

Six minute strategy

Keeping an eye on the downside

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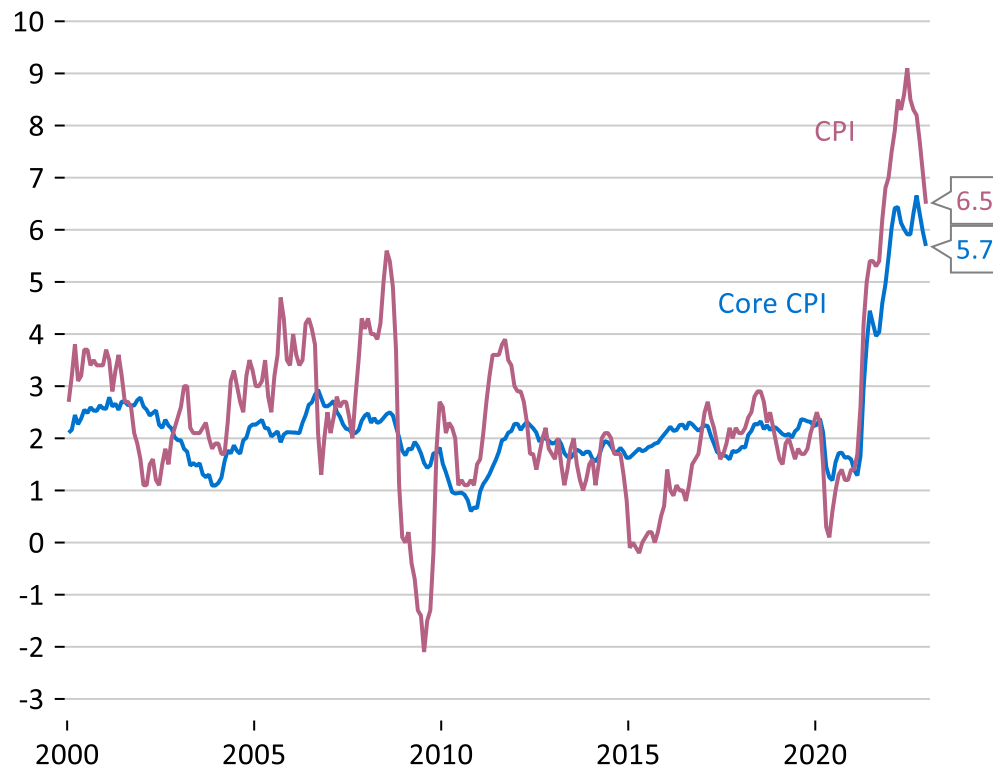
Global equities rose 5% in the first two weeks of 2022 – Why?

