

Six minute strategy Telling it as it is

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29 September 2023

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2023 asset market performance and equity concentration

US equities are now flat for the year to date ex Magnificent Seven

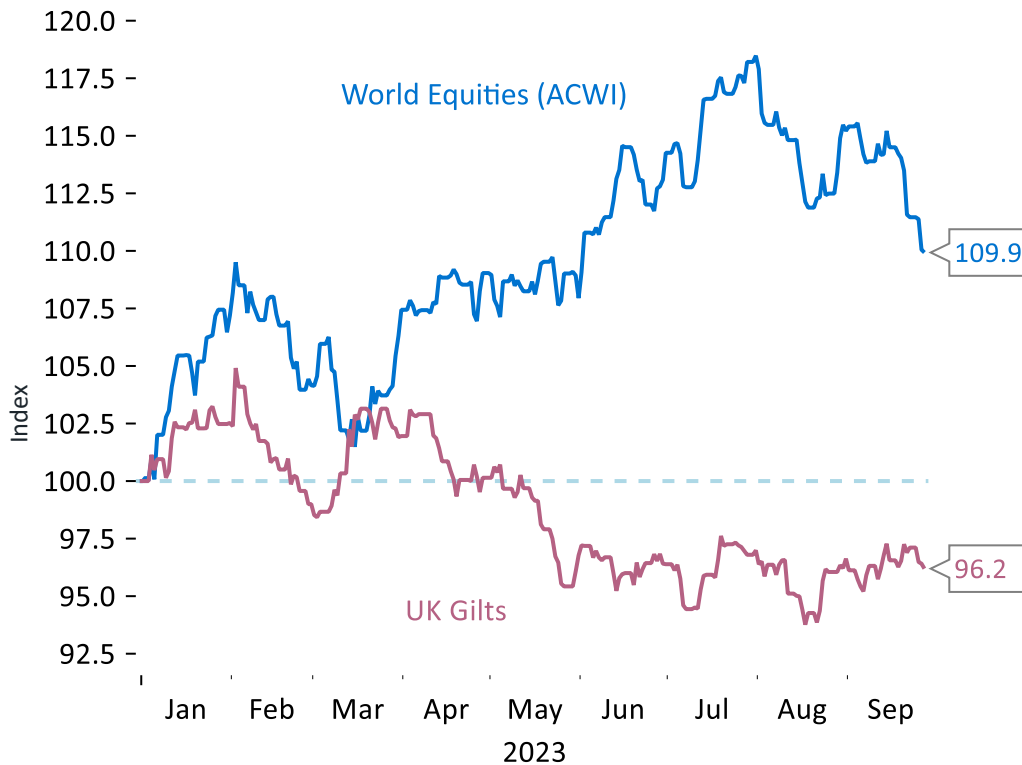


Equities and bonds diverge very sharply



