

SARASIN
& PARTNERS

Six Minute Strategy

Are we over the worst?

October 2022

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



Might we have seen the market lows?

Tighter US policy has: (1) Compressed valuations (2) Lifted bond yields (3) Strengthened USD

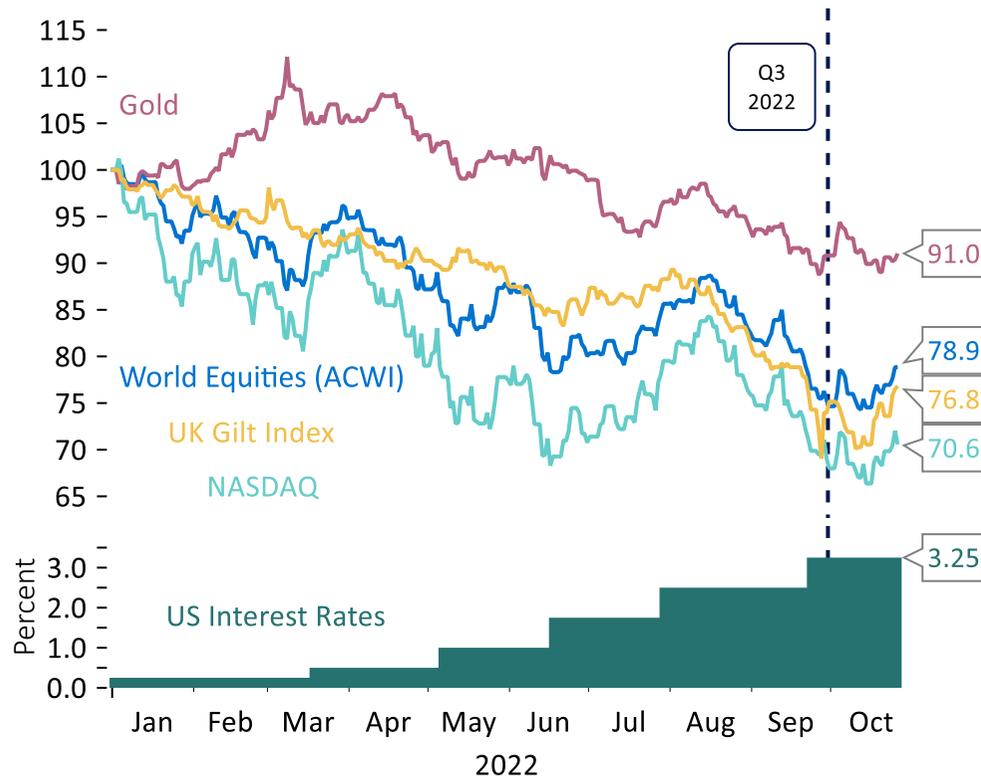


Negative returns for 2022 from all assets but Q4 looks strong



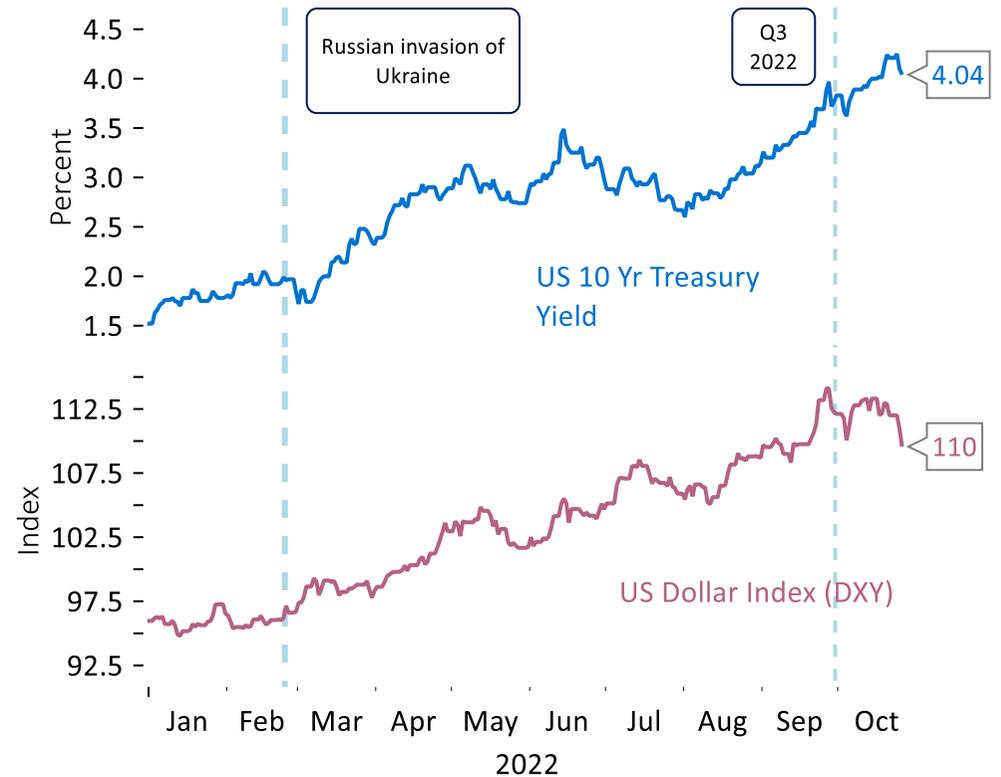
Has the Dollar peaked?