1. Global inflation is starting to ease



US inflation is moderating

US Inflation



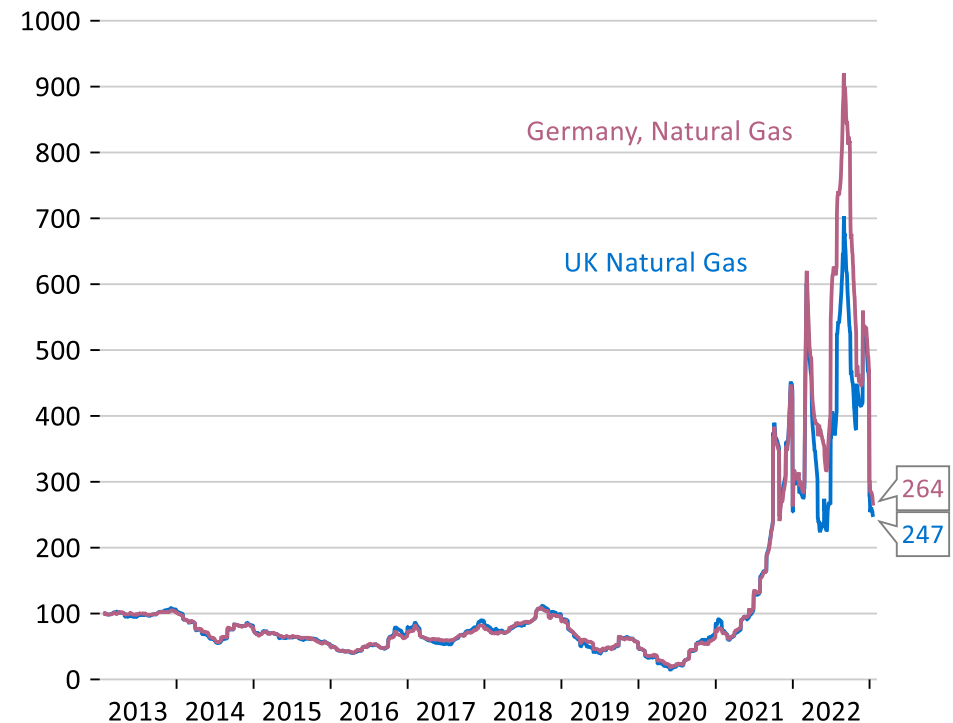
Source: Macrobond, 19.01.23

2. European gas prices subside



In Europe gas reservoirs are 28% fuller than a year ago.

Energy Price changes, 10 years, GBP



Source: Macrobond, 19.01.23

Industrial and power sector demand, which accounts for 60% of German gas consumption was down by 31% on the 2018-21 average.

S&P Global Jan22

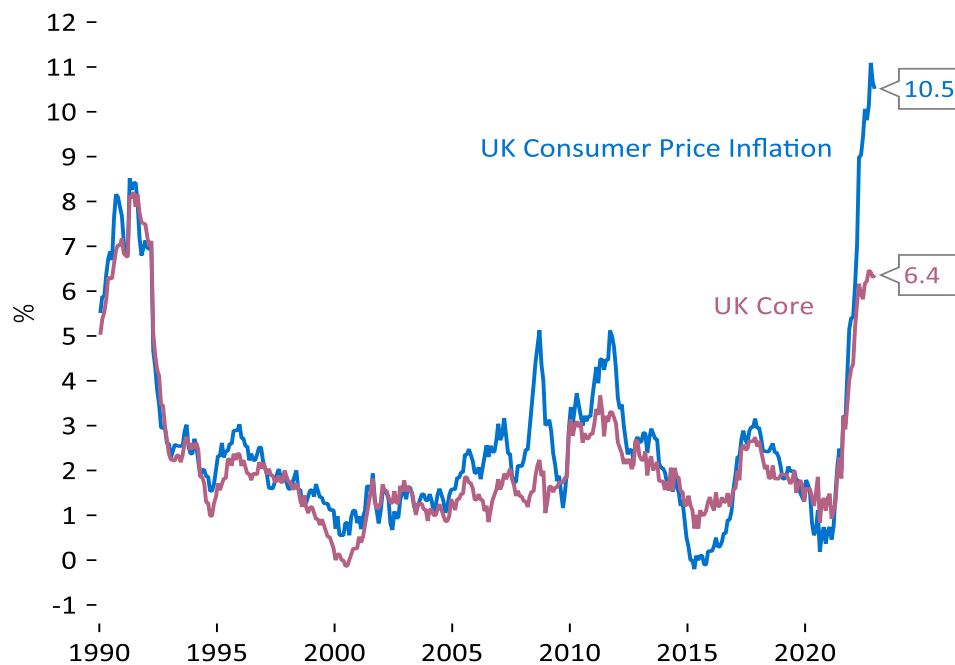
UK at the epicentre of the storm...