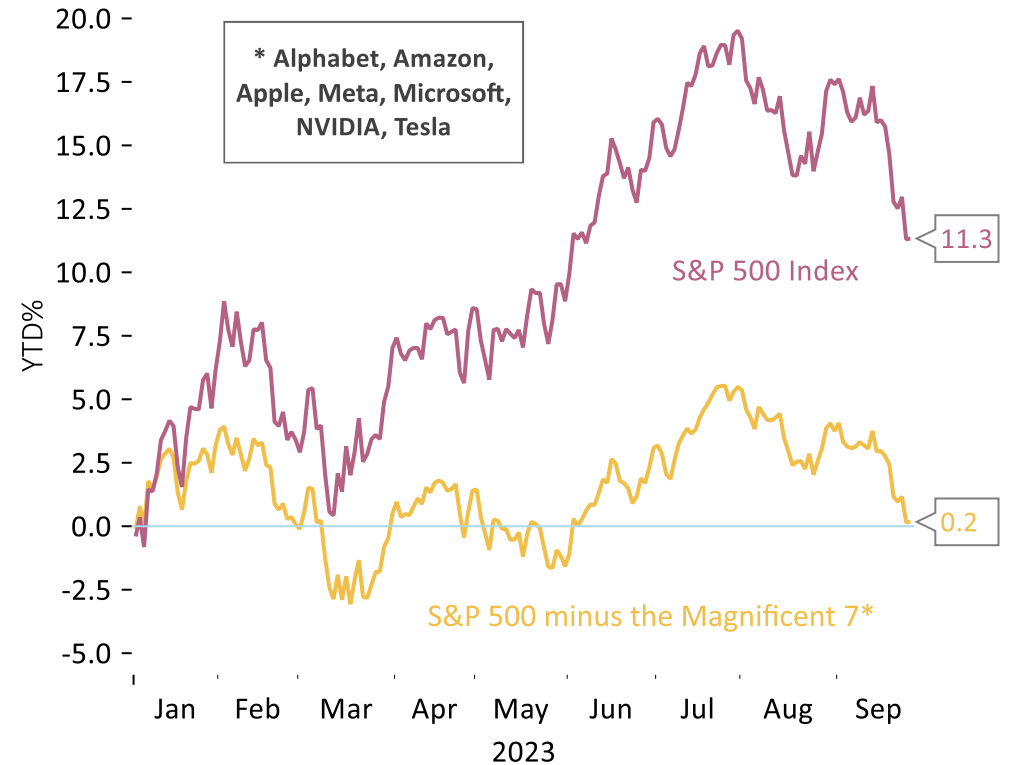
AI beneficiaries massively dominate US indices

Asset class performance 2023



Source: Macrobond, 28.09.23

The Magnificent 7* are driving the S&P 500



Source: Macrobond, 28.09.23

Why have markets corrected this quarter?

(1) Dollar rally (2) Oil price recovery (3) Technology valuations looking excessive

