

Six minute strategy

Preparing for winter August 2022



A modest recovery in equities over the summer - oil prices fall

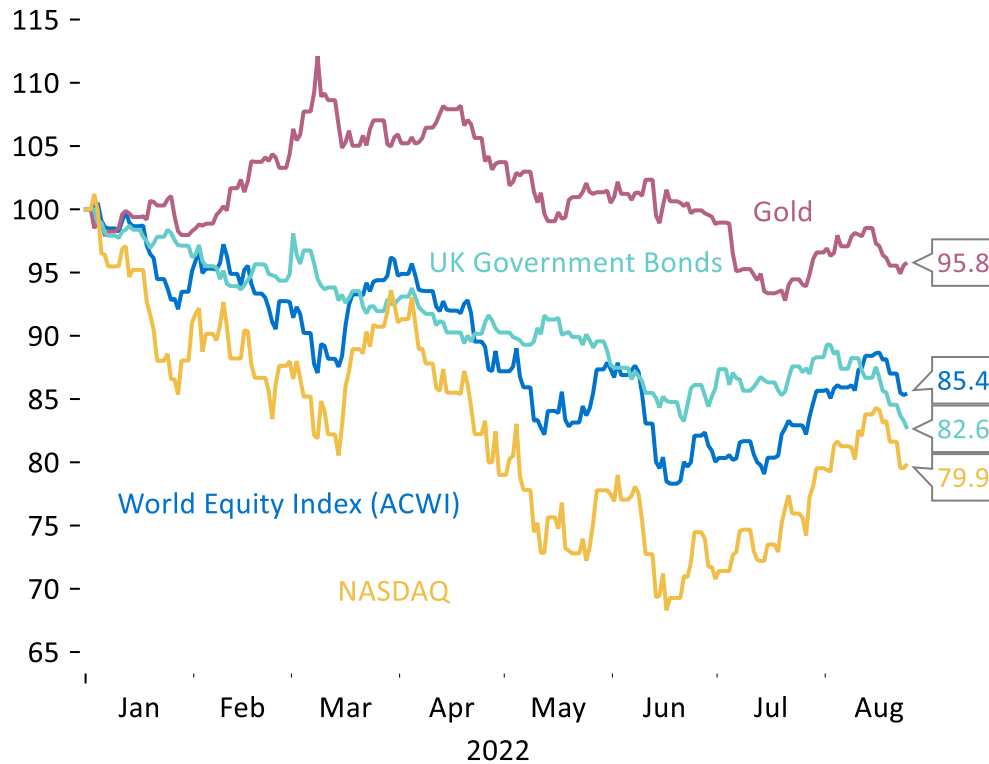


Q3 2022 recovery in equities starts to fade



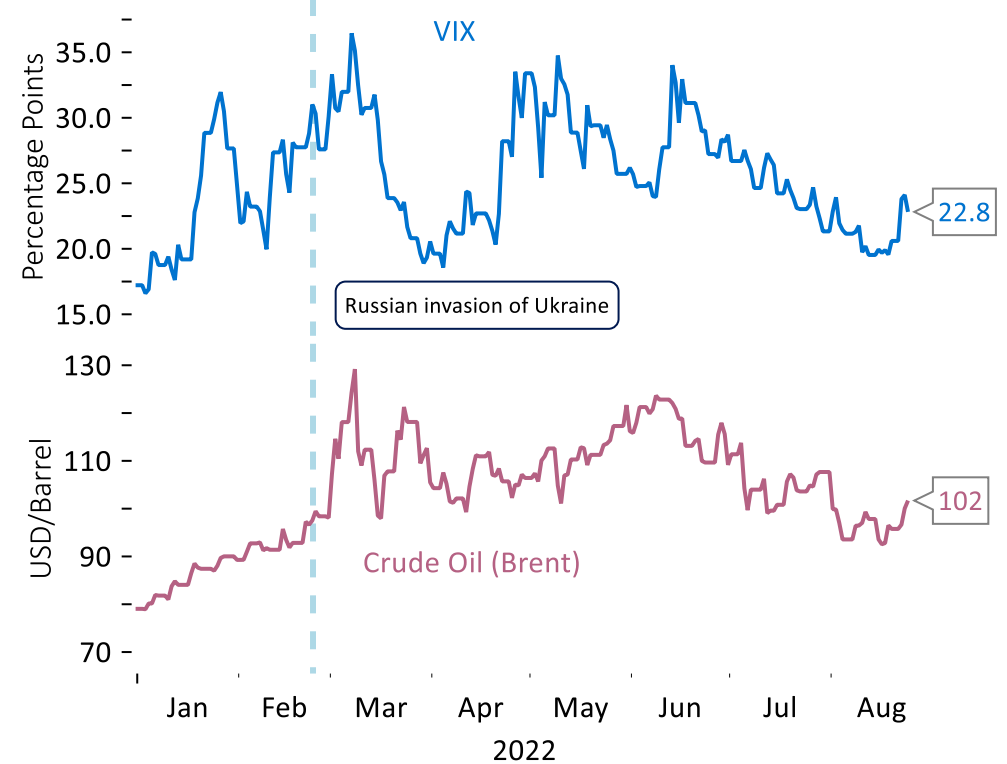
Equity volatility and oil prices are below pre-invasion levels