Sunak needs to support low-income groups & still win the confidence of financial markets



A glimmer of light on inflation

UK Inflation and Consumer Confidence



Source: Macrobond, 19.01.23

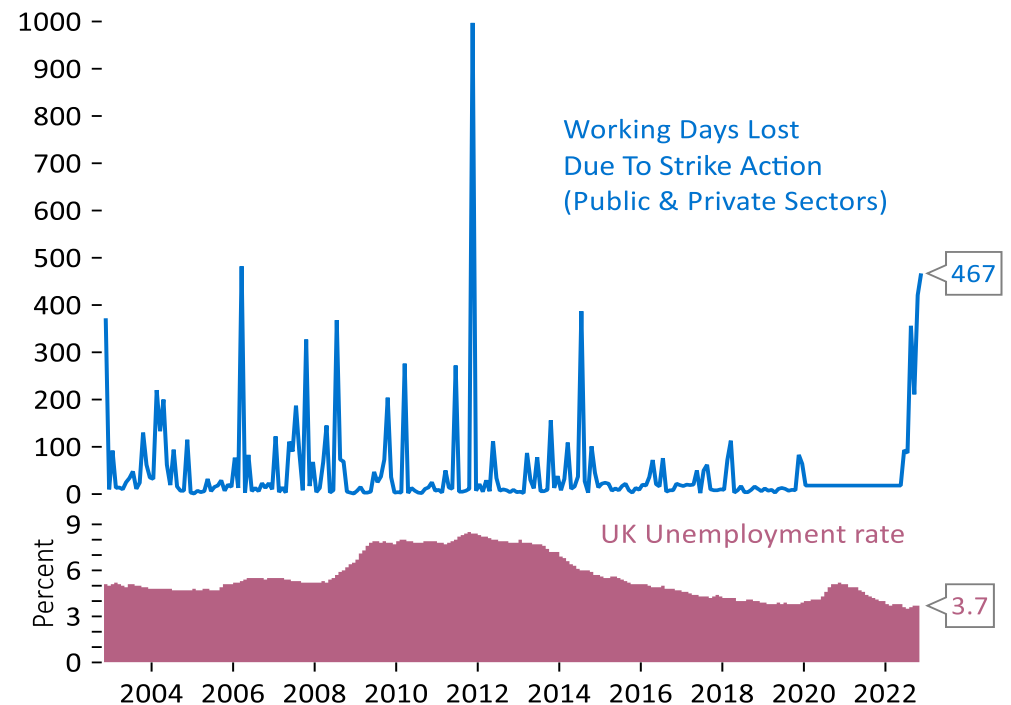
BoE Inflation forecast 5.2% in Q4 2023
and 1.4% in Q4 2024.

Monetary Policy Report Dec 2023



Nearly ½ a million days lost to strike action in December

UK Labour Disputes & Unemployment



Source: Macrobond, 19.01.23

450k workers aiming to strike on 1 Feb University staff,
train drivers and civil servants – this will be almost equal
to all days lost Nov 2022