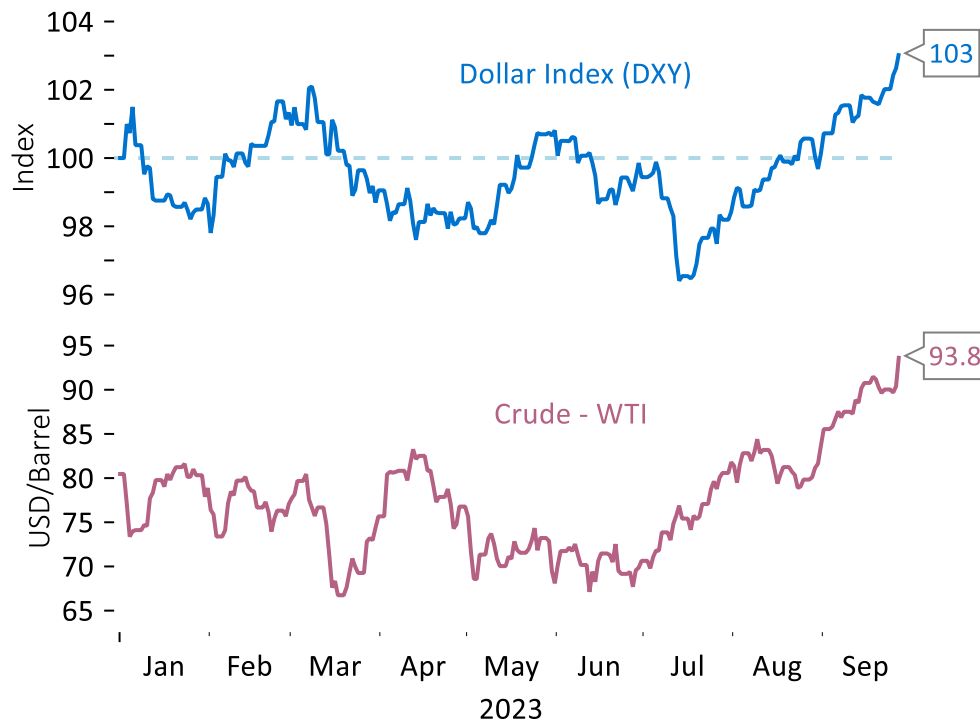


Dollar rally tightens liquidity in EM – Oil price inflationary



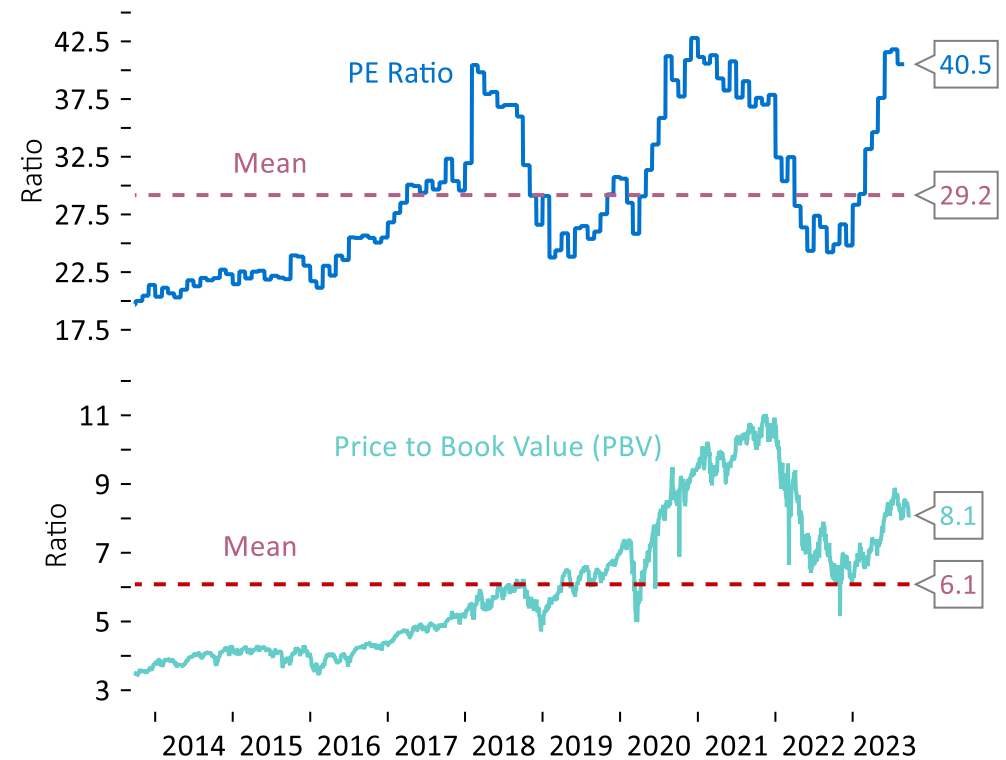
Technology valuations look excessive

Asset class performance 2023



Source: Macrobond, 28.09.23

US Technology Valuations (FactSet)



