

SARASIN

Six Minute Strategy

Global Strategy Outlook 2024

19 December 2023

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Economic outlook 2024

We have moved from a single-mandate Fed (inflation) back to a dual (inflation + growth)

- **Growth**: Expect demand to moderate by end of year with US growth decelerating to 1% in 24Q1 and 24Q2 before recovering in the second half. Expect US unemployment to rise to between 4% -4.25% by end 2024. We see a similar picture in Europe where euro area growth is expected to stall over the remainder 2023 and early 2024.
- **Inflation**: Base effects and supply chain improvements should lead to **continued falls in headline inflation**. Easing labour demand should also ease wage pressures. Across the developed world, disinflation momentum is expected to continue taking inflation closer to central bank targets by end of 2024.
- **Interest rates**: US policy rates expected to remain at terminal (5.25% - 5.5%) till April then Fed **to cut rates 6 times by year end** trying to engineer a perfect landing. A further 4 cuts expected in 2025 as Fed takes policy rates closer to what it believes to be neutral. ECB and BOE to follow Fed example and cut rates.
- **Financial Conditions**: They have eased this quarter with rising asset markets
- **Politics**: While global conflicts rise, wars in Israel/Hamas and Ukraine/Russia *currently* remain contained. US election risks are starting to increase.

1. Global inflation rates continue to ease

Better inflation data argues that peak in global interest rates has passed

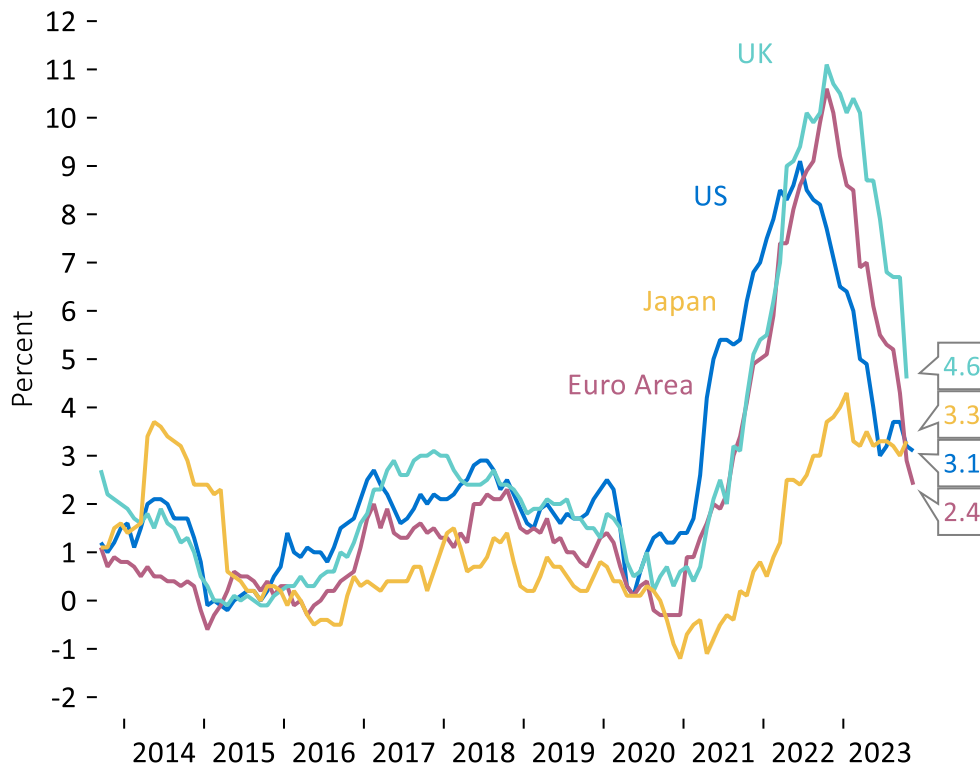


Better inflation data in the UK, US and Euro area



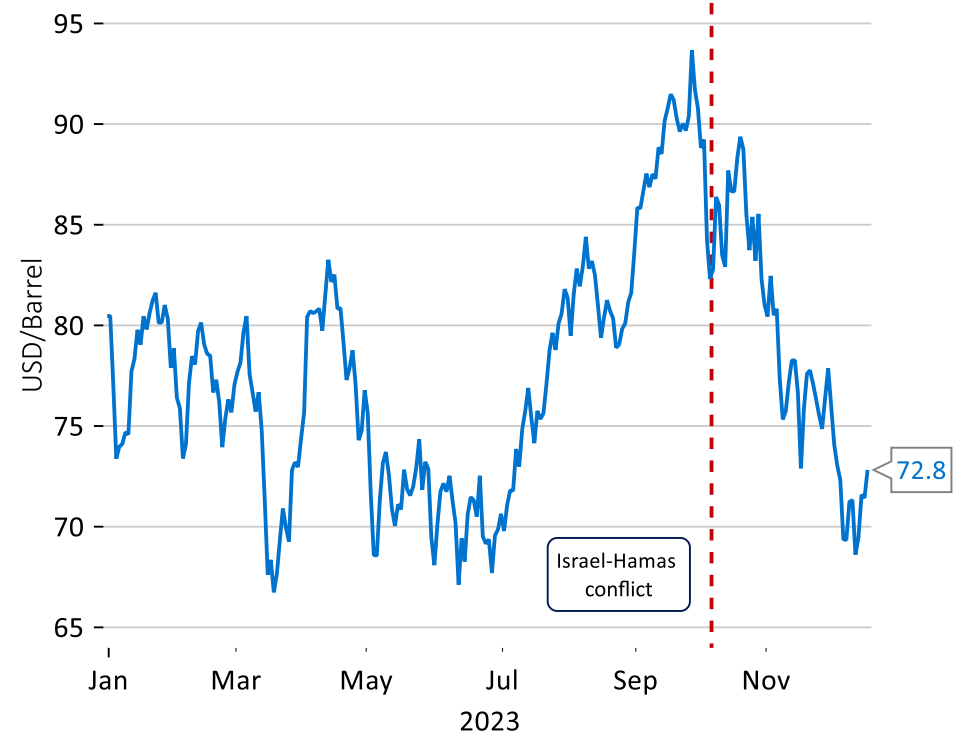
Falling global energy prices add to disinflationary trends

Headline Inflation (CPI)



Source: Macrobond, 19.12.23

Crude Oil Price (WTI)



Source: Macrobond, 19.12.23

Source: Macrobond October 2023 and Sarasin forecasts September 2023

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

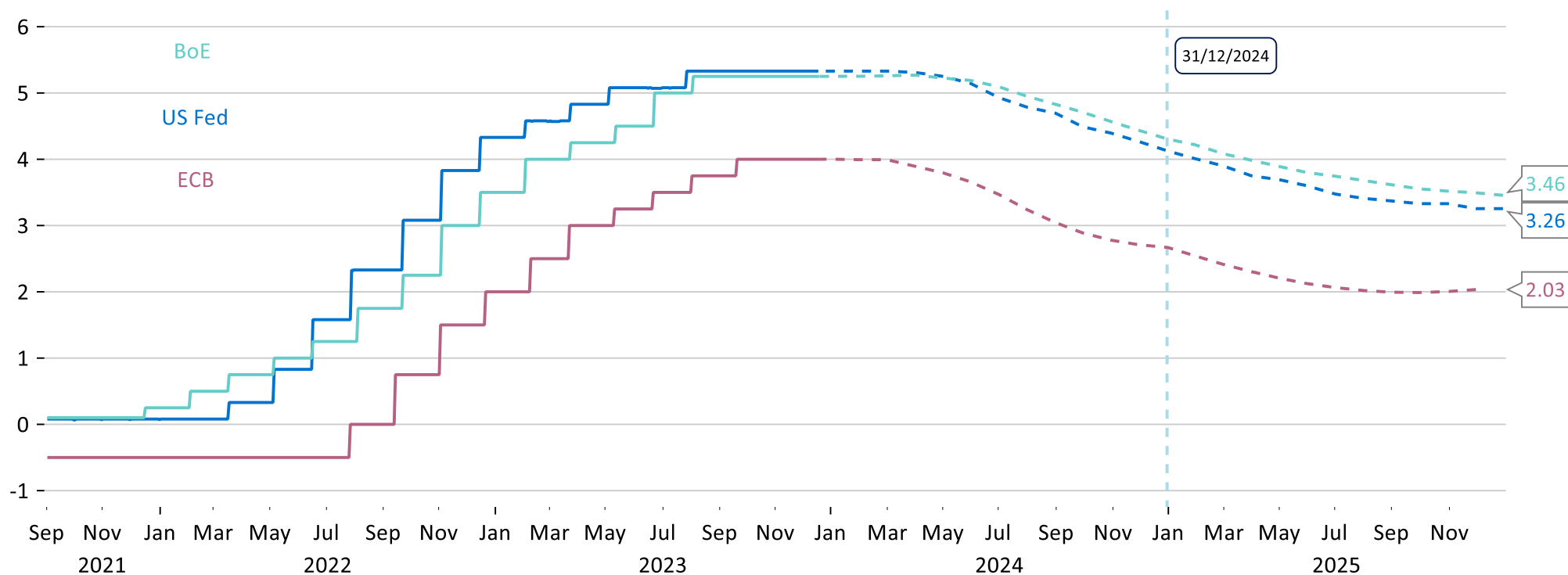
2. Markets now anticipating aggressive US rate cuts in 2024

