SARASIN
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Six Minute Strategy

Don’t fight the Fed…yet

September 2022

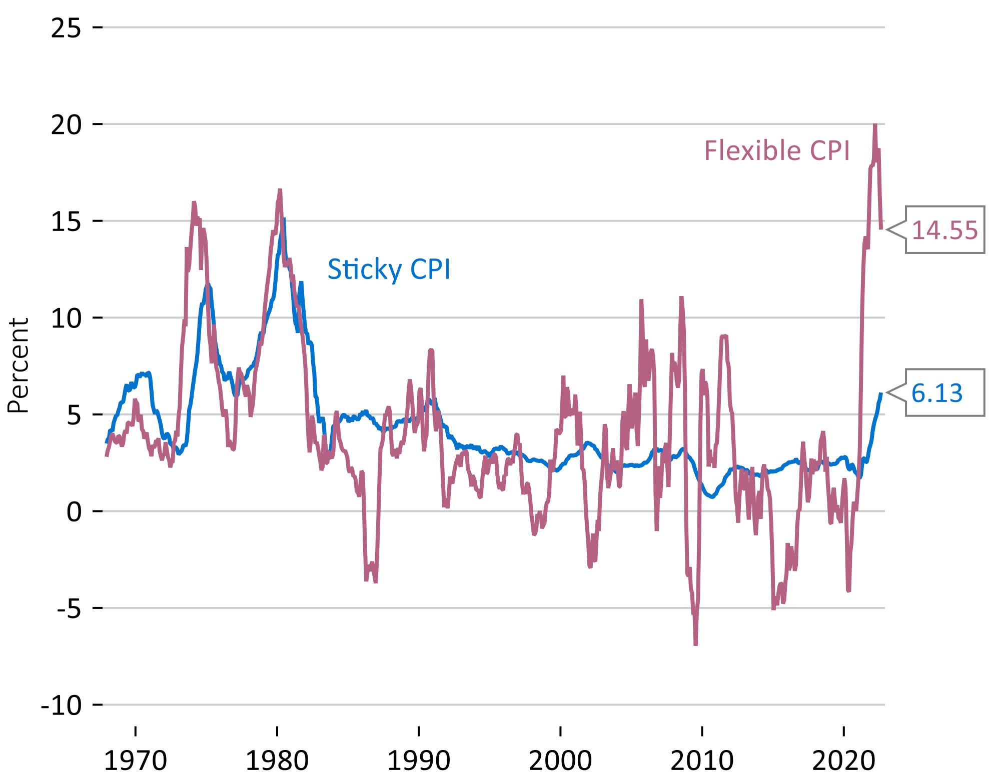
We are deeply saddened by the death of
Her Royal Highness Queen Elizabeth II.
We offer our sincere condolences to His Majesty The King and all The Royal Family at this time of mourning, and respectfully give thanks for her life of dedicated service to her country.

