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Six Minute Strategy

The Everything Rally

December 2023

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A strong rally across global asset classes

The 'Everything Rally' has seen almost every asset climb in Q4 2023

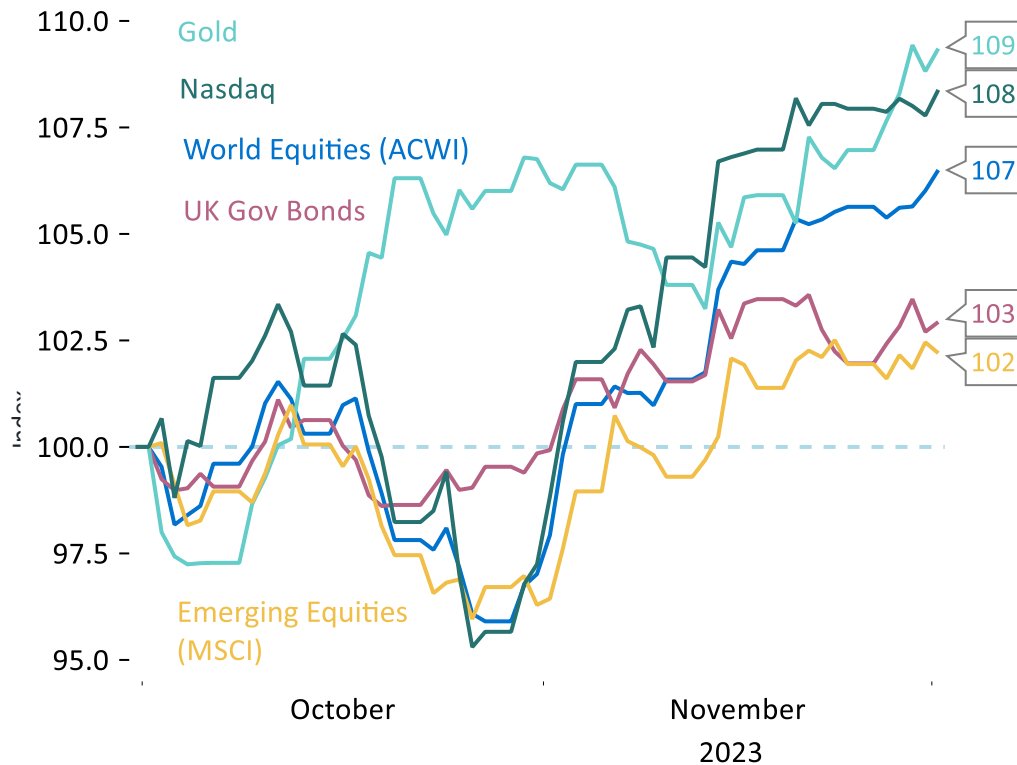


Better than expected inflation data triggers Q4 rally



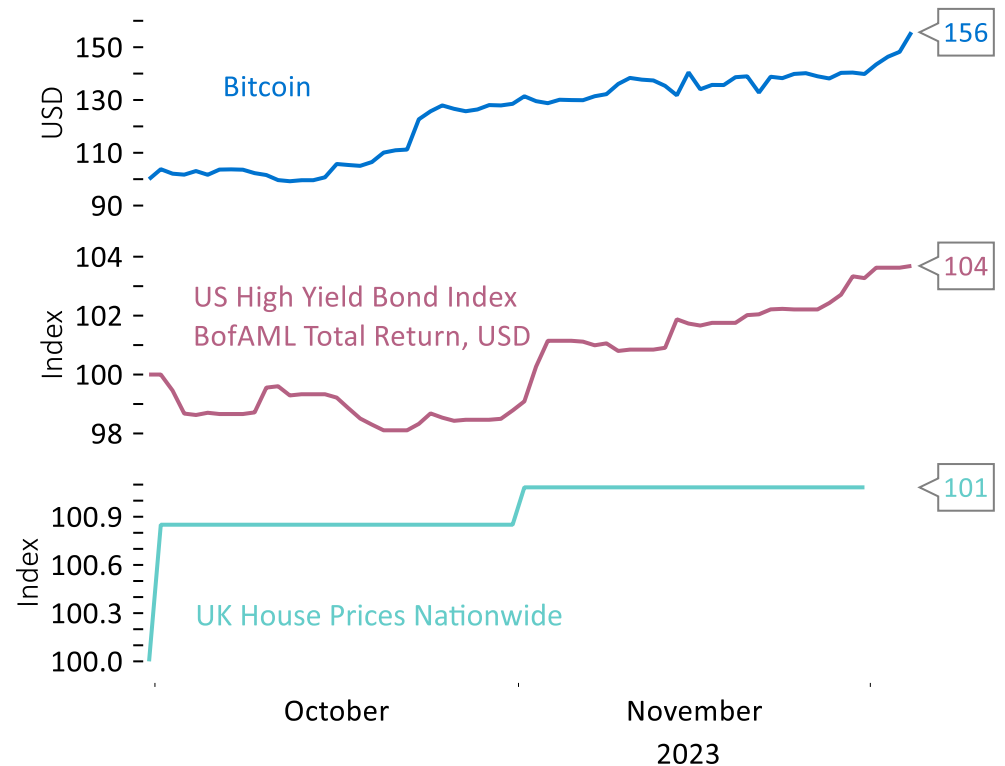
Bitcoin, Junk bonds & even UK house prices join the party