Global Asset Performance, year-to-date



Source: Macrobond, 27.10.22

US 10Y T-Bond Yield & US Dollar



Source: Macrobond, 27.10.22

1. Rising conviction of a peak of US rates at <5%



30 year mortgage at 22 year high argues for a wider US slowdown

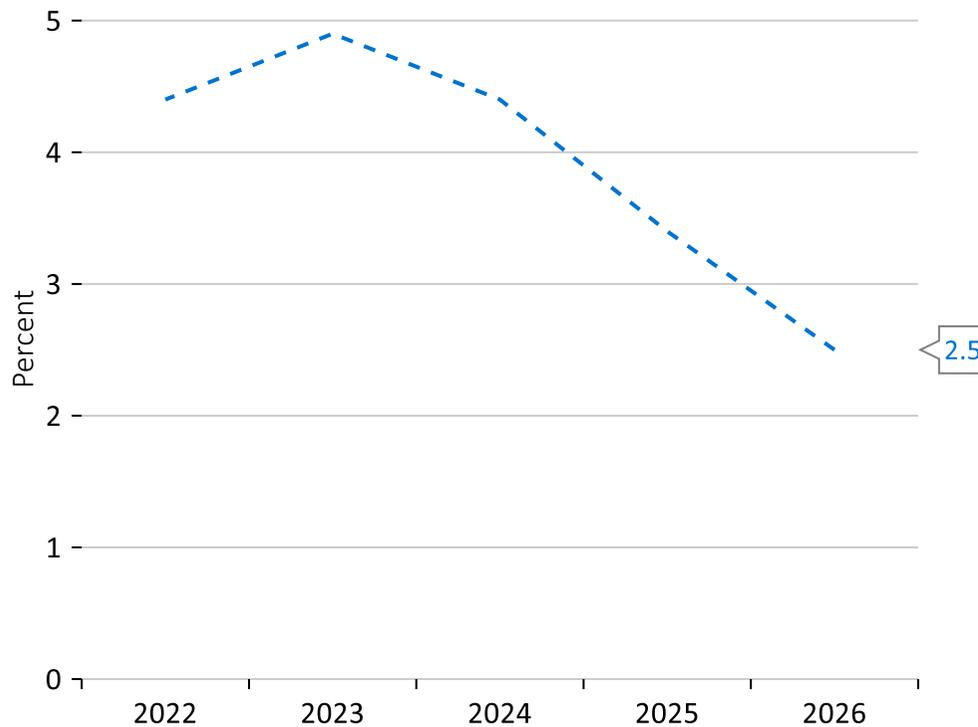


Policy path at the FOMC sees rate peak at 4.75-5% mid 2023



Mortgage rates have doubled since the beginning of 2022

