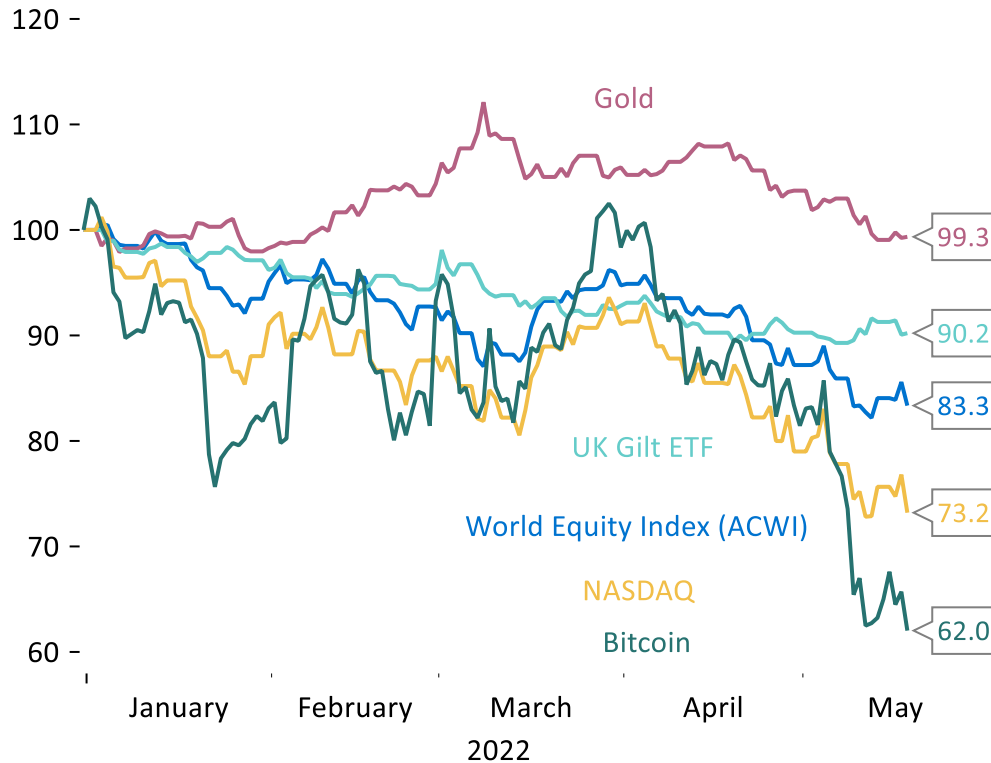
2022 – The bear market in everything

All major assets decline in 2022 – dollar strong – financial conditions tightening