Asset Class Performance Q4 2023



Source: Macrobond, 06.12.23

Asset Class Performance Q4 2023



Source: Macrobond, 05.12.23

Past performance is not a reliable indicator of future results and may not be repeated.

2023 equity leadership slowly widening

Extraordinary leadership of AI winners looks to be widening – equity volatility makes new lows



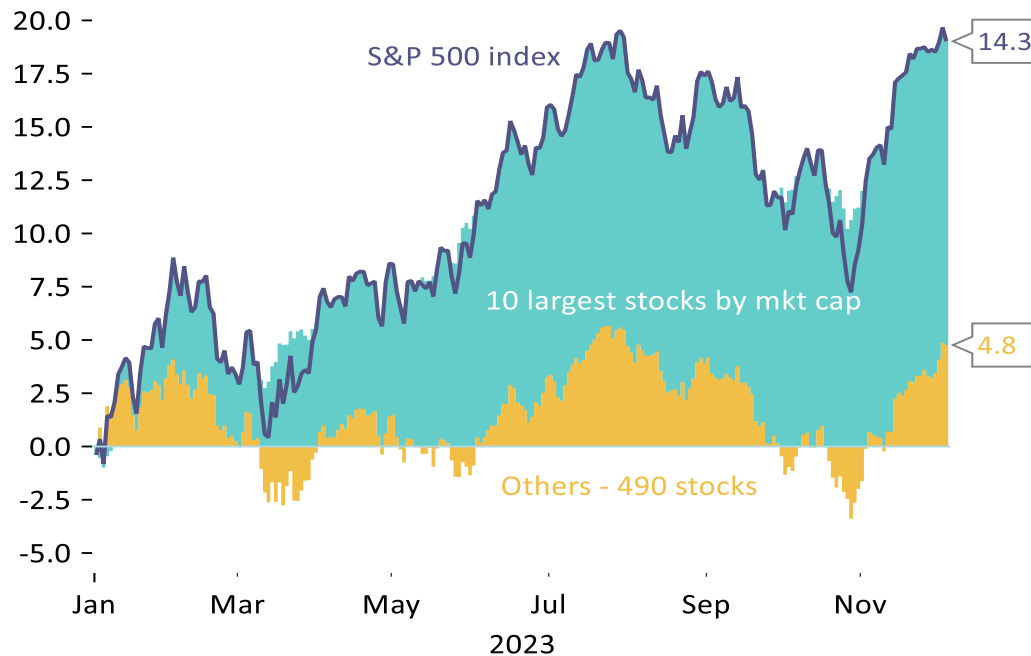
US equity market breadth is slowly improving