Inflation is proving stickier than expected

Sticky inflation (prices slow to change) is still rising strongly

'Sticky' inflation is rising sharply

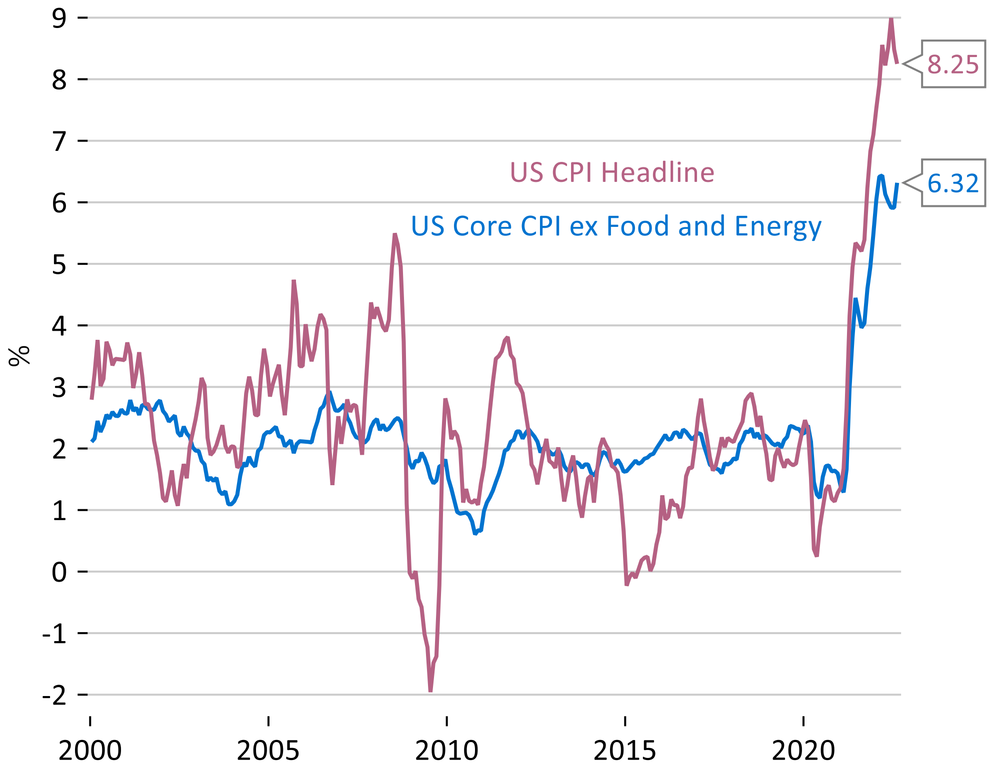
US CPI: Sticky Prices vs Flexible prices, Change Y/Y