Global Asset Performance, year-to-date



Source: Macrobond, 25.08.22

S&P500 Volatility (VIX) & Crude Oil (WTI)



Source: Macrobond, 25.08.22

US Bond yields have doubled this year – global growth stocks underperform value

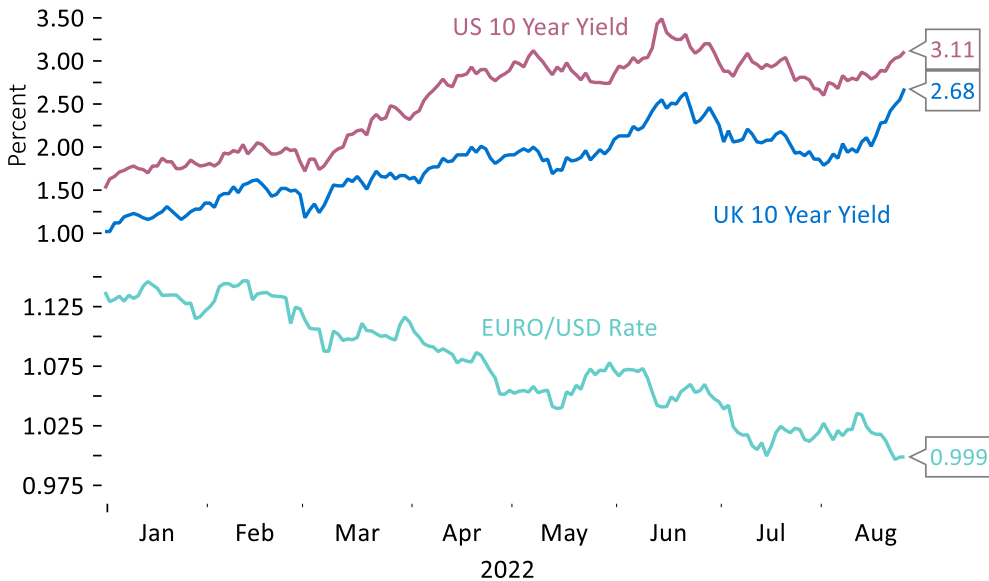


US yields surge and the euro breaks parity with the dollar



Value leads growth in 2022, despite Q3 rally

Government Bond Yields and the Euro



Source: Macrobond, 25.08.22

World, Equity Indices, MSCI, Mid & Large Cap, Index, Total Return, USD

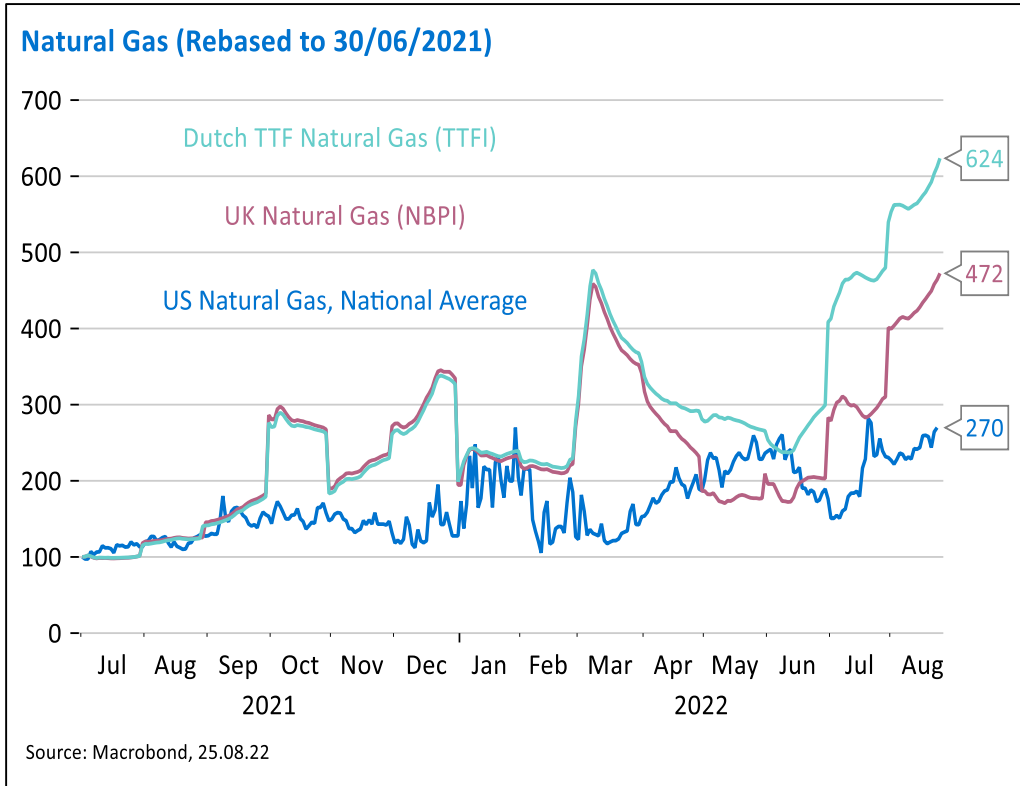


Source: Macrobond, 25.08.22