The sell-everything market

Global Asset Performance 2022 to date

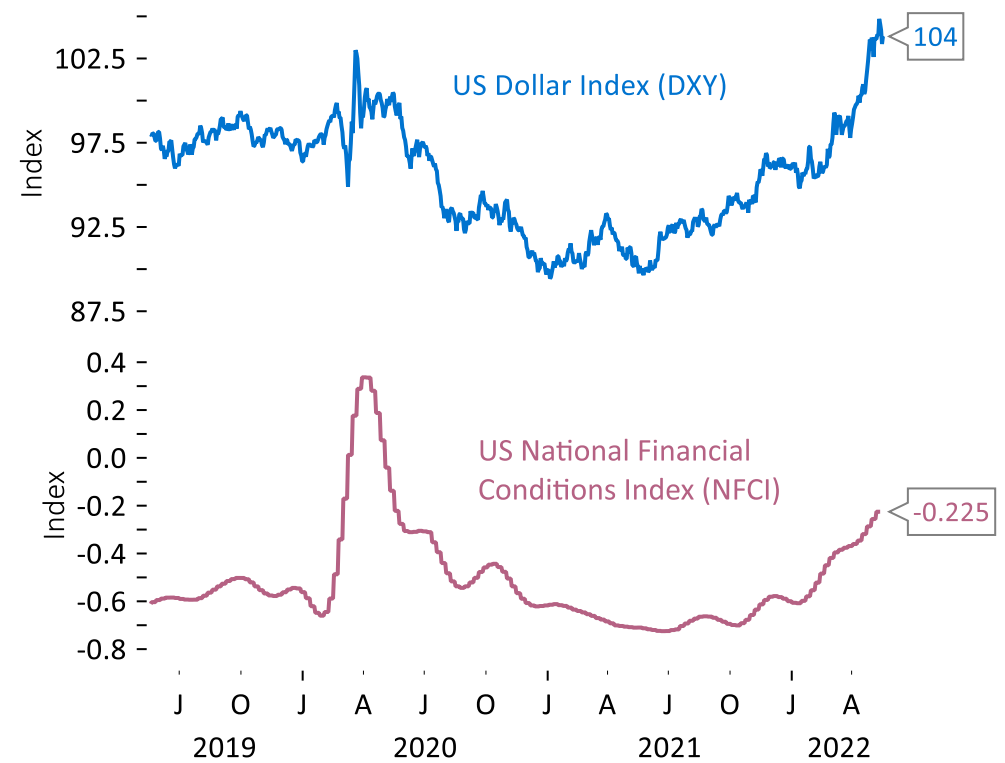


Source: Macrobond, 19.05.22



Dollar rallies to near 20-yr high – financial conditions tighten

US Dollar index & US financial conditions index



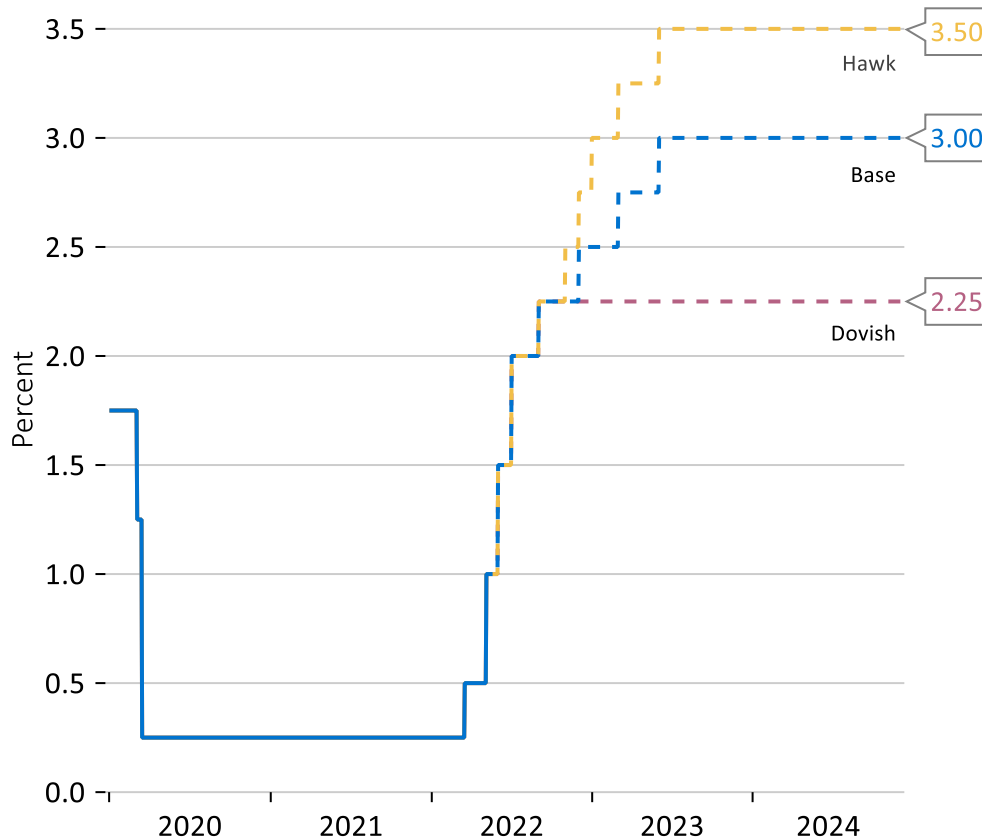
Source: Macrobond, 19.05.22

1. After more than a decade of easy money policy, the Fed tightens

A highly uncertain phase for monetary policy



Trajectory for US policy rates



Source: Macrobond, 19.05.22

Assumptions

Base: Inflation at 5% at end 2022 and 3% in 2023. Economy slows to trend in 2022 and then sharply below trend in 2023. Fed takes rates above its estimate of neutral (2.5%). Recession risks rising.