Source: Macrobond, 28.09.23

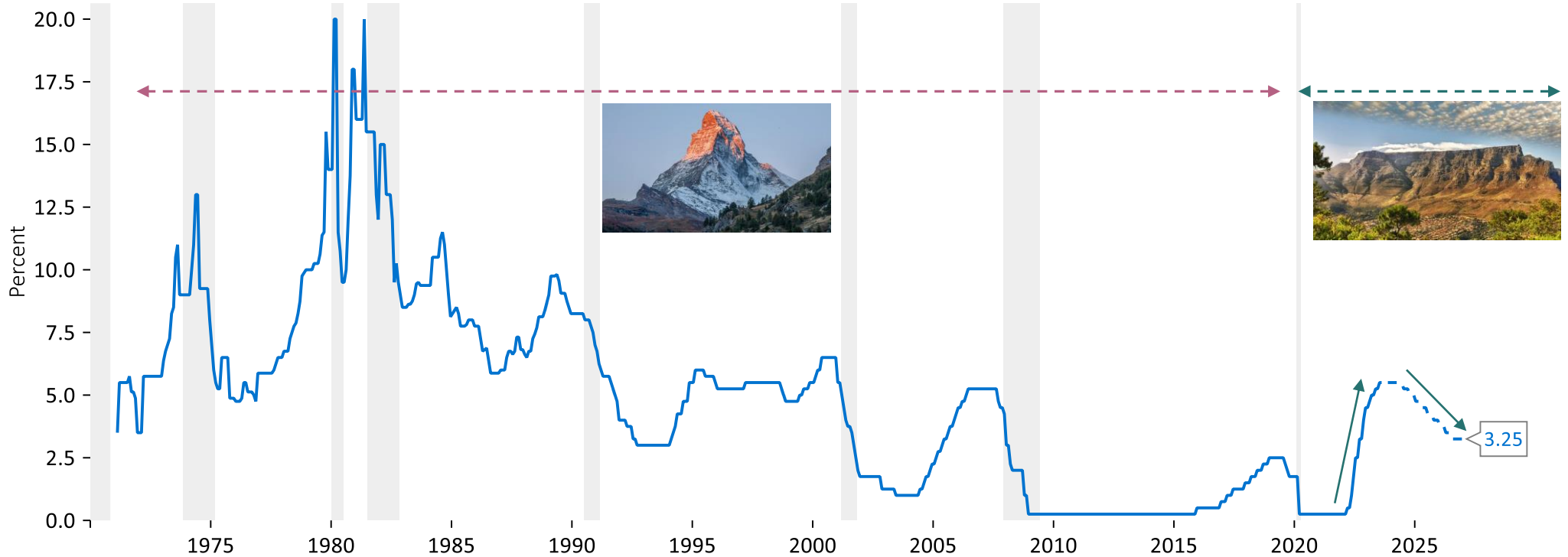
Why have markets corrected ?

(4) Federal Reserve 'Dot Plot' confirms higher-for-longer rate policy in 2024



Rates in 2024 - Markets are digesting a Table Mountain for rates rather than a Matterhorn?

US Policy Rate and Recessions (shaded) & Sarasin forecasts



Source: Macrobond, 28.09.23

“We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective.” Chairman Powell at Jackson Hole August 2023