1. Energy: Costs of mitigation for poorer households may even be greater than COVID furlough schemes



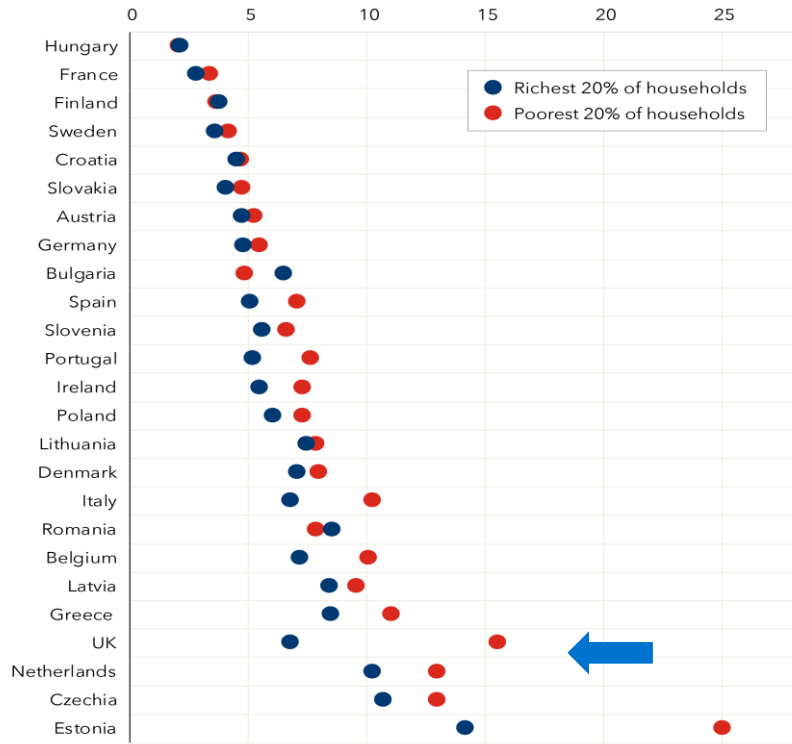
Unprecedented rise in European gas prices



Energy price burden falls on low-income households

Poorest under pressure

The cost-of-living increase is larger for lower-income households. (cost of living increase from higher energy prices, in percent of total household spending)



Sources: Bloomberg Finance L.P., Eurostat, and IMF staff estimates using CPAT. Note: Price increases compare the current projected prices for 2022 based on May 2022 futures prices, with those based on January 2021 futures prices.