Dove: Sharp slowdown in economy in 2022 (economic contraction) releases material labour supply. Oil, commodity China shocks abate.

Hawk: Inflation remains sticky in 2024 @ circa 4%. Fed takes rates materially above neutral to reduced labour demand, wages and inflation.

Unknowns

- *Impact of Balance Sheet unwind (QT)*
- *Monetary policy works with 'long and variable lags'*

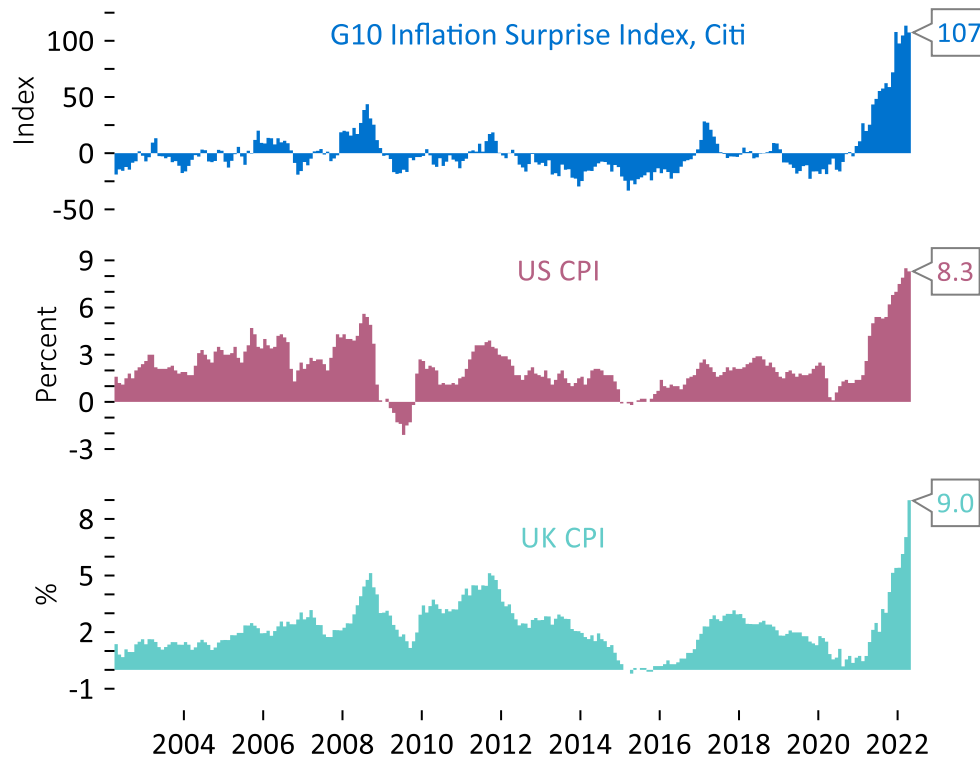
2. The war & the cost of living crisis is hurting confidence globally