Bond markets are now pricing in *higher-for-longer* rates

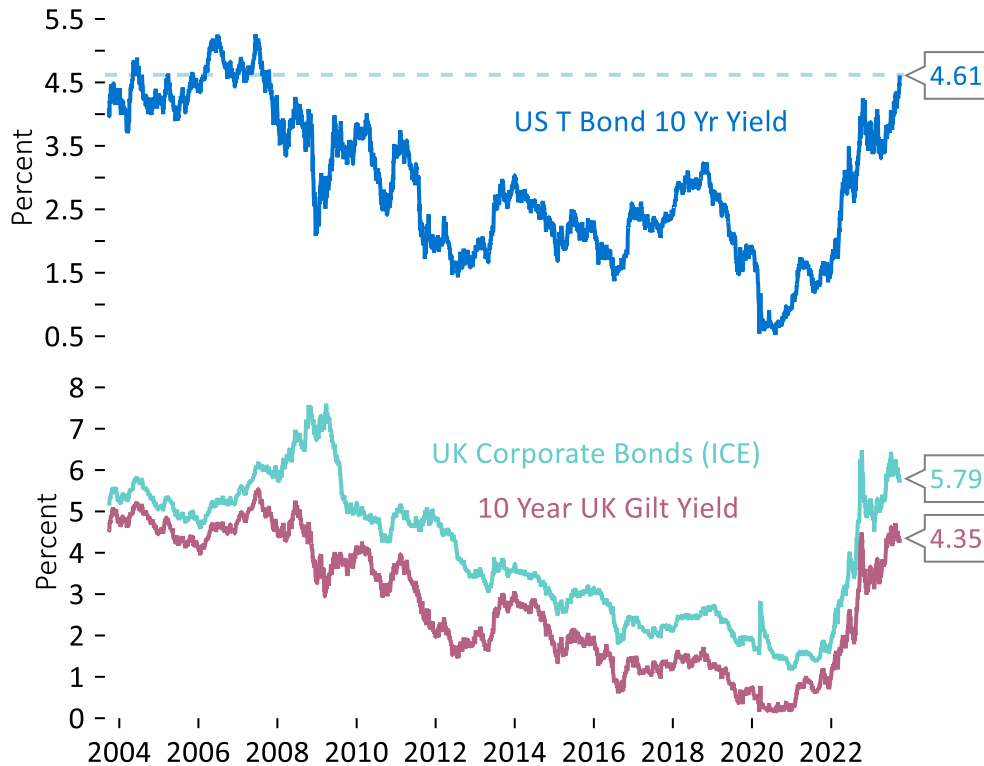


Global bond yields climb to 15 year highs – Value appearing



US inflation linked bonds now offering 2.2% real yields

US and UK Bond Yields



Source: Macrobond, 28.09.23

US 20 Year Yield TIPS (Index-Linked)