Equity & now bond market volatility falls

Largest stocks are driving the current S&P rally

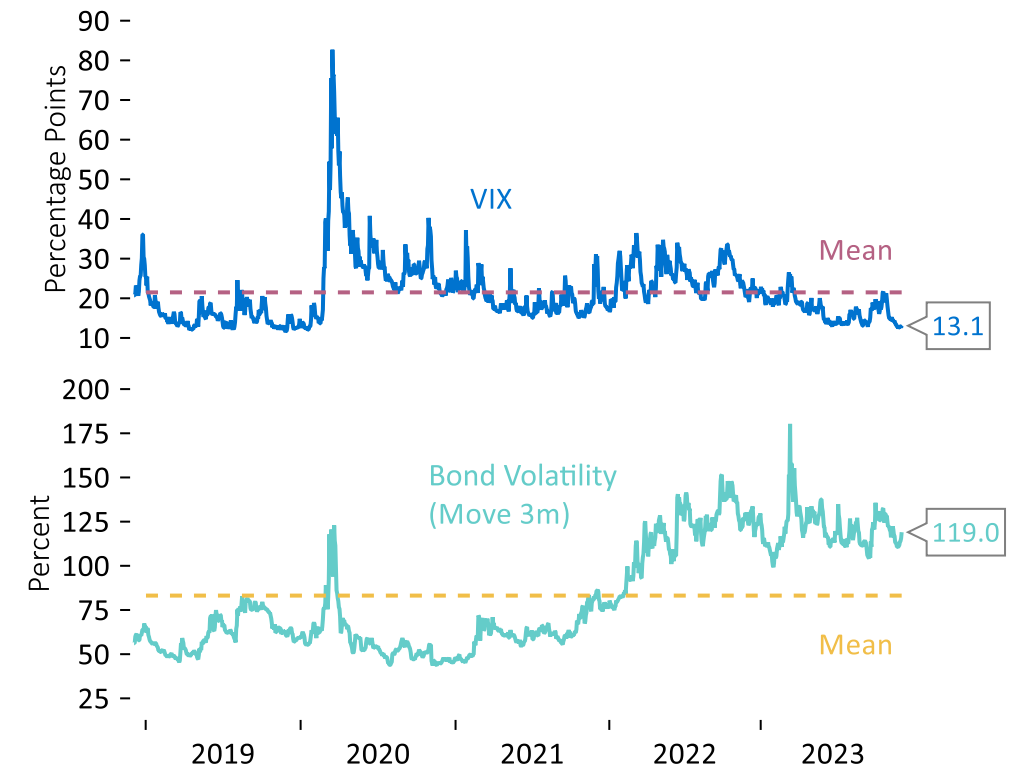
Source: S&P Global



Source: Macrobond, 05.12.23

10 Largest Stocks in the S&P500: Apple, Microsoft, Amazon, Nvidia, Alphabet-A, Tesla, Meta, Alphabet-C, Berkshire Hathaway, UnitedHealth

S&P500 (VIX) & Bond Market Volatility



Source: Macrobond, 05.12.23

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1. Current inflation rates easing globally

Goldilocks scenario of falling US inflation with little impact on growth (Q3 US GDP 5.2%)