Federal Reserve, Policy Path for Federal Funds Rate, Estimate Central Tendency



Source: Macrobond, 27.10.22

US Mortgage Lending Rates 30-Year Fixed



Source: Macrobond, 27.10.22

2. Inflation may have peaked in corporate supply chains

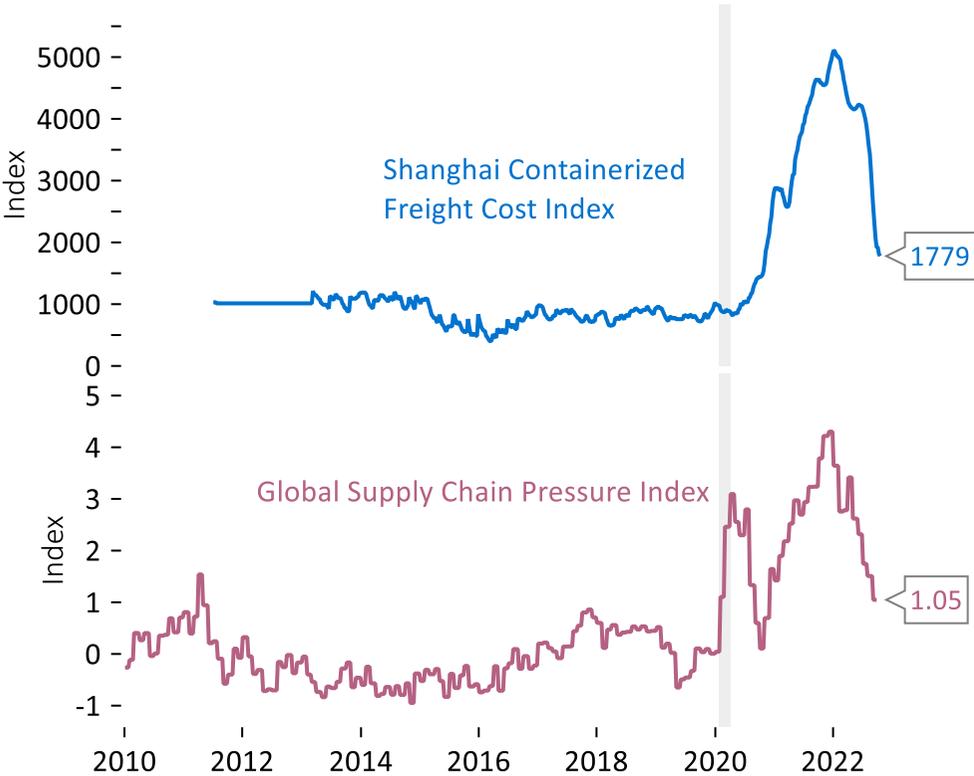


Supply chain pressures starting to ease



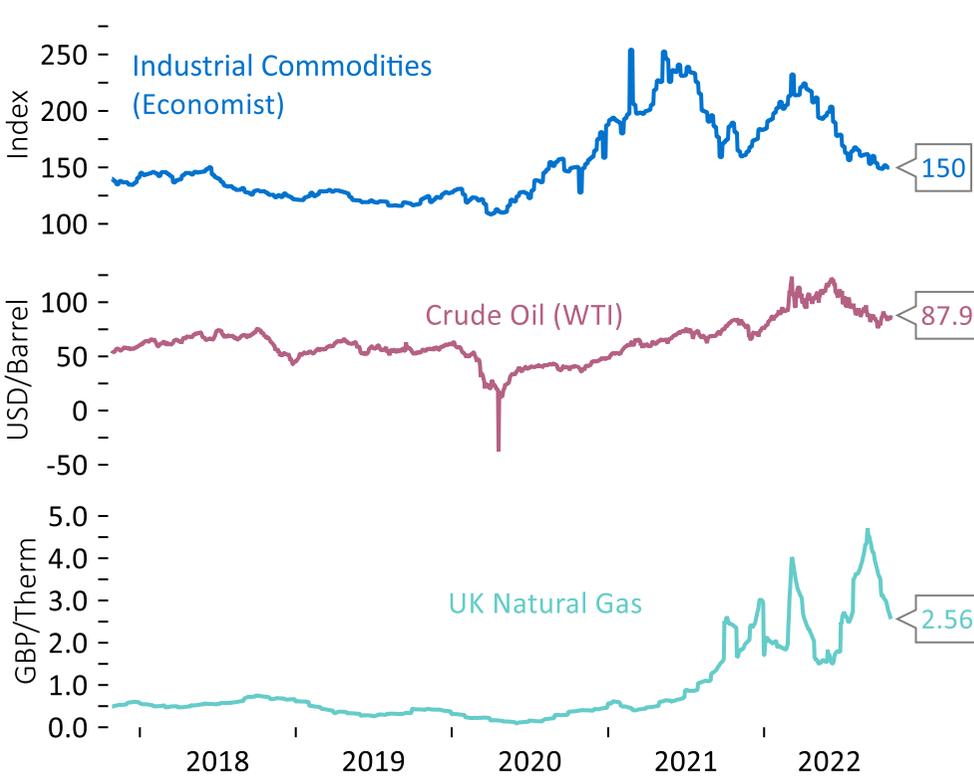
Oil, gas & industrial commodity prices starting to decline