Bloomberg Jan 2022

China re-opening - the path will be rocky in the short term

Reopening path will be rocky and dependant on health outcomes

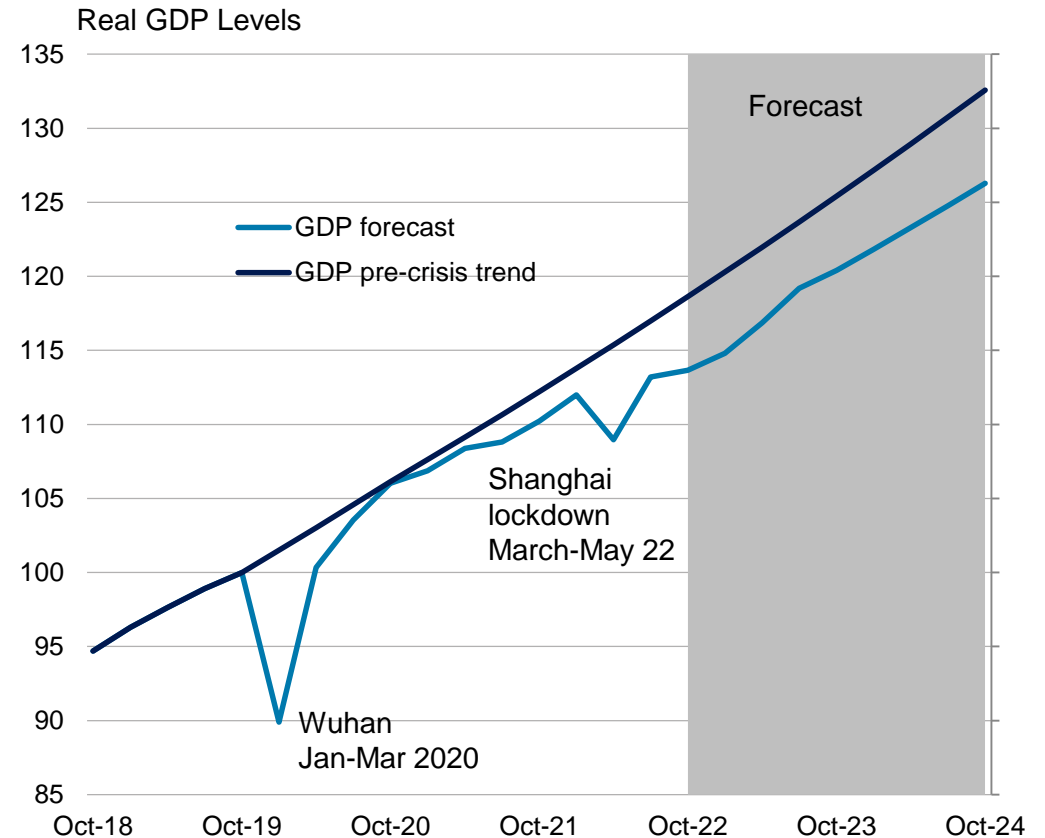
1. **Case numbers?**
2. **Elderly population**
250 million over the age of 60) and limited ICU capacity (3.6 ICU per 100,000 people vs 34.7 in US)