Source: Macrobond, 28.09.23

US soft landing still looks probable

ISM data and job openings continue to argue for a mild slowdown

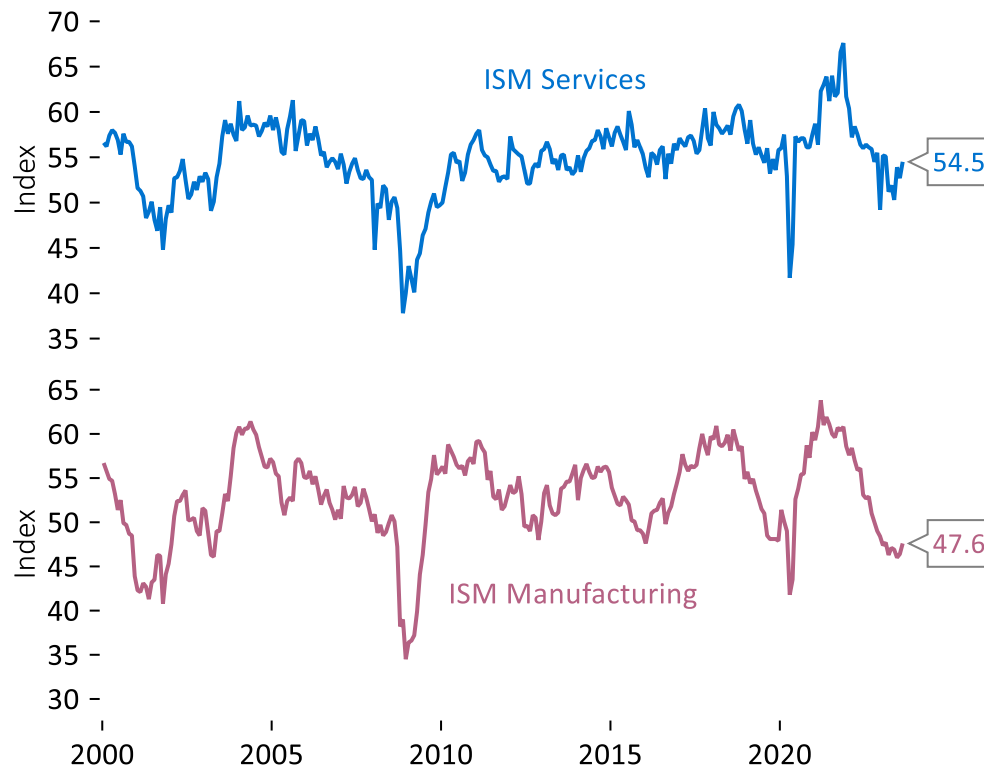


Service sector still showing positive momentum



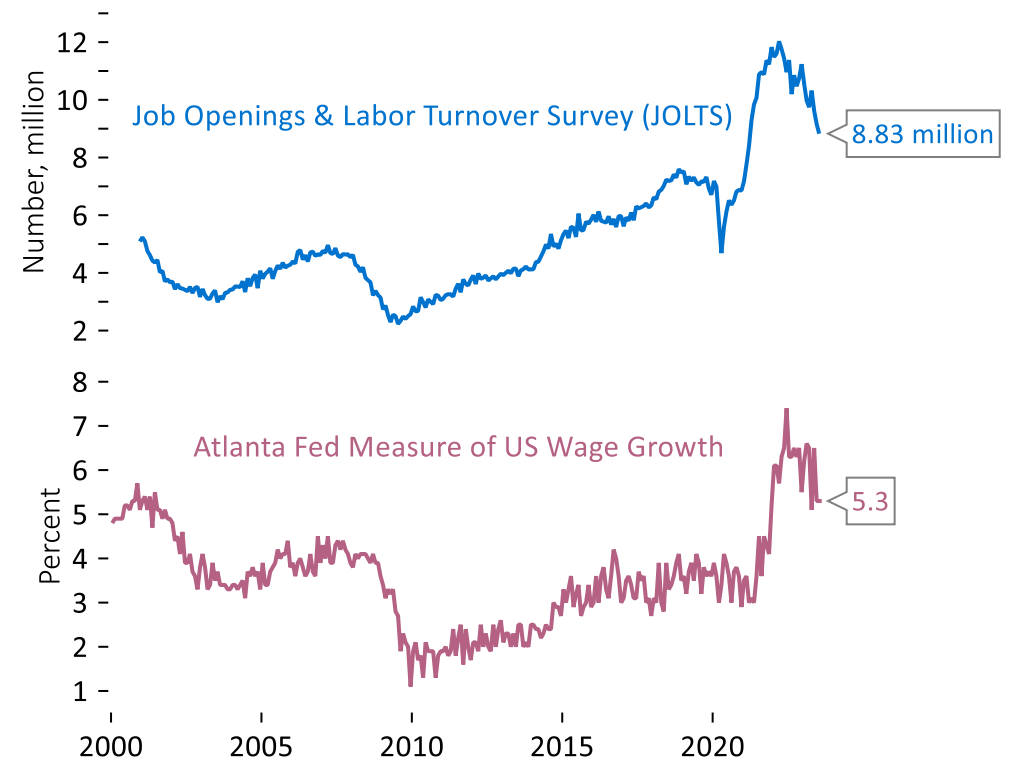
US Labour market easing but still tighter than pre-COVID

US Purchasing Managers Index (ISM)



Source: Macrobond, 28.09.23

US Labour job openings and wages



Source: Macrobond, 28.09.23

The United Auto Workers Union are asking for wage increases of 36% over four years from Ford, GM and Stellantis – could this be reflected in other industries?