Asian Container Costs and Global Supply Chains



Source: Macrobond, 27.10.22

Oil, Gas and Industrial Commodity Prices



Source: Macrobond, 27.10.22

3. Equity valuations normalise – dividends & buybacks attractive

As policy rates normalise COVID-led PE expansion has reversed



A substantial de-rating of equities has already taken place



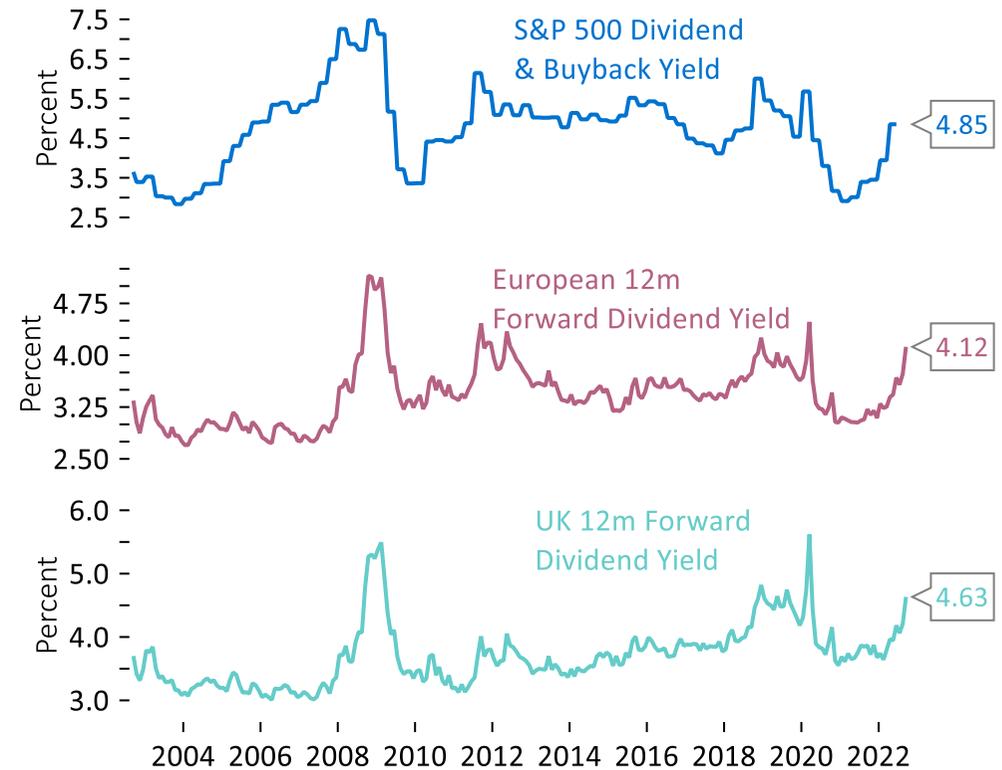
Dividend returns compelling if inflation normalises