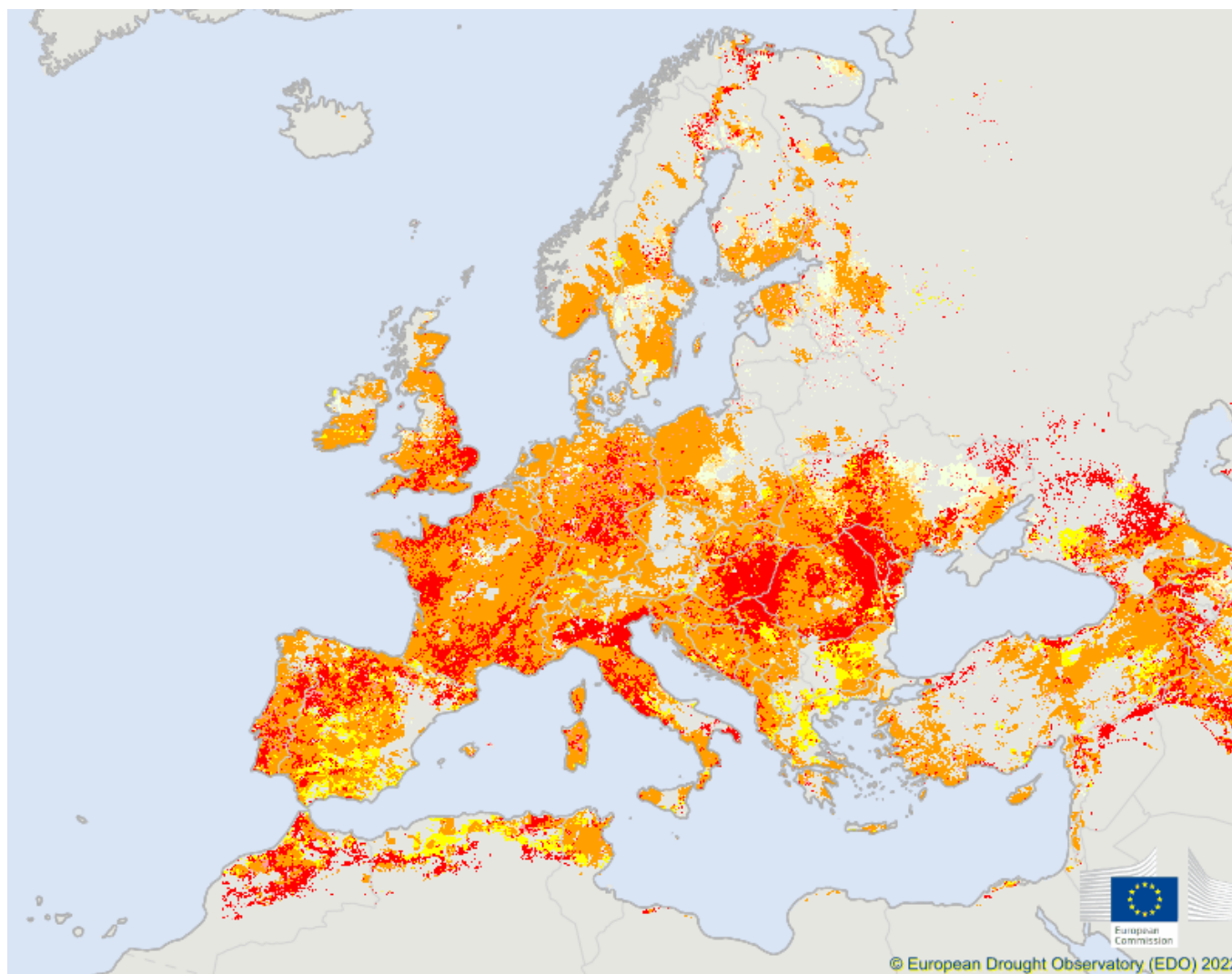








European governments have already allocated EUR280 billion to cushion impact of energy crisis (Brugel/Bloomberg)