Inflation - US data generally easing

Most measures continue to stabilize but note sharp recovery in commodity prices

US inflation tracker

United States: Inflation tracker

Color-coded based on rolling 3 year z-score

	9/2023	8/2023	7/2023	6/2023	5/2023	4/2023	3/2023	2/2023	1/2023	12/2022	11/2022	10/2022	9/2022
Economic Measures													
PCE Y/Y %			3.3	3.0	3.8	4.3	4.2	5.0	5.4	5.3	5.7	6.1	6.3
Core PCE Y/Y %			4.2	4.1	4.5	4.6	4.6	4.7	4.7	4.6	4.8	5.1	5.2
CPI Y/Y %		3.7	3.3	3.1	4.1	5.0	5.0	6.0	6.3	6.4	7.1	7.8	8.2
Core CPI Y/Y %		4.4	4.7	4.9	5.3	5.5	5.6	5.5	5.5	5.7	6.0	6.3	6.6
PPI Y/Y %		1.6	0.9	0.2	1.2	2.3	2.7	4.8	5.7	6.4	7.4	8.2	8.5
Core PPI Y/Y %		2.1	2.4	2.3	2.8	3.2	3.4	4.7	5.0	5.7	6.2	6.9	7.2
Atlanta Fed Wage Growth		5.3	5.7	5.6	6.0	6.1	6.4	6.1	6.1	6.1	6.4	6.4	6.3
Manheim Used Vehicle Y/Y %	-3.5	-7.7	-11.6	-10.3	-7.6	-4.4	-2.4	-7.0	-12.8	-14.9	-14.2	-10.6	-0.1
Inflation Expectations													
Expected Inflation, Fed Cleveland, 1 Year	2.8	2.6	2.5	1.4	2.7	2.7	2.1	2.6	2.7	2.9	3.2	2.9	4.2
Expected Inflation, Fed Cleveland, 2 Year	2.5	2.4	2.3	1.6	2.4	2.4	2.2	2.4	2.5	2.5	2.8	2.6	3.2
Break-Even Inflation, 5 Year	2.3	2.2	2.3	2.2	2.1	2.2	2.4	2.5	2.2	2.2	2.3	2.6	2.1
Break-Even Inflation, 10 Year	2.4	2.2	2.3	2.2	2.2	2.2	2.3	2.4	2.2	2.2	2.2	2.5	2.1
Conference Board, Inflation expectations	5.7	5.7	5.7	5.8	6.1	6.2	6.3	6.2	6.7	6.6	7.1	6.9	6.8
Commodities													
GSCI Commodities Y/Y %	12.5	-1.8	-5.0	-14.2	-24.1	-15.1	-10.0	-0.3	12.8	26.0	37.4	24.7	23.6
GSCI Industrial Metals Y/Y %	4.3	0.3	1.8	-3.8	-17.5	-17.0	-21.0	-15.7	-1.9	-7.6	-3.7	-15.9	-13.2
GSCI Softs Y/Y %	29.0	15.6	22.9	11.6	7.5	9.1	-1.0	3.3	1.0	-2.0	-0.7	-9.9	-0.2
Baltic Dry Index Y/Y %	-0.5	12.5	-40.5	-51.3	-61.9	-34.4	-41.1	-51.5	-52.0	-31.7	-55.1	-58.4	-65.9
Lumber Futures Y/Y %					-47.4	-66.2	-61.5	-69.9	-46.5	-67.4	-47.9	-22.0	-32.7

■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

Source: Macrobond, 28.09.23

Policy summary

Neutral on equities with protection, and overweight on corporate bonds, gold and sterling



Global strategy update – October 2023

Bonds	<p>Neutral</p> <ul style="list-style-type: none">• Underweight Govt: Corporate issues offer better value• Overweight Inv. Grade Credit: Yields attractive – corporate balance sheets healthy
Equities	<p>Neutral with insurance/underweight without insurance</p> <ul style="list-style-type: none">• Global: Earnings slowing but still attractive, supply chain pressures easing but tech valuations worrying• Emerging markets: Valuations attractive but higher oil prices and a stronger dollar are challenges• Equity insurance: Key risks is a de-rating of US and global technology stocks
Alternatives	<p>Neutral</p> <ul style="list-style-type: none">• Neutral Correlated: Higher interest rates mostly priced in – discounts attractive• Underweight Uncorrelated: Hedge funds and absolute return unlikely to outperform cash/bonds• Overweight positions in Gold as hedge against a failure in the financial system. Carbon & Climate Transition Metals attractive
Cash (tactical)	<p>Overweight</p> <ul style="list-style-type: none">• Overweight: Sterling can rally toward PPP on lower political risk (PM Sunak & Starmer’s policies both market friendly)
Risks	<ol style="list-style-type: none">1. Liquidity risks elevated as central bank balance sheets shrink & real rates turn positive2. Long-term risk from failing to secure climate targets3. Political risk from military conflict has moderated but remains elevated

Source: Sarasin & Partners, Sept 2023

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