World Equity Index PE multiple 1 year forward (FactSet)



Source: Macrobond, 27.10.22

Dividend Yield and Buybacks



Source: Macrobond, 27.10.22

Source: Bank of America Global Fund Manager Survey Aug 2022

4. Fund manager sentiment at maximum bearish

Sentiment very negative but little capitulation via equity outflows



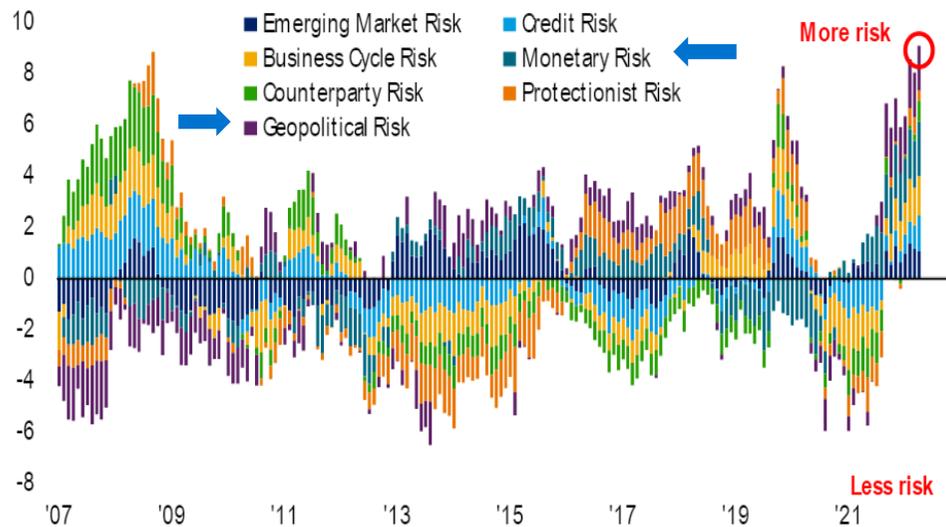
Surveys show highest risk levels, equal to COVID and GFC



Sentiment toward equities close to all time lows

Chart 16: Most categories of risk have worsened in October '22 (vs September)