Consumer confidence close to 2008 lows in US and UK – recession risk rising



US, UK and global inflation

Inflation surprise index & US/UK CPI

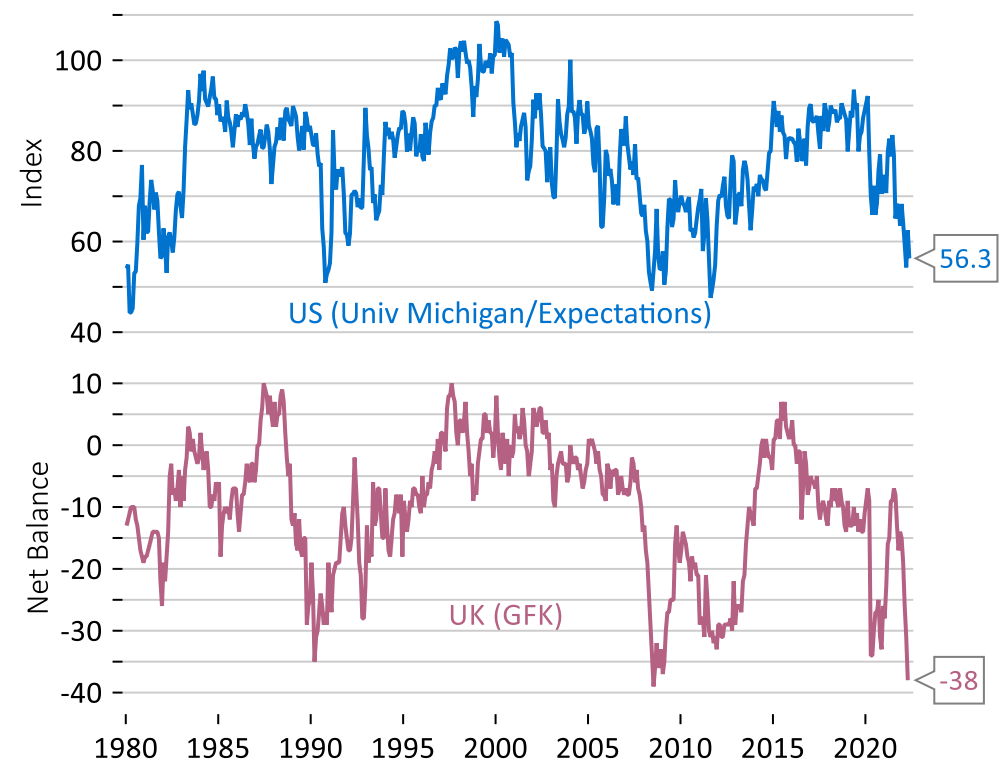


Source: Macrobond, 19.05.22



Consumer confidence falls sharply on cost-of-living crisis

US and UK Consumer Confidence



Source: Macrobond, 19.05.22

3. The Chinese slowdown is worsening

A confluence of shocks – zero COVID policy, regulation, energy prices, property funding