3. **Timing** – winter flu season and CNY festivities

We expect further policy easing to help stabilise GDP

- GDP growth ~5% in 2023
- Global spillovers: LNG import competition? European gas shortages? Oil price effect?



Real GDP levels and forecast



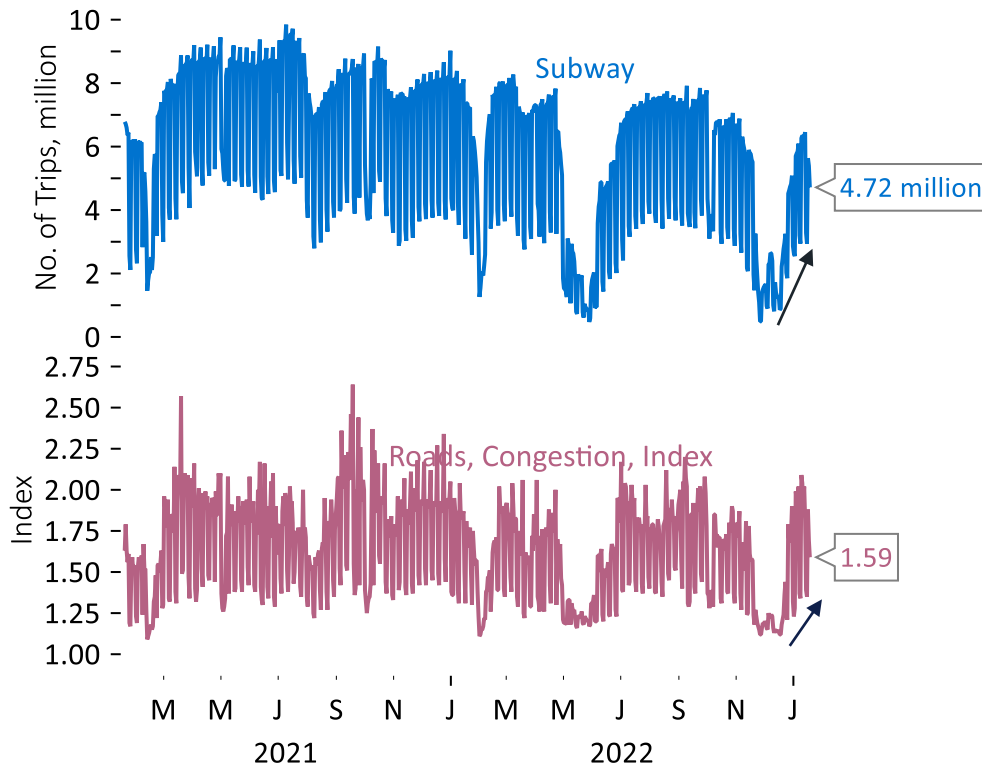
Source: Sarasin & Partners/Macrobond January 2022