Source: Macrobond, 15.09.22

US Core CPI advanced 0.6% from July…ahead of forecasts

US Inflation



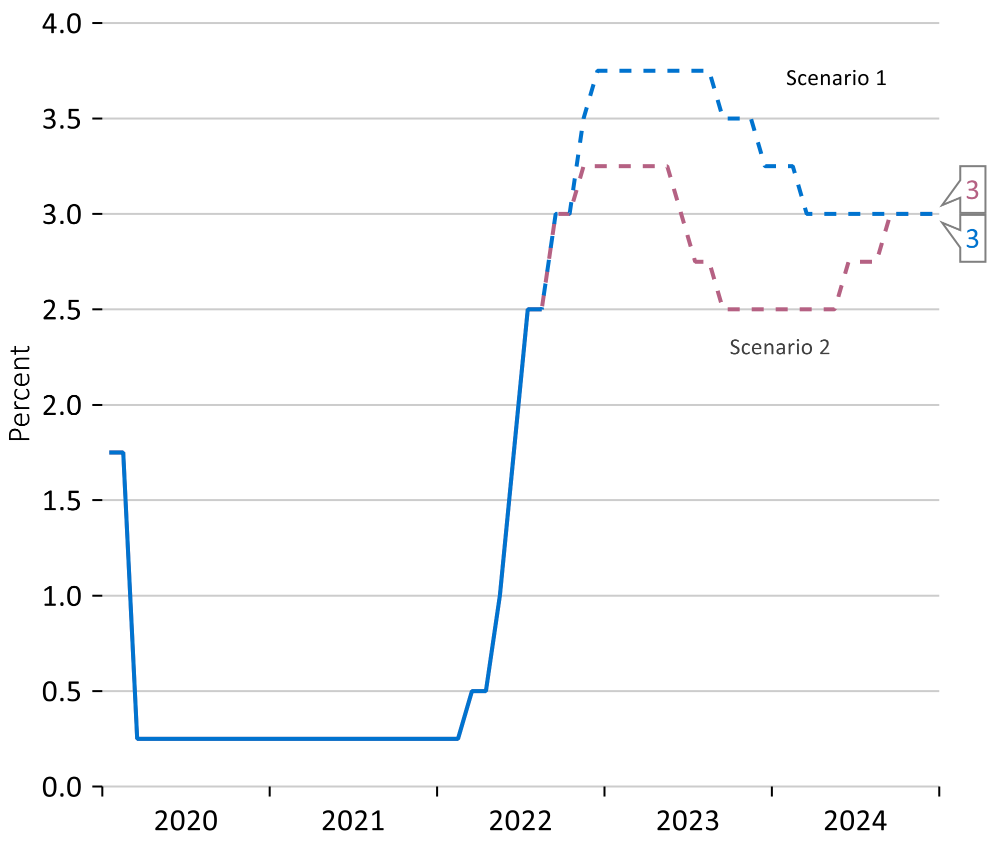
Source: Macrobond, 15.09.22

Source: IEA September 2022

US interest rates to remain restrictive through 2023

'Restoring price stability will take some time and requires using our tools forcefully' Jerome Powell Aug 26

US interest rate forecasts



Source: Macrobond, 15.09.22

Scenario 1: Sticky core / higher for longer

Fed Funds rate rises to an above neutral level of 3.5% -3.75%. This causes a modest contraction in the economy in Q4 2022 and Q1 2022 as job growth slows and unemployment rises. Rates remain restrictive through much of 2023 to bring inflation back down to target. Consequently, economic growth remains below trend in 2023. Rate cuts come through by the end of 2023 with a trough at 2.75% - 3.0%. *This is our base case*

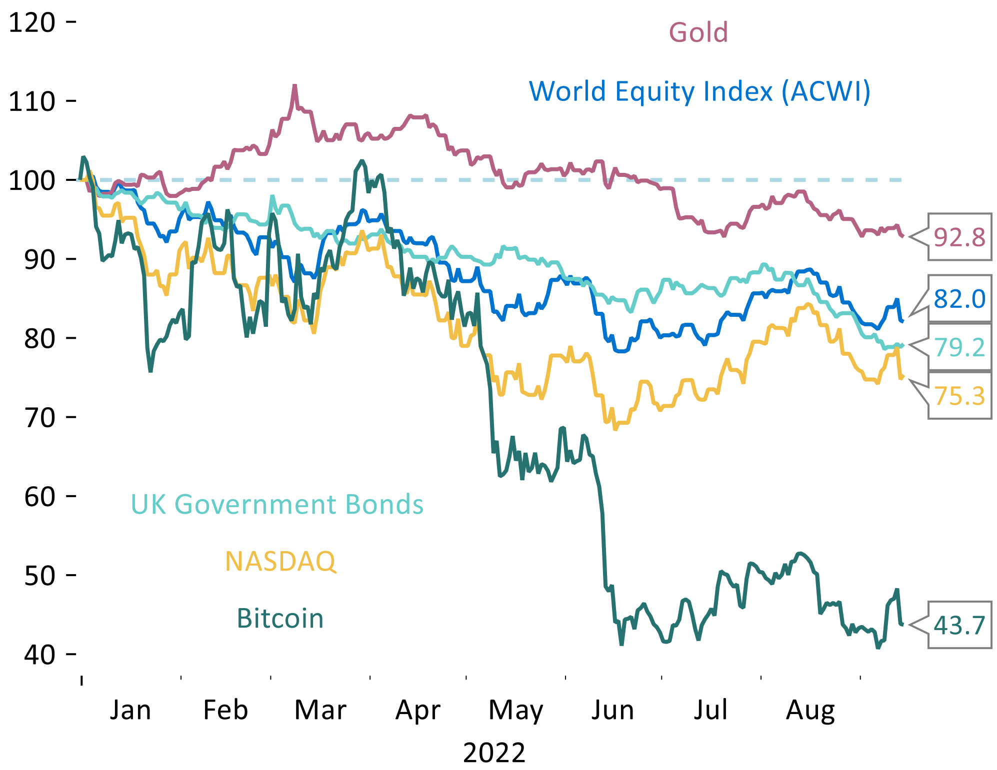
Scenario 2: Falling energy prices / temporary reprieve

Sharp global economic slowdown (particularly in Europe and China) reduces energy price pressures. Fed Funds rate peaks at 3.0%-3.25%. Positive base effects and falling energy prices leads to cuts in the funds rate to 2.5% in 2023. However, sticky underlying inflation causes rates to increase again in 2024.