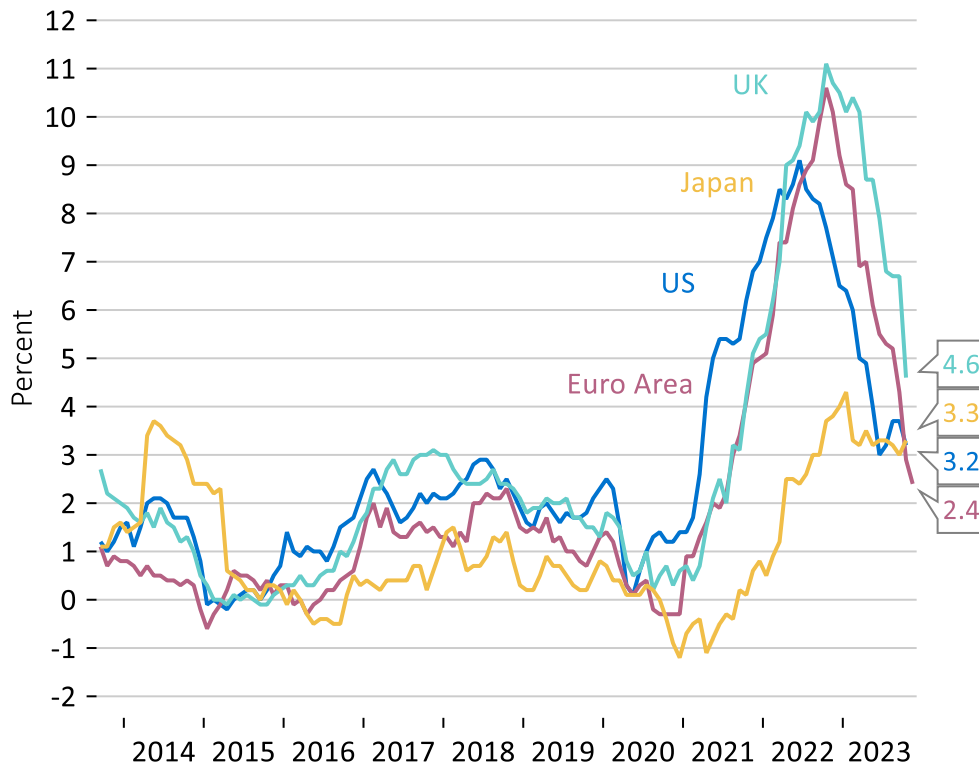


Major markets see sharp fall in headline CPI



Inflation momentum fading across world markets

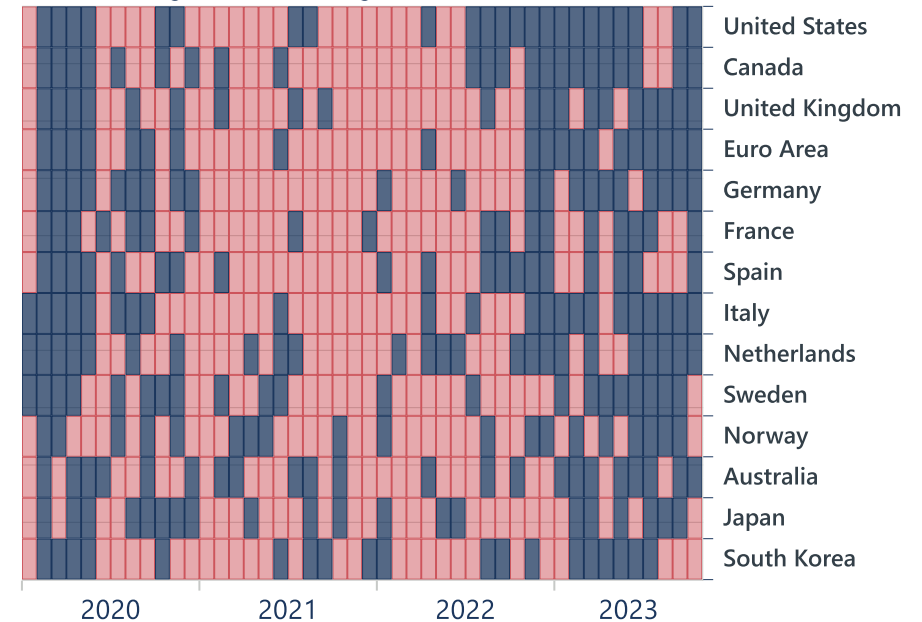
Headline Inflation (CPI)



Source: Macrobond, 05.12.23

Inflation tracker for developed markets

Inflation momentum, measured as the monthly change of the YoY % change
Red: accelerating. Blue: decelerating.