But signs of economic recovery are already evident



Some signs of recovery in activity

China, Beijing, Volume of Passenger Transport

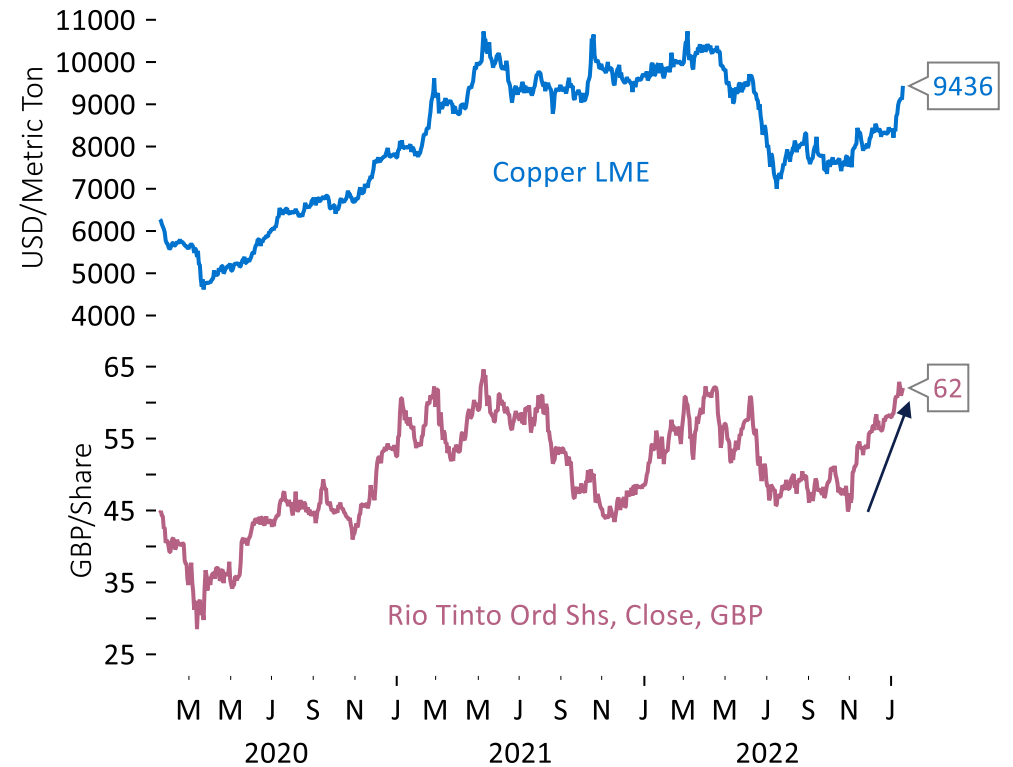


Source: Macrobond, 19.01.23



Metals prices suggest China recovery is durable

Copper and Rio Tinto Share Price



Source: Macrobond, 19.01.23

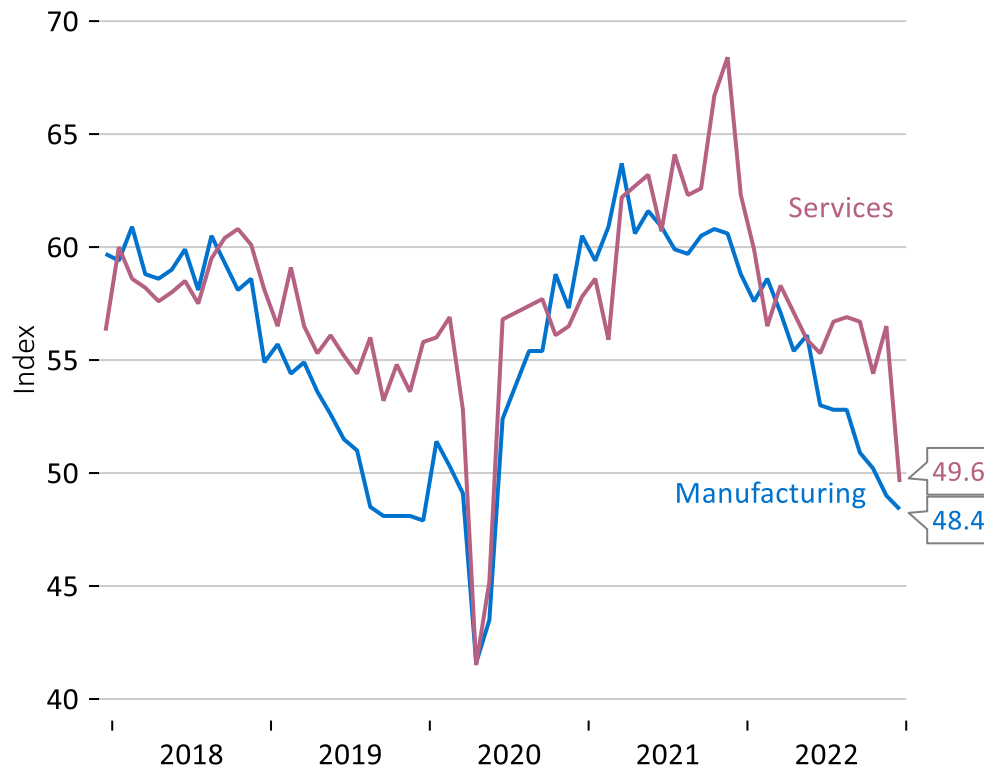
Risk 1: Recession risk is still very real...