Tighter money is: (1) Hurting all risks assets (2) Driving bond yields higher (3) Pushing the Dollar to multi year highs

All asset classes show negative returns 2022 to date

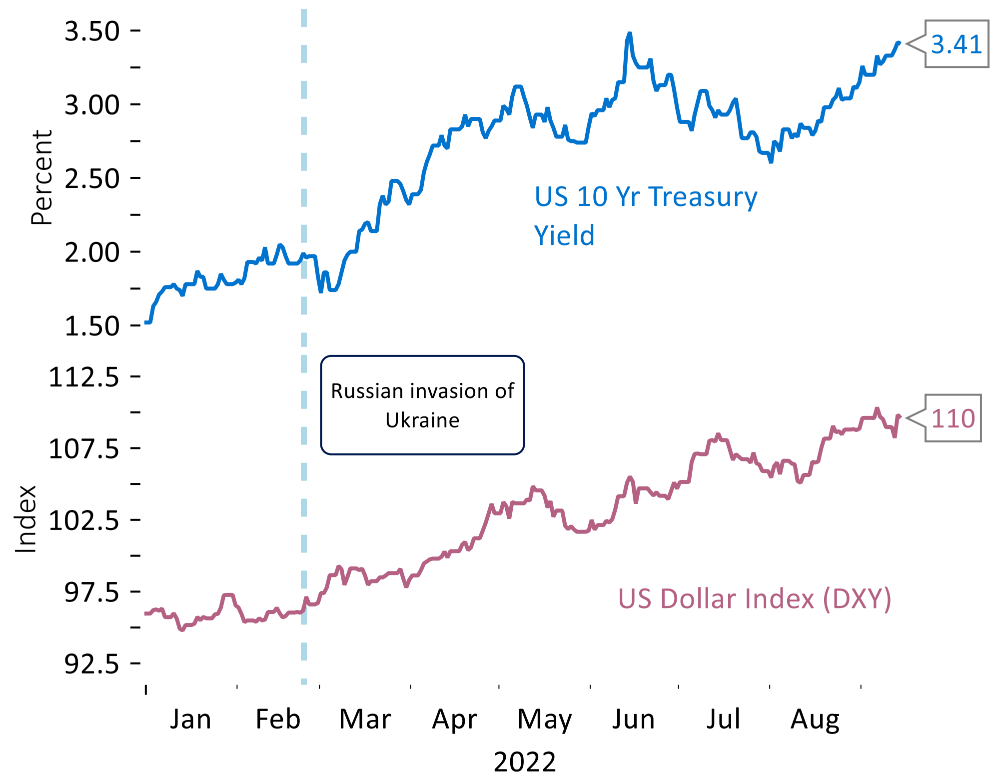
Global Asset Performance, year-to-date



Source: Macrobond, 15.09.22

Tighter money policy & safe haven status is lifting the Dollar