We now expect 6 US rate cuts in 2024 and 4 in 2025 taking rates to 3% by June 2025



Market projections for central bank rates

Central banks' policy rates and market-implied rate trajectories



Source: Macrobond, 19.12.23

'In determining the extent of *any additional policy* firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.' FOMC Statement December 2023

3. UK: Corporate bonds attractive – further room for Sterling to rise

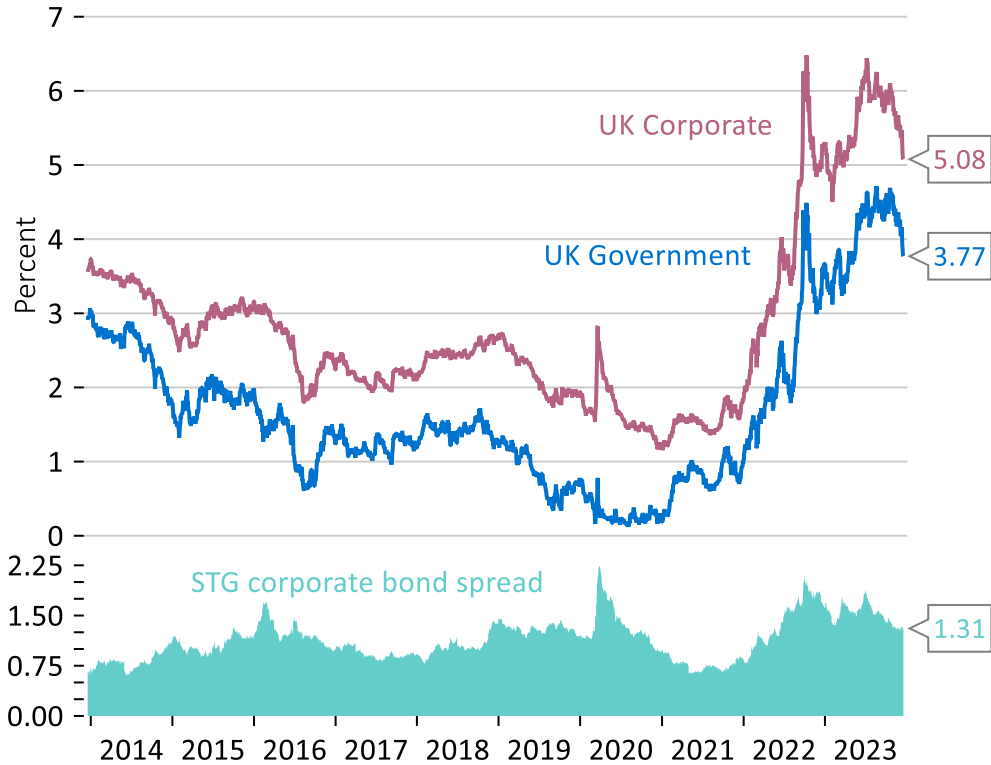


UK bond yields still close to 10 year highs



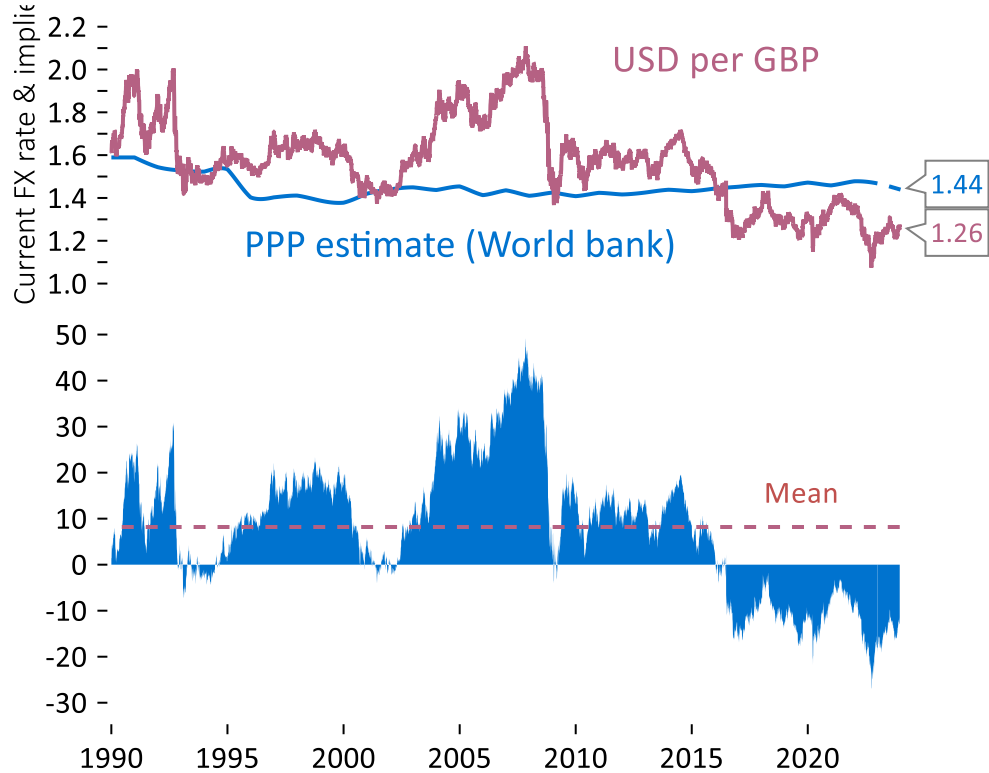
Sterling remains attractive vs. PPP

UK Government and Corporate Bond Yields



Source: Macrobond, 19.12.23

GBP/USD vs. implied PPP