Risk of higher rates for longer if downturn *too mild* to ease demand



US manufacturing weak but services stronger than forecast

US Business Surveys ISM

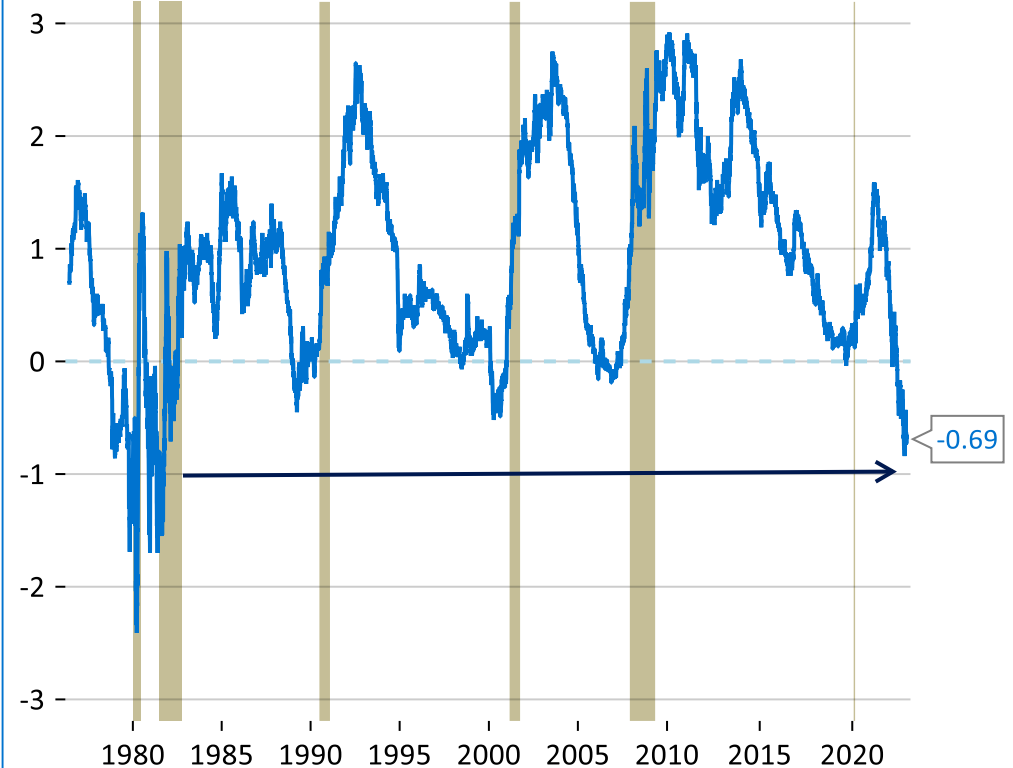


Source: Macrobond, 19.01.23



40 year record inversion - a strong indicator of recession

US 10Yr less 2Yr Government Bond Yield



Source: Macrobond, 19.01.23

Source: Federal Reserve Bank of Chicago. The Financial Conditions Index includes conditions in money markets, debt and equity markets, and traditional and "shadow banking" systems.

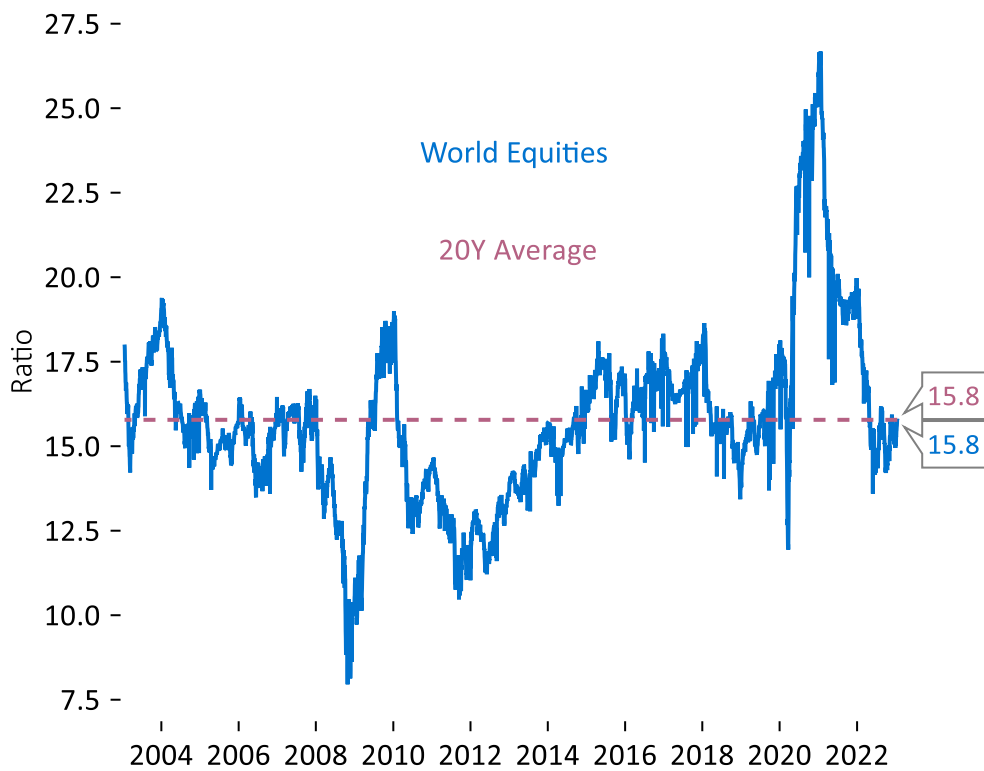
Risk 2. Equity valuations are not yet cheap if inflation is sticky

Global equity valuations are at fair value – longer term measures still look expensive