US 10 Year Tr Yield and US Dollar

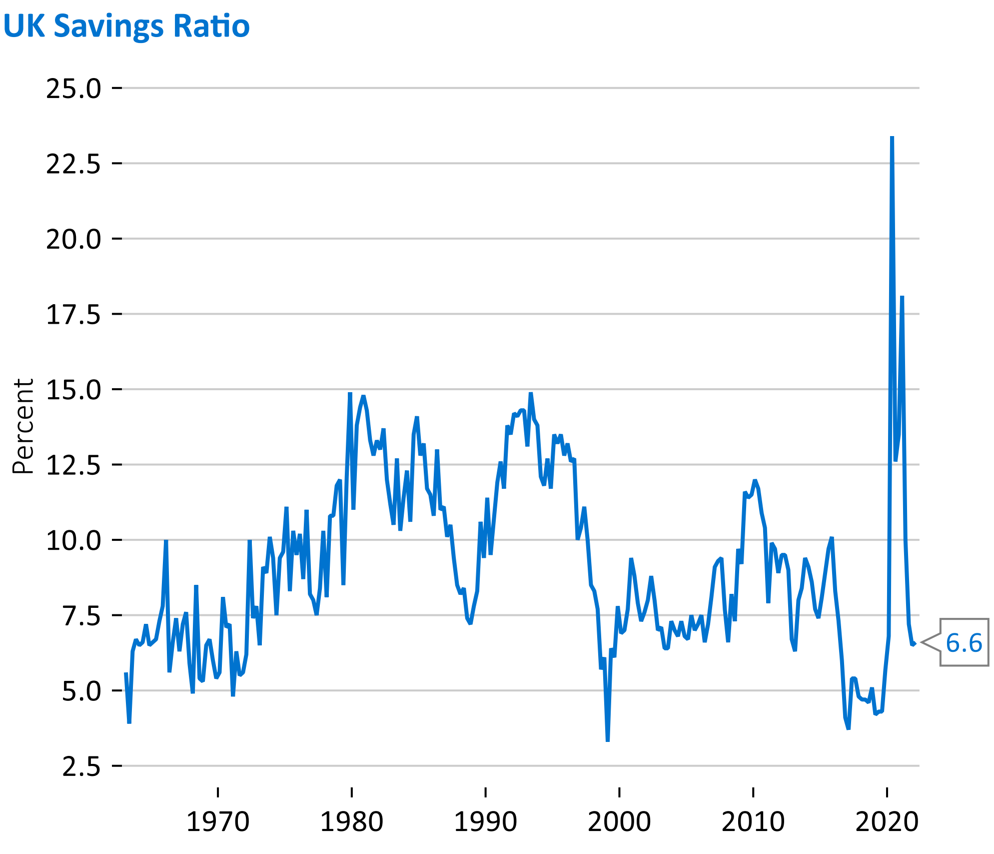


Source: Macrobond, 15.09.22

1. There is hope that any recession will be shallow

A mild, 'job-full' recession is still possible in the UK with £2500 energy cap

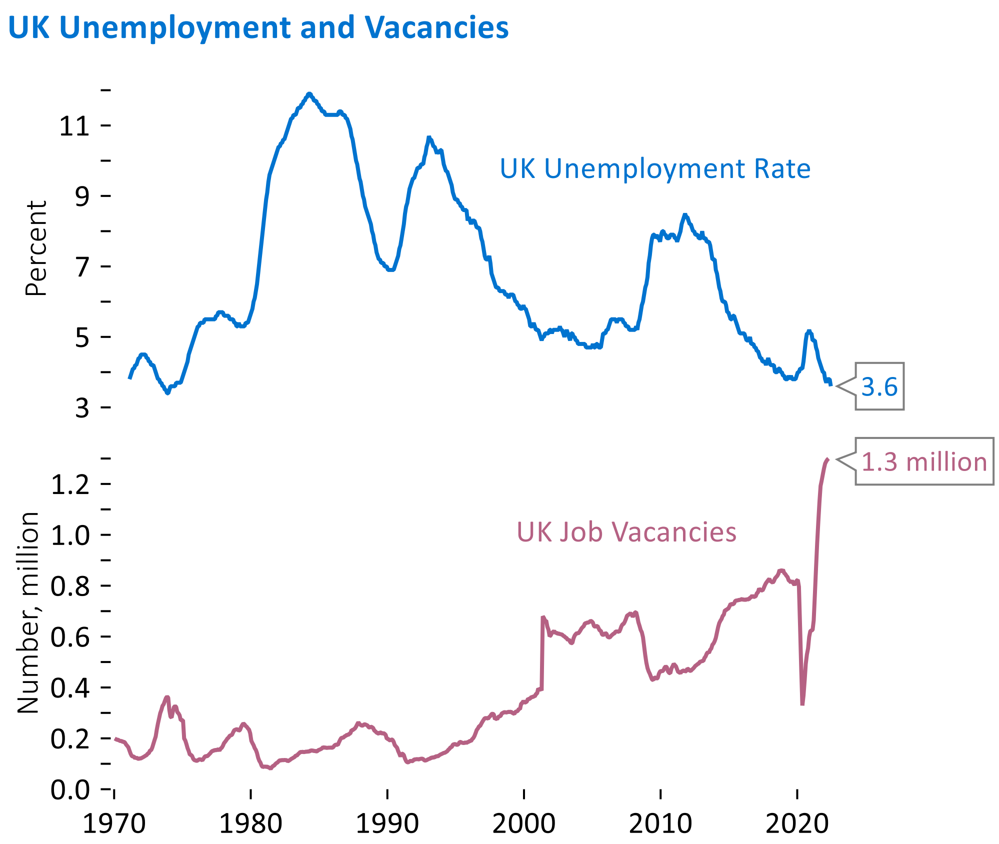
Personal savings during COVID are a buffer for consumers