Source: Macrobond

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

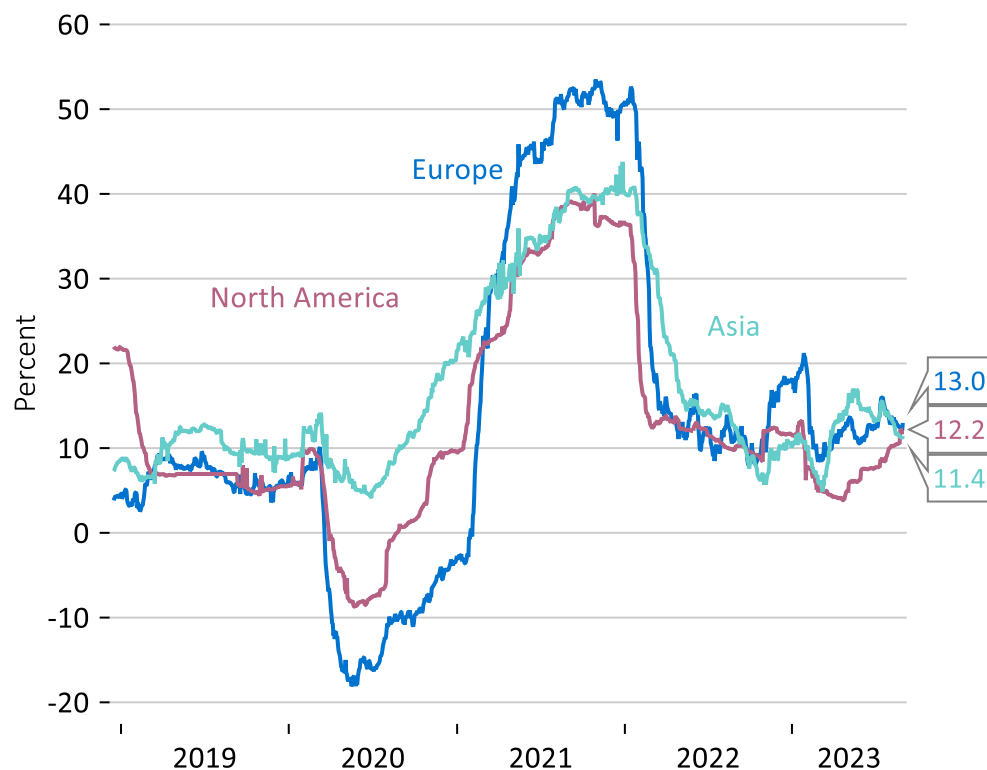
4. Equities 2024: Earnings & dividends remain robust

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



Corporate earnings for 2024 look robust

Regional EPS Growth Rate (1 year forecast)



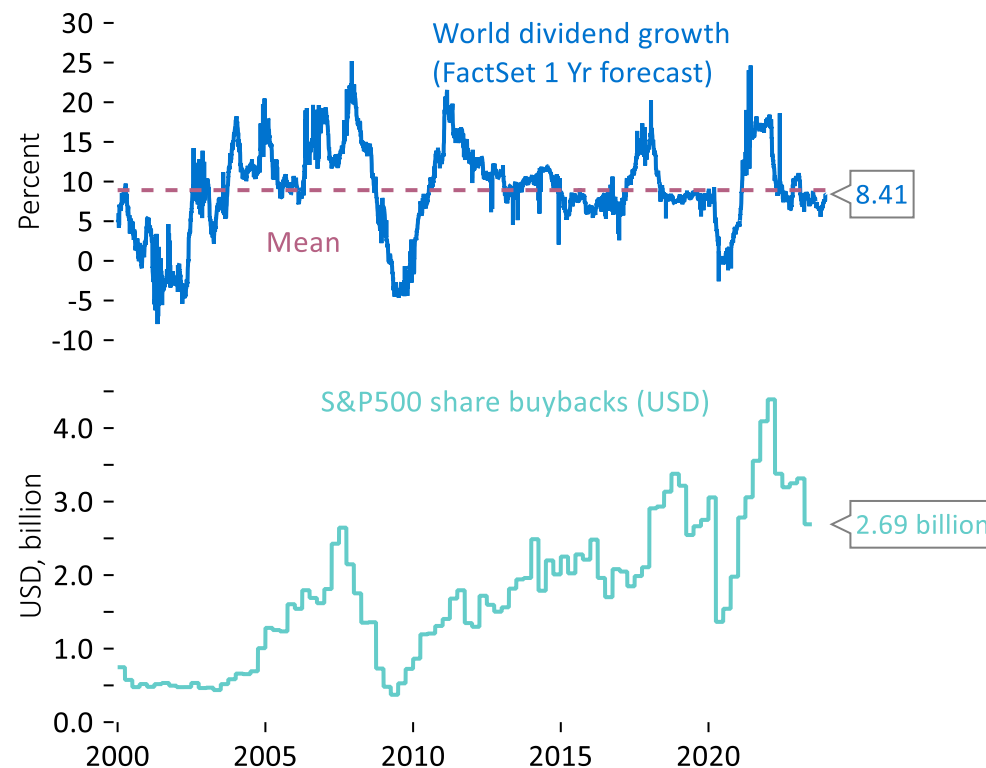