2. Climate: August saw 47% of Europe under drought warning, and unprecedented drought along China's Yangtze river



Combined Drought Indicators in Europe - 1st ten-day period of August 2022



-  Watch: rainfall deficit
-  Warning: soil moisture deficit
-  Alert: vegetation stress following soil moisture and vegetation deficit
-  Full recovery to normal conditions
-  Temporary soil moisture recovery
-  Temporary vegetation recovery

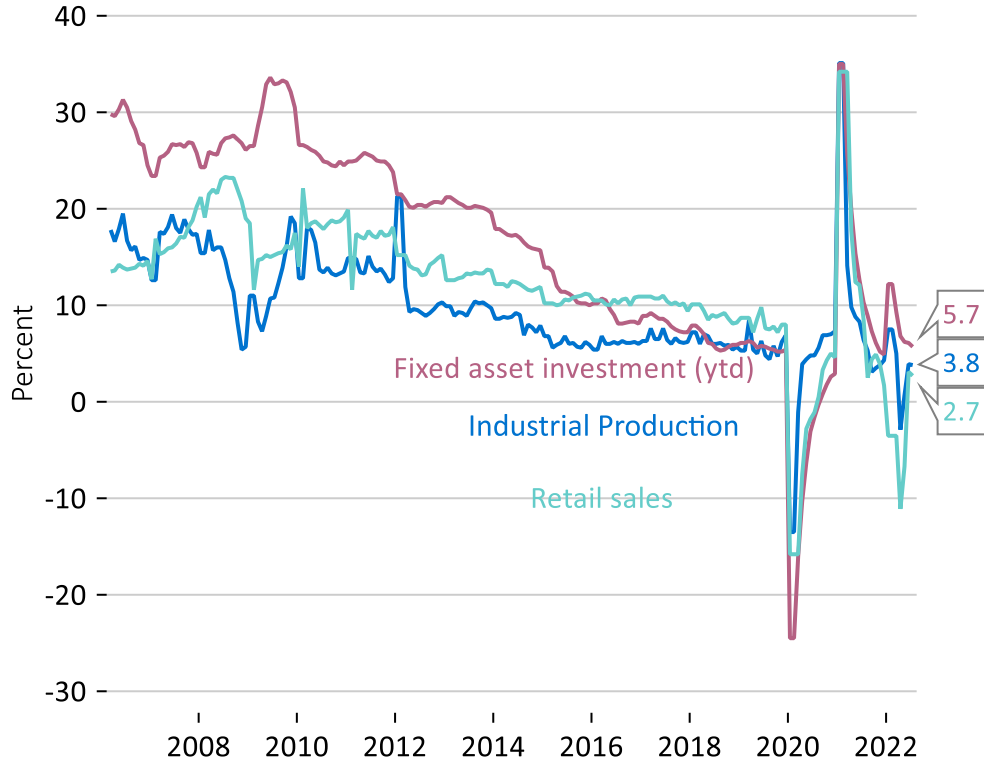
Source: European Commission Aug 2022