Source: Macrobond, 15.09.22

The Bank of England estimates excess UK savings from the pandemic equal £180bn or 13% of ann. consumption

The strongest labour market in 50 years



Source: Macrobond, 15.09.22

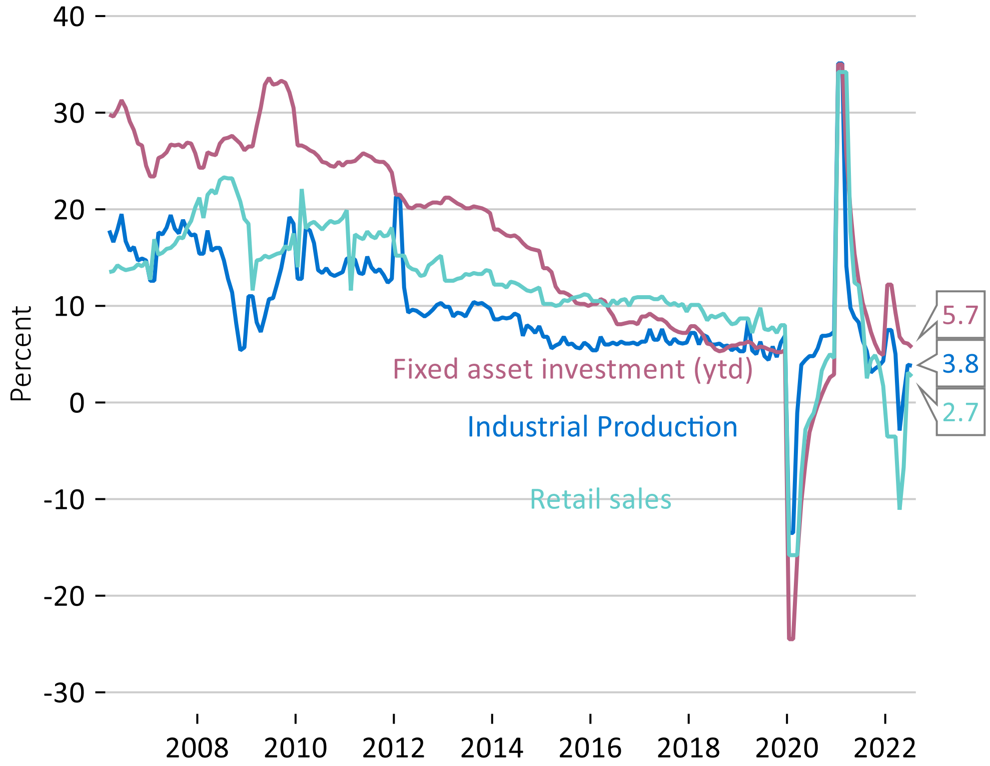
UK job vacancies of 1.3m now exceed UK unemployment of 1.29m (Aug 2022)