Chinese manufacturing PMI below 50 indicates contraction



Strains in property sector spread across financial markets

China PMI and retail sales



Source: Macrobond, 19.05.22

China financial markets and Shanghai subway passengers



Source: Macrobond, 19.05.22

Equity valuations now near 20-year average - buy-backs hit record

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

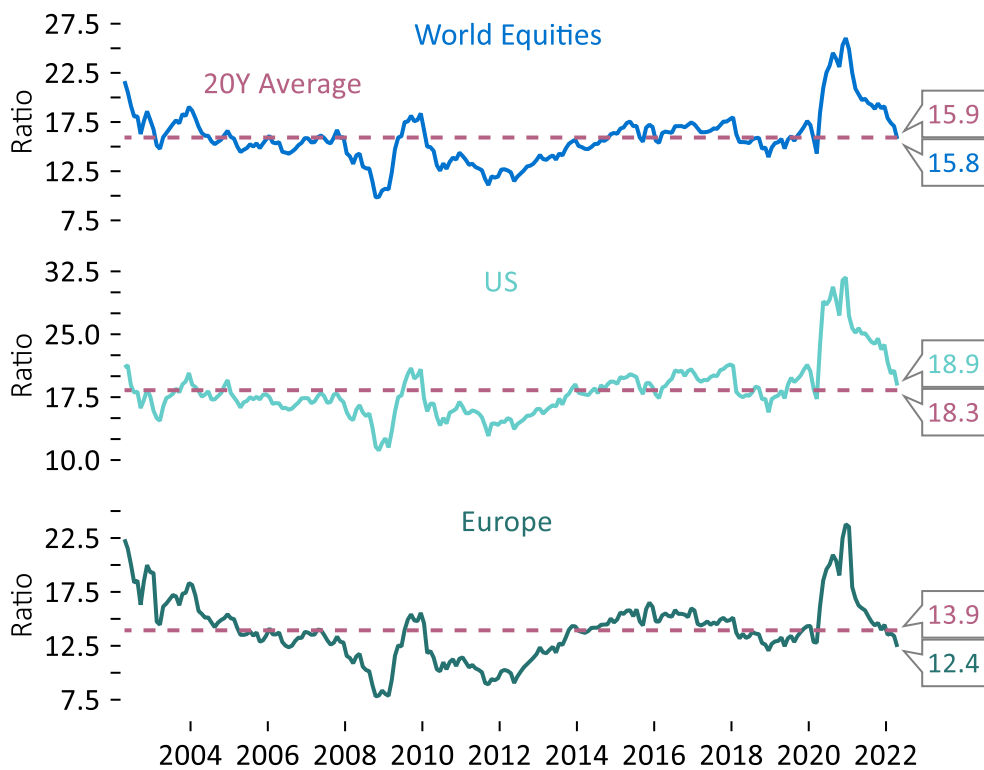


A substantial de-rating of equities has now taken place



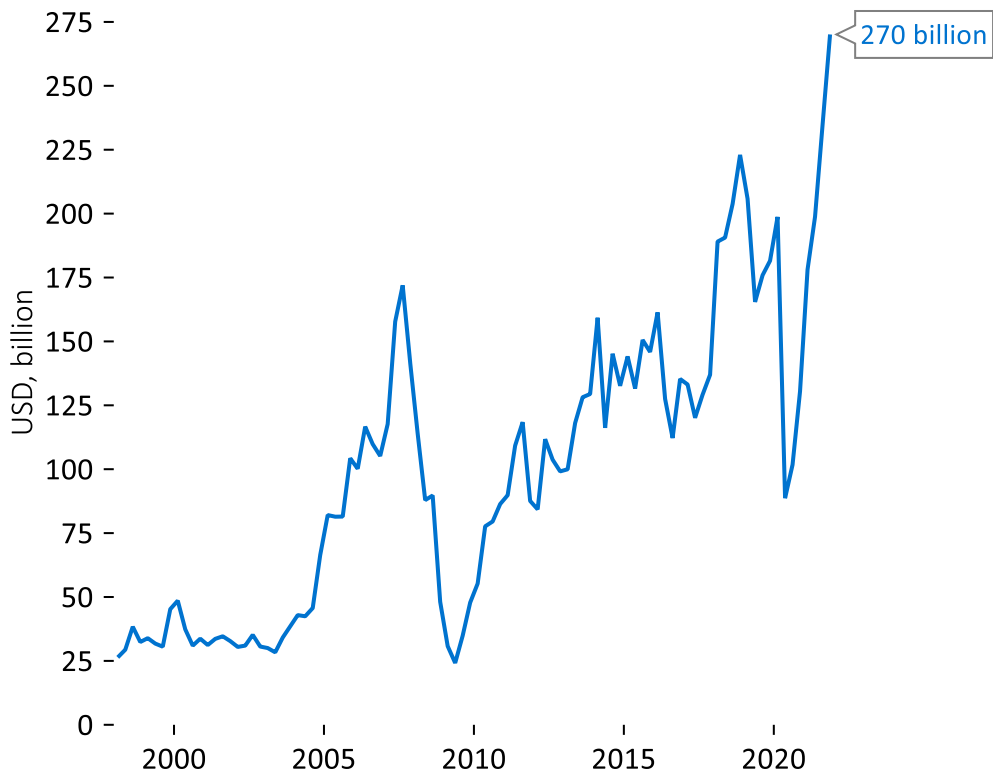
US share buy-backs have hit new highs

Price earnings multiple 1 year forward (Factset)