3. China: Activity disappoints with weak domestic demand, extreme heat, power shortages and property stress

 China data disappoints - Q2 GDP 2.6% qoq due to lockdowns

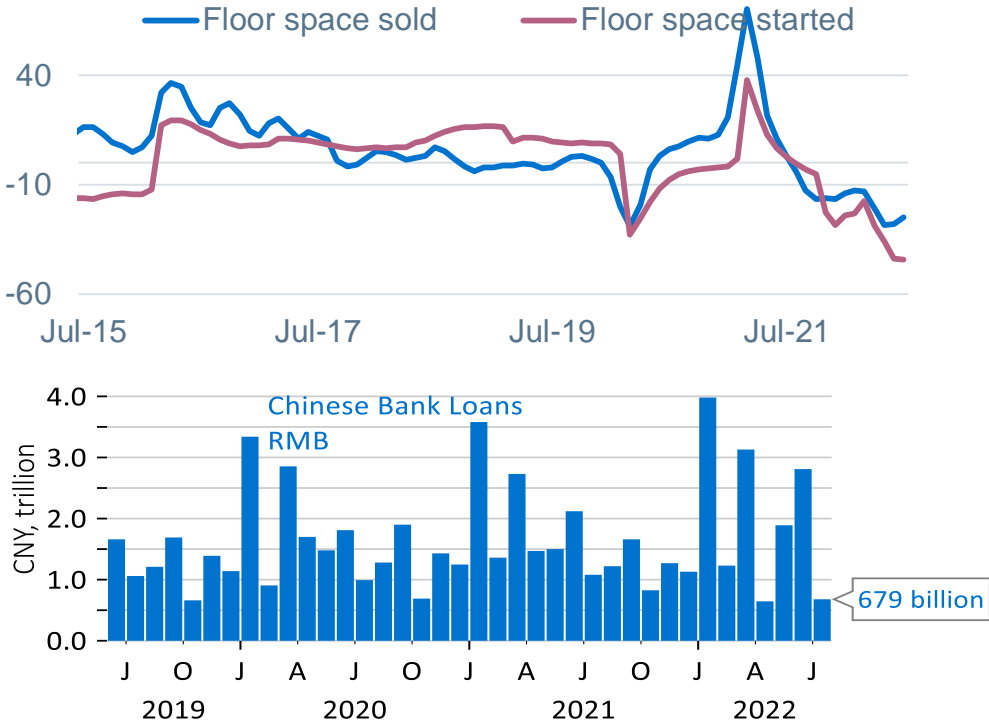
 Chinese property demand slumps – bank loans sharply ease

Chinese Economic Data



Source: Macrobond, 25.08.22

Floor space started and sold
3mma, % tty



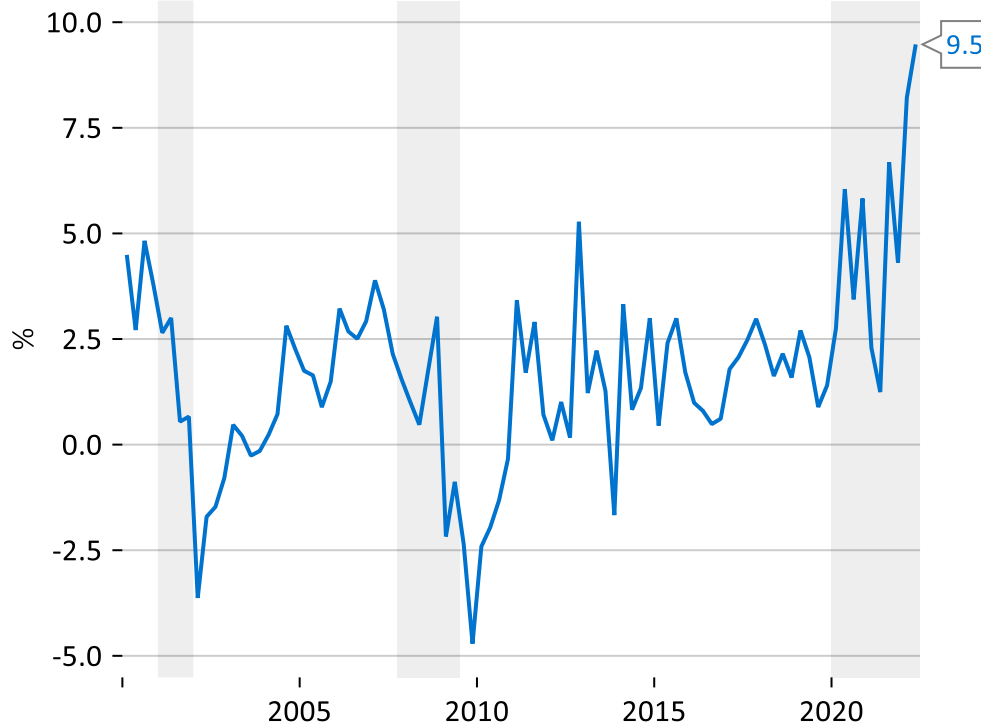
Source: Macrobond, 25.08.22

And some good news: While unit labour costs are rising at an uncomfortable pace, corporate profits remain robust