National Sources 05.12.23

MACROBOND

2. Lower inflationary pressures suggest rates have peaked

Market now expects rate cuts to begin in mid-2024

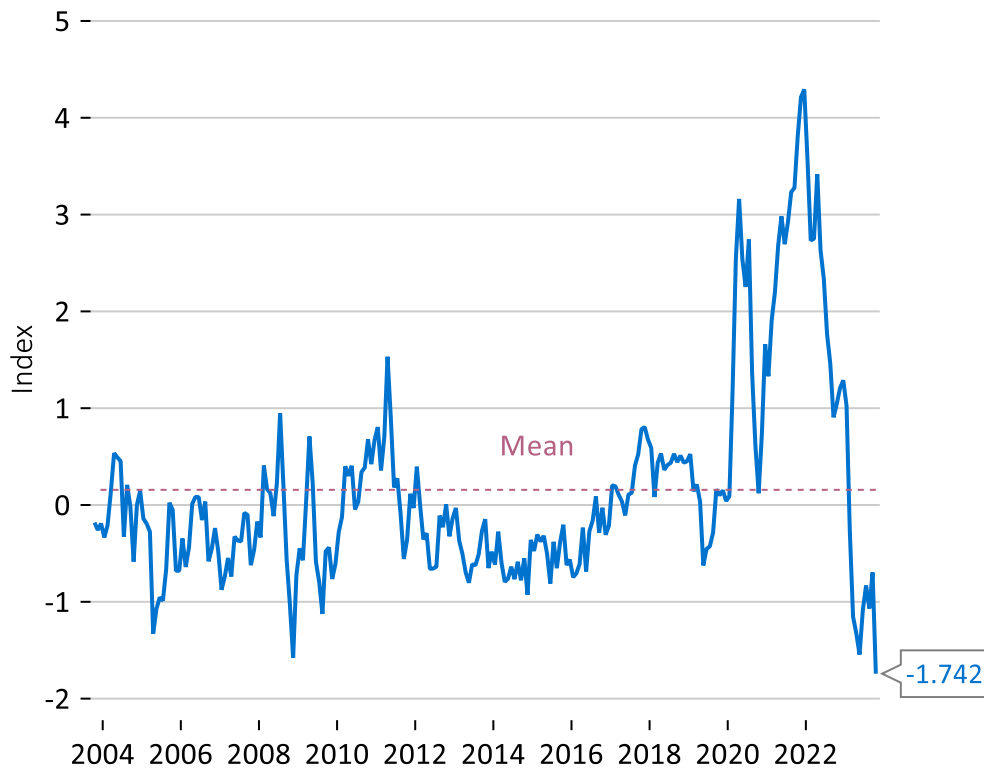


Pandemic-era supply pressures subside



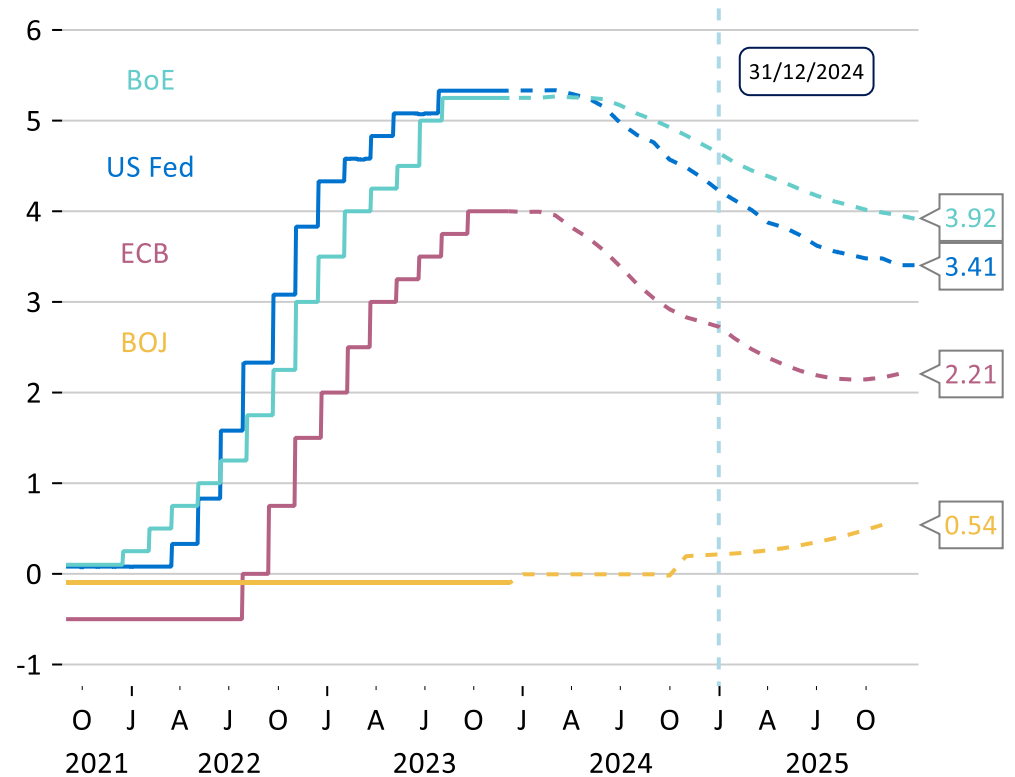
Four US quarter point rate cuts expected in H2 2024