Source: Macrobond, 19.05.22

S&P500 Share Buy-Backs

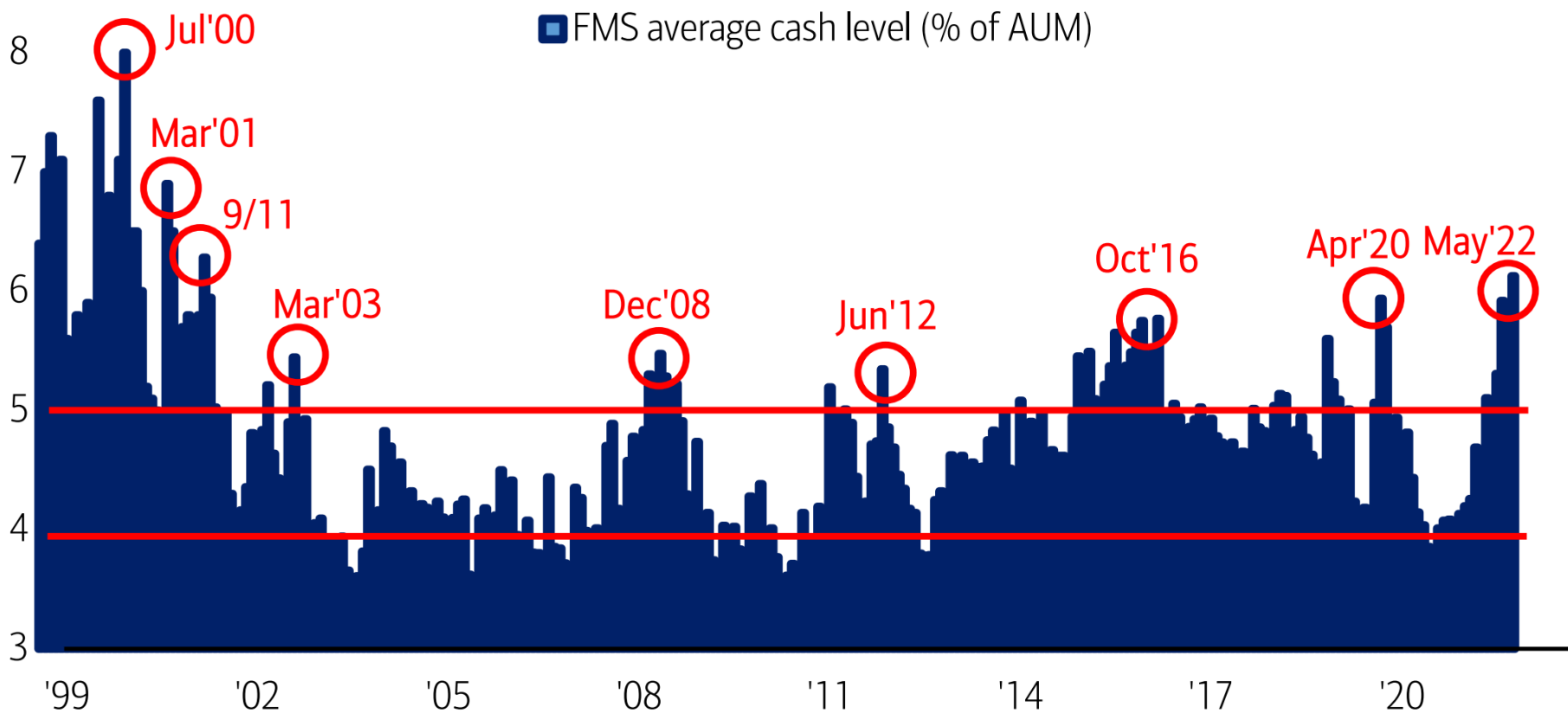


Source: Macrobond, 19.05.22

Highest cash levels among fund managers in 20 years

 Chart 1: FMS cash levels rise to highest since 9/11

FMS average cash balance, %



Source: BofA Global Fund Manager Survey May 2022

Policy tightrope - taming inflation without triggering recession

Caution on both equity and bond markets as interest rate risks rise



Global strategy update – May 2022

Bonds	Strong underweight <ul style="list-style-type: none">Strong UW Government Bonds – global inflationary pressures remain elevated – inflationary risk premium risingUW Investment Grade Credit – recession risks rising
Equities	Underweight Global, UK and EM <ul style="list-style-type: none">Accelerated tightening of money policy risks further compression of equity valuationsGlobal growth to slow materially - rising risk to earningsEM inflation and China growth risks are substantialRobust corporate balance sheets offer support to defensive, dividend strategies
Alternatives	Strong Overweight <ul style="list-style-type: none">OW Other Alternatives– private equity; infrastructure and renewables with inflation-linked returnsStrong OW Uncorrelated Alternatives; gold effective hedge against policy error
Cash (tactical)	Strong Overweight <ul style="list-style-type: none">No currency preference<i>Consider opportunistic portfolio insurance</i>
Risks	Current: Global inflation becomes entrenched triggering a dramatic tightening in financial conditions Longer-term: China/Taiwan tension, climate transition risks, tighter technology regulation Ukraine: Russia ceases European gas exports, NATO dragged into border war, further nuclear warnings

Source: Sarasin & Partners, May 2022

Important information

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