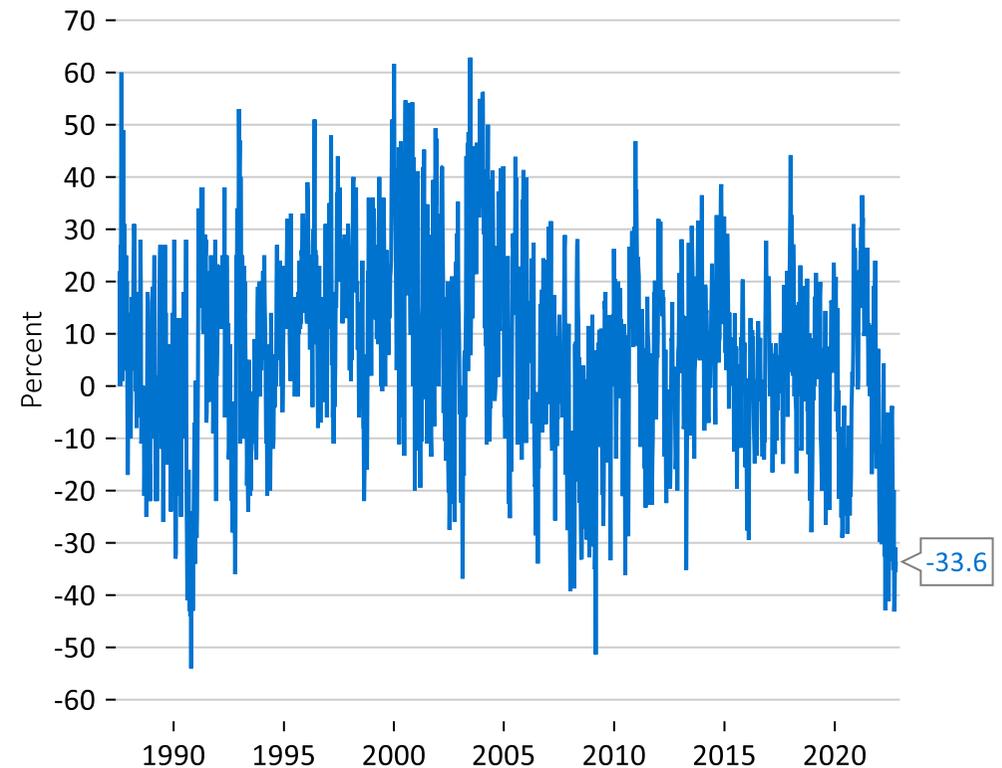
At this time how would you rate these potential risks to Financial Market Stability?