2. Weak growth in China may be saving the world again?

Chinese growth stalls– COVID restrictions, drought, property

China data disappoints - Q2 GDP - 2.6% qoq

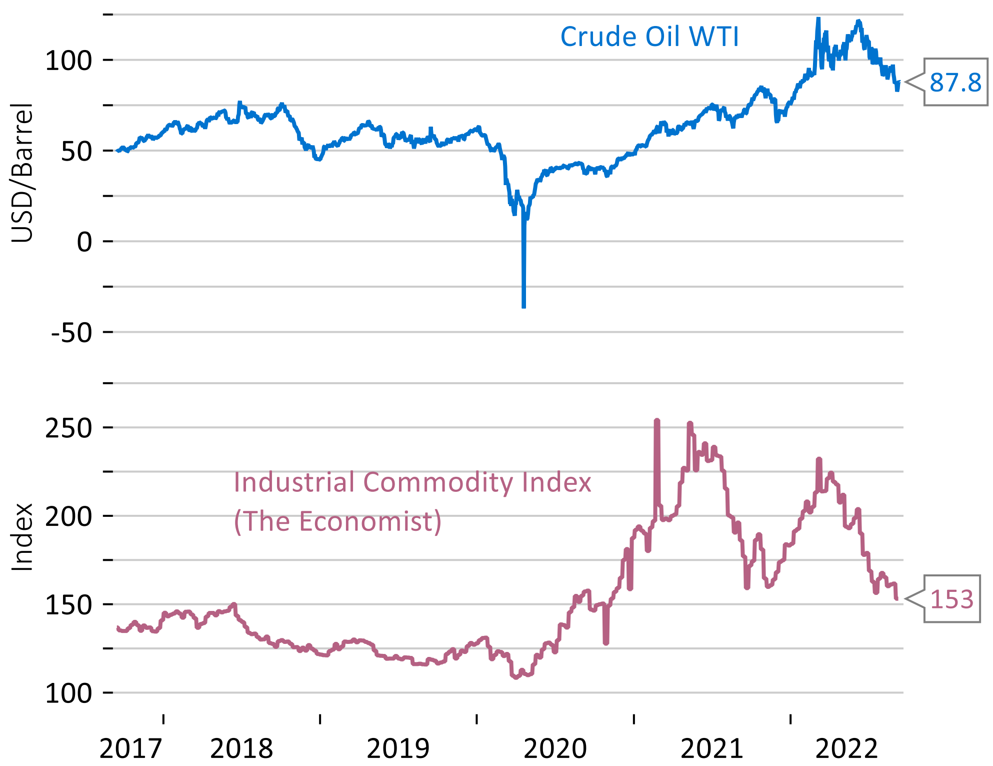
Chinese Economic Data



Source: Macrobond, 15.09.22

Weaker Chinese demand impacts global commodity prices

Oil and Industrial Commodity Prices

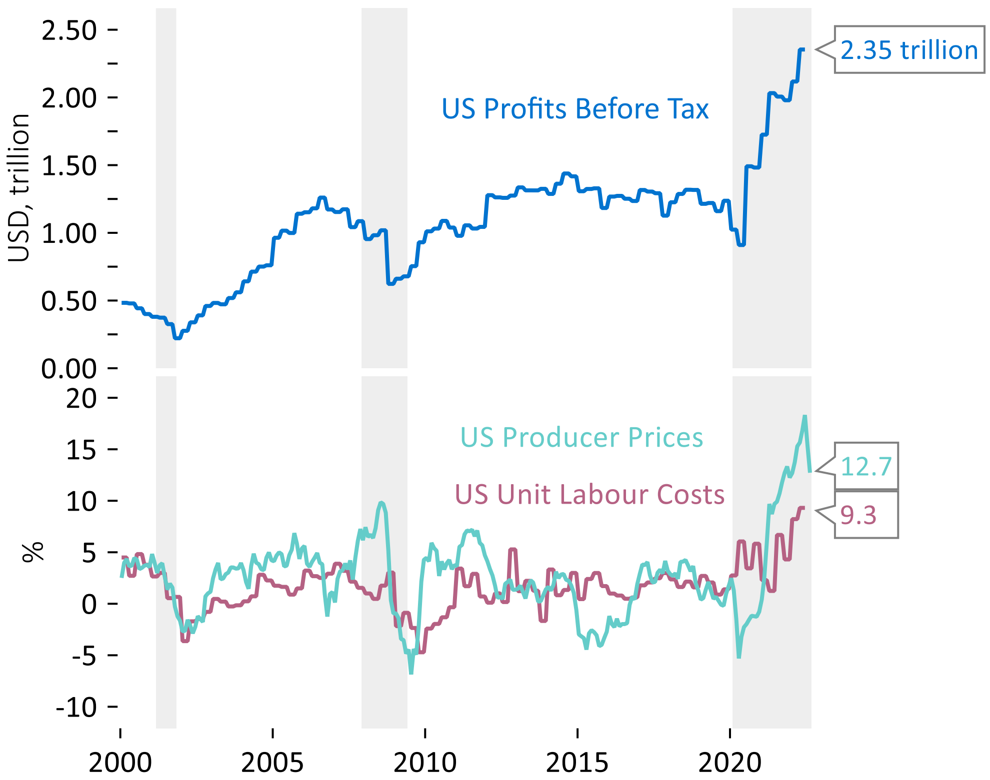


Source: Macrobond, 15.09.22

3. Despite surging labour costs corporate profits and sales remain comparatively robust

US profits remain robust despite surging labour costs

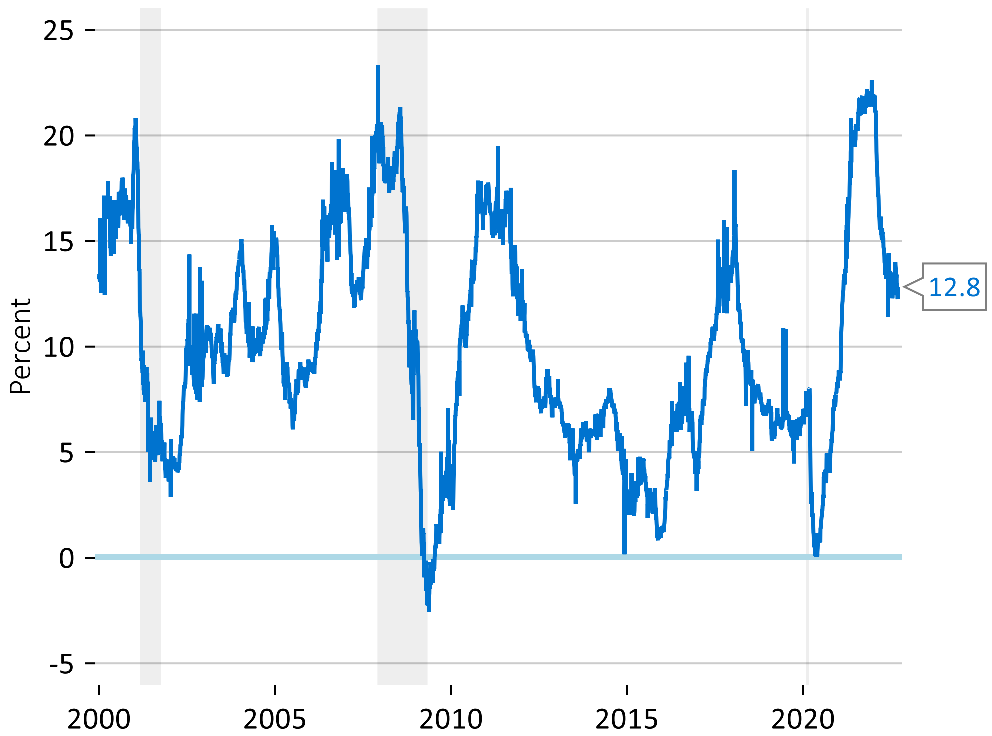
US corporate profits and costs



Source: Macrobond, 15.09.22

Top line sales still strong reflecting high *nominal* GDP

Global sales growth 1 year forward FactSet/Macrobond



Source: Macrobond, 15.09.22

Don’t bet against the Fed…yet

Caution on both equity and bond markets for a while longer

Global strategy update – September 2022

Bonds	Underweight • 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	Underweight Global, UK and EM • 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	Strong Overweight • 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)	Strong Overweight • CHF tactical allocation for GBP accounts • *Consider opportunistic portfolio insurance*
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, September 2022

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