 Global equities are not yet cheap esp. if rates rise further

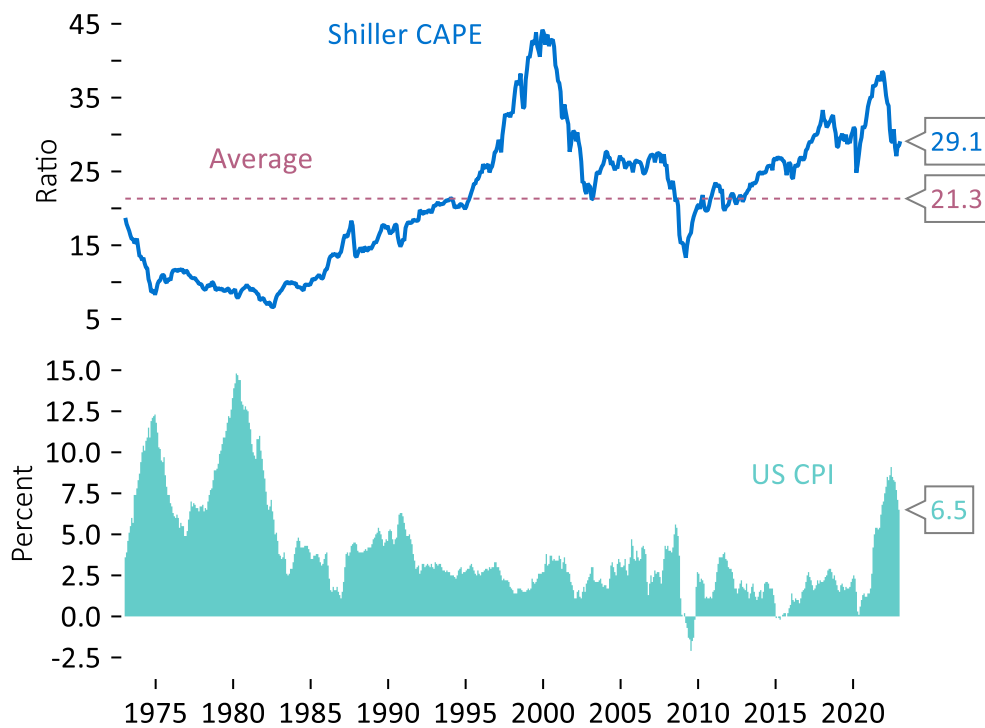
 Periods of high inflation typically squeeze valuations

World Equity Index PE multiple 1 year forward (FactSet)



Source: Macrobond, 19.01.23

Schiller Cyclically Adjusted PE Ratio (CAPE) S&P500
US CPI -50Y



Source: Macrobond, 19.01.23

Patience please – central banks are not quite finished

Global equity opportunities are clear but over-zealous central-bankers are still a risk



Global strategy update – January 2023

Bonds	Neutral <ul style="list-style-type: none">• Neutral Government Bonds – global inflationary pressures remain elevated but rates are close to peaking• Neutral Investment Grade Credit – yields attractive – corporate balance sheets healthy
Equities	Modest Underweight <ul style="list-style-type: none">• Near record corporate margins clearly exposed in a global recession – a strong thematic overlay needed• Equity valuations are vulnerable if inflation is stickier than the market expects• <i>Emerging markets offer opportunities in 2023 as China reopens and US Dollar weakens</i>• <i>Equity insurance attractive as alternative to equity reduction</i>
Alternatives	Overweight <ul style="list-style-type: none">• Underweight Correlated Alternatives – higher discount rates and worries over liquidity argues for caution on private equity, infrastructure and renewables• Strong OW Uncorrelated Alternatives as effective diversification (gold, metals & macro hedge funds attractive)• Overweight positions in Gold as Dollar surge fades
Cash (tactical)	Neutral – no currency preference
Risks	<ol style="list-style-type: none">1. Inflation shock not yet abating: US Core inflation continues to accelerate in 2023 meaning higher rates for longer2. Shrinking central bank balance sheets: QT triggers tighter liquidity and volatility issues. Central bank losses accelerate budget crisis3. Military challenges worsen: China-Taiwan reunification risks accelerate – Putin escalates with tactical nuclear ‘event’

Source: Sarasin & Partners, January 2023

Important information

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