Global Supply Chain Pressure Index *



Source: Macrobond, 05.12.23

Central banks' policy rates and market-implied rate trajectories



Source: Macrobond, 06.12.23

* The GSCPI integrates a number of commonly used metrics with the aim of providing a comprehensive summary of potential supply chain disruptions. Federal Reserve Bank of NY Dec 2023

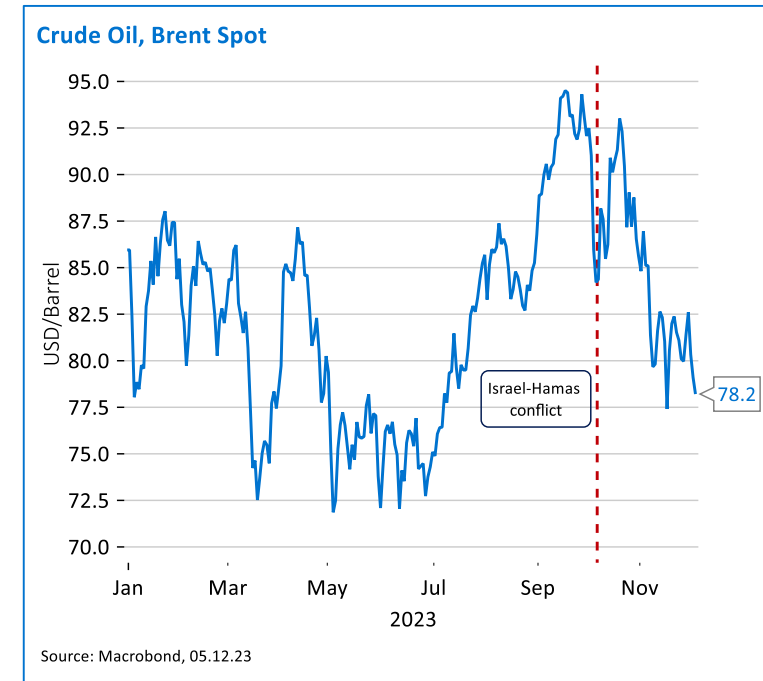
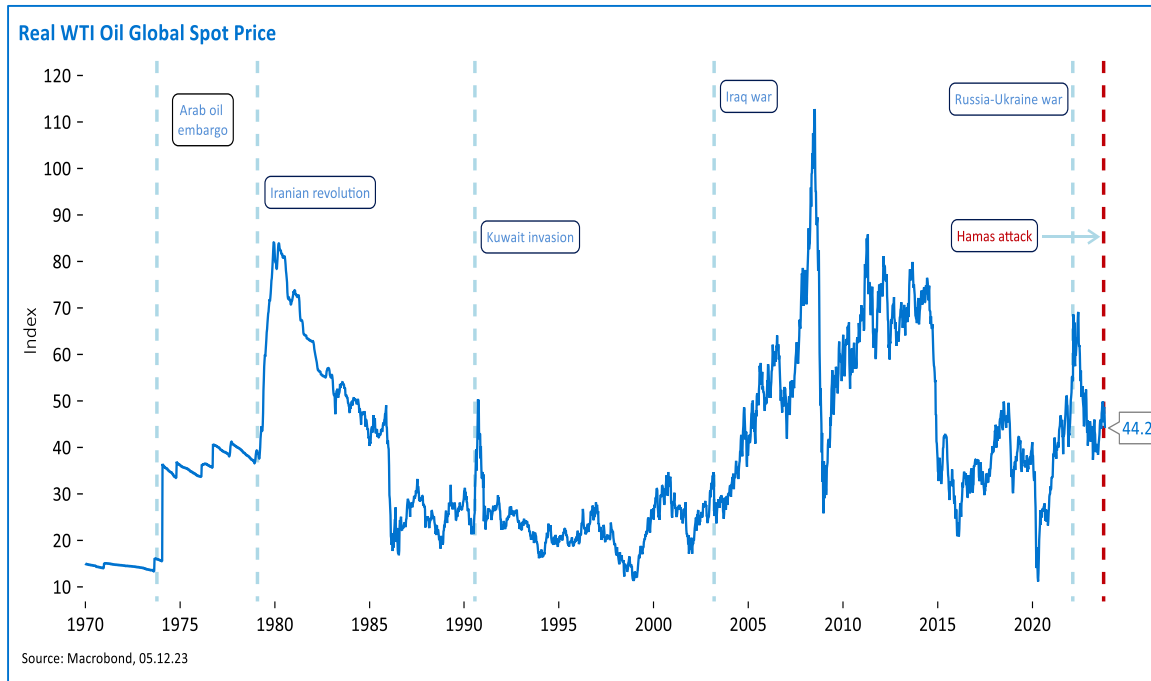
US rate cuts of 25bps forecast at June, September, November & December 2024 Fed Open Market Meetings