Higher wages have meant that ULC's are rising sharply

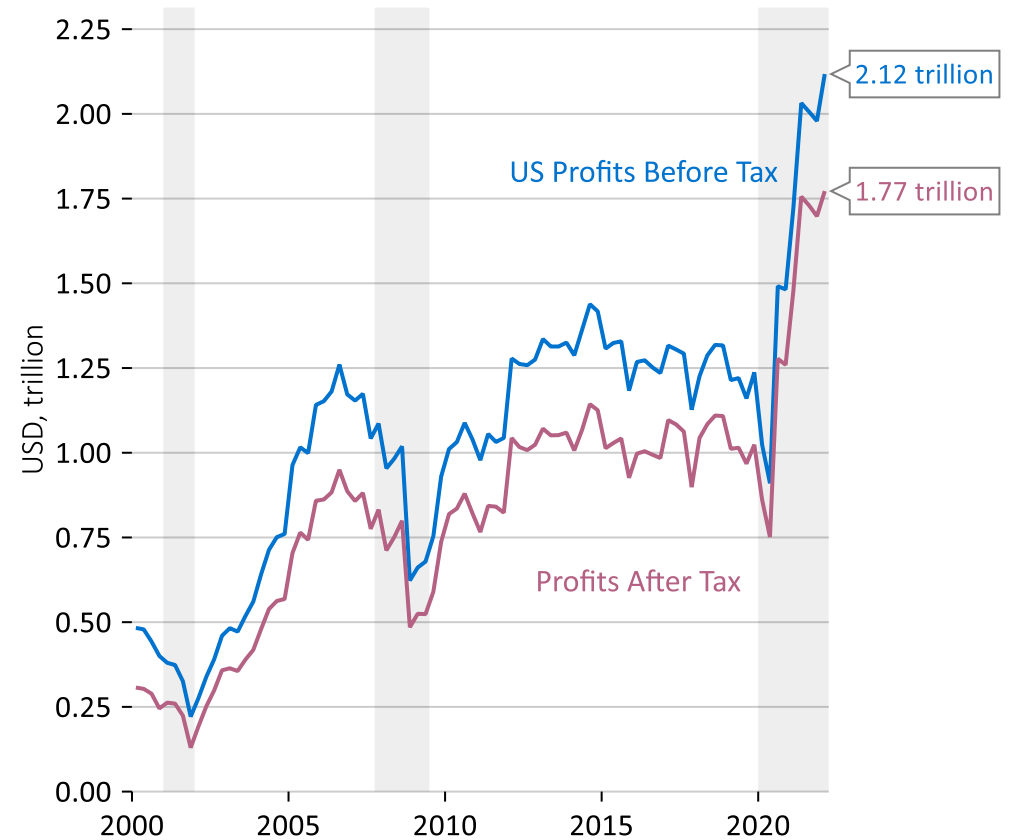
US Unit Labour Costs
(Shaded areas = US recessions)



Source: Macrobond, 25.08.22



Yet corporate profits on most measures are still strong



Source: Macrobond, 25.08.22

Policy tightrope – inflation *and* recession risks are high



Global strategy update – August 2022

Bonds	<p>Underweight</p> <ul style="list-style-type: none"> • UW Government Bonds – global inflationary pressures remain elevated – QT may cause yields rise above expectations • UW Investment Grade Credit – recession risks rising – Single A yields becoming attractive
Equities	<p>Underweight Global, UK and EM</p> <ul style="list-style-type: none"> • Accelerated tightening of monetary policy risks further compression of equity valuations • Global growth to slow materially - risk to earnings rising • EM inflation and China growth risks remain substantial • Robust corporate balance sheets offer support to defensive & dividend strategies
Alternatives	<p>Strong Overweight</p> <ul style="list-style-type: none"> • OW Other Alternatives– private equity; infrastructure and renewables with inflation linked returns • Strong OW Uncorrelated Alternatives; reduction in gold holdings as global interest rates climb
Cash (tactical)	<p>Strong Overweight</p> <ul style="list-style-type: none"> • CHF tactical allocation for GBP accounts • <i>Consider opportunistic portfolio insurance</i>
Risks	<p>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</p>

Source: Sarasin & Partners, August 2022

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