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

US Investor Surveys, AAll, Sentiment Survey, Bull-Bear Spread



Source: Macrobond, 26.10.22

Source: Bank of America FMS, October 2022

Source: Bank of America FMS, October 2022

5. Hunt's fiscal U-turn & our new PM have together restored some of the UK's fiscal credibility

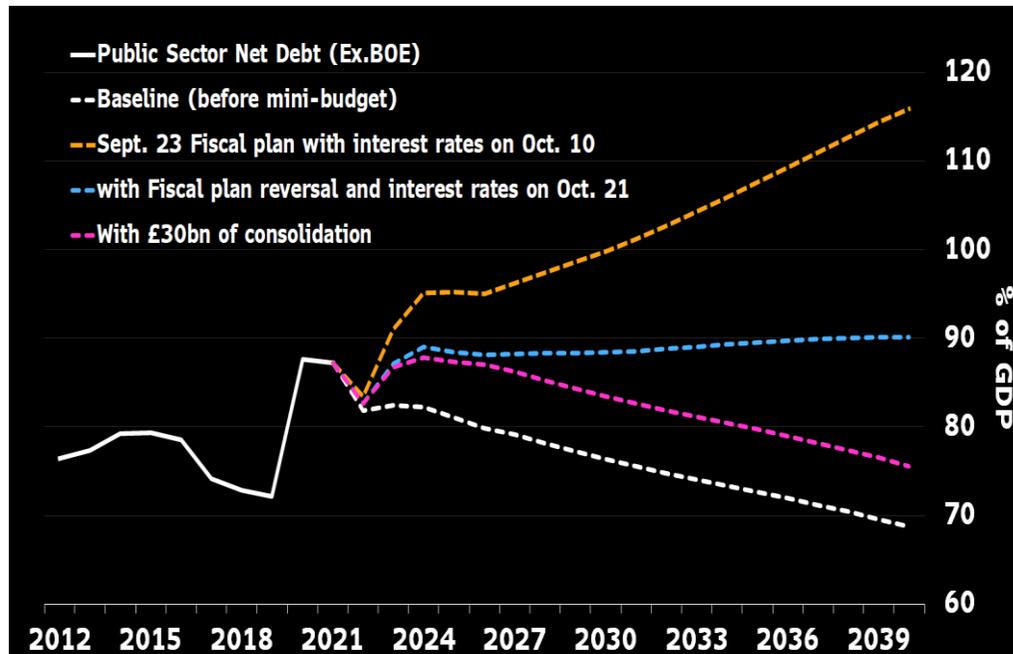


The fiscal hole is smaller – but £30bn still needed



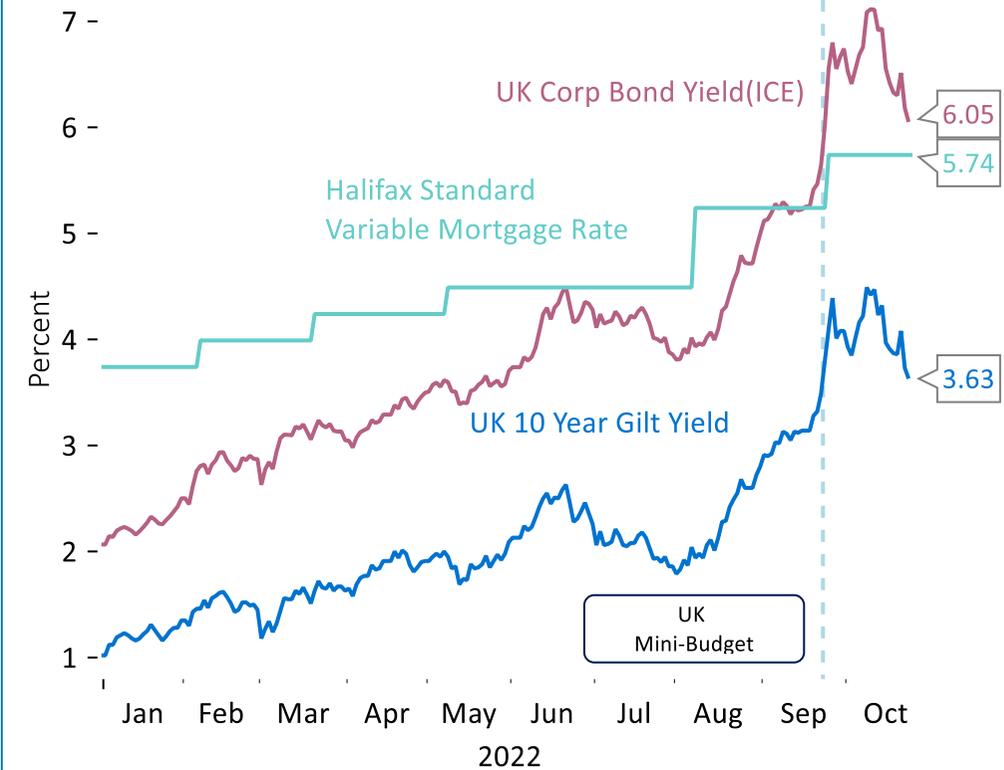
UK borrowing rates start to correct post mini-budget

UK public finances and the mini-budget



Source: Bloomberg Economics Oct 2022

UK Borrowing Rates in 2022



Source: Macrobond, 26.10.22

Are we over the worst...?

Still cautious but taking first steps to add risk...



Global strategy update – October 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 • Neutral Investment Grade Credit – yields attractive – corporate balance sheets healthy
Equities	<p>Underweight Global, UK and EM</p> <ul style="list-style-type: none"> • Compression of equity valuations may soon be complete • UK assets cheap - Fiscal policy shift and Sunak government very significant and positive • EM inflation and China growth risks remain substantial but value clear • Robust corporate balance sheets offer support to defensive & dividend strategies
Alternatives	<p>Overweight</p> <ul style="list-style-type: none"> • Neutral Other Alternatives– private equity, infrastructure and renewables will be impacted by higher discount rates • Strong OW Uncorrelated Alternatives • Reducing gold positions as US rates rise
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	<ul style="list-style-type: none"> • Central bank bond sales and ‘QT’ – likely to herald rising volatility and poorer liquidity • Inflation stickier for longer than expected - Federal Reserve needs to move tighter for longer • Geopolitical heightened – Ukraine escalation (tactical-nuclear?), Iran-Israel, Taiwan-Korea, Global Cyber

Source: Sarasin & Partners, October 2022

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