3. It will take a wider ME regional crisis to lift oil prices

Despite the scale of the War higher oil prices will only rise on the threat of an embargo



Typically, a wider regional crisis Middle Eastern Crisis is needed to trigger a prolonged rise in oil prices



Past performance is not a reliable indicator of future results and may not be repeated.

Source: Sarasin & Partners October 2023

Forecasts are not a reliable indicator of future performance and may differ to actual performance achieved.

Scenario	Impact on Oil Supply	Oil Price (USD)	Gas Price (% increase)
Base	Minimal	85-95	10%
Adverse	Similar to the Iraq War in 2003 with loss of 3mb/day	100-110	50%
Ugly	Similar to oil embargo in 1973 with loss of 6-7m day	130-150	300%

4. 2024 global earnings & dividends remain robust

Global earnings robust, dividend growth well above inflation & share buy-backs plentiful

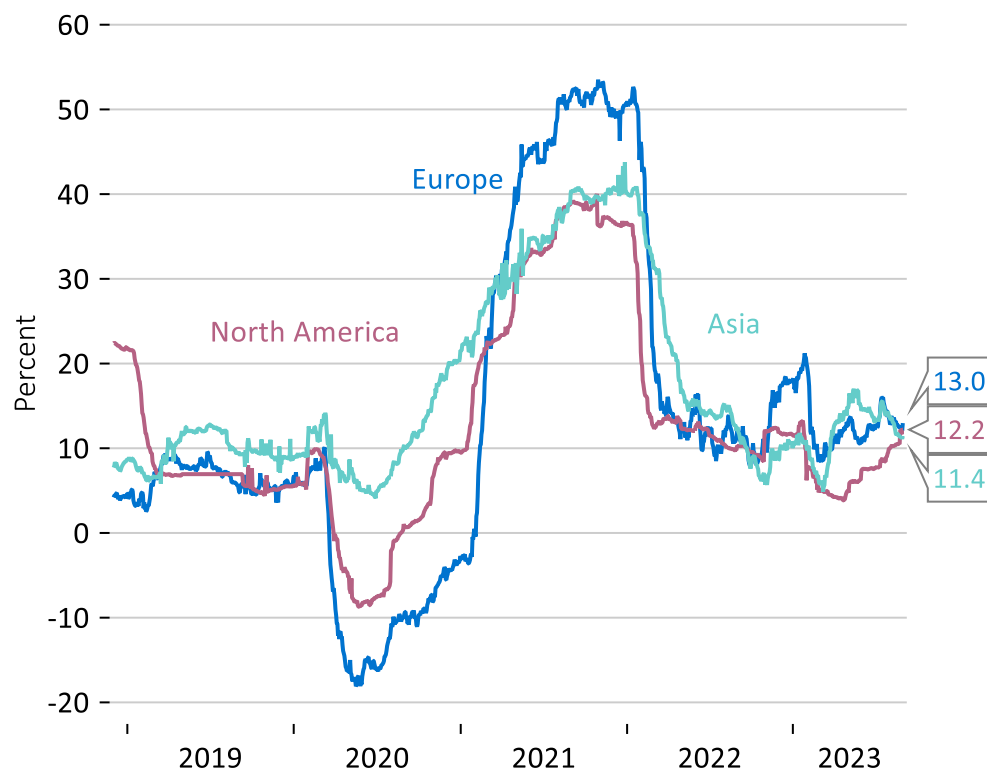


Corporate earnings for 2024 still look robust



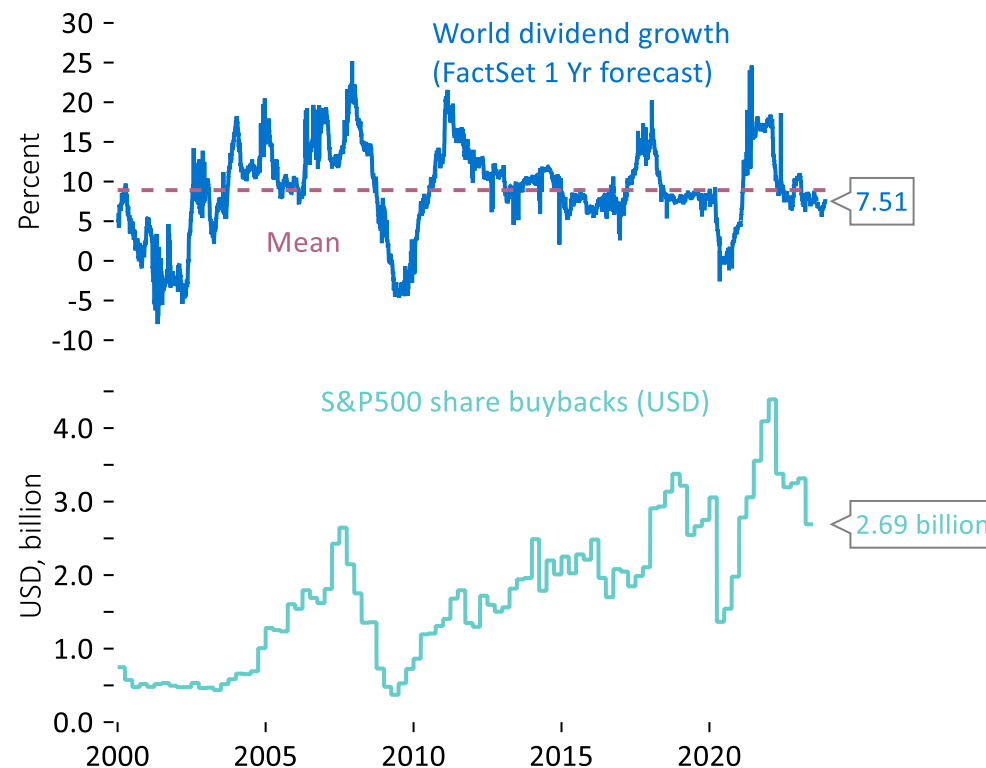
Global dividend growth now well ahead of inflation

Regional EPS Growth Rate (1 year forecast)



Source: Macrobond, 05.12.23

Global dividend growth & US stock buybacks



Source: Macrobond, 05.12.23

Policy summary – from TINA to MADI

2024: From TINA (There is No Alternative) to MADI (Multi-Asset Diversified Investment)



Global strategy update – December 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</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 climbed as Pax Americana ends including: Ukraine, Israel-Hamas, Taiwan, N.Korea, Balkans, Africa (coups), Armenia-Azerbaijan

Source: Sarasin & Partners, December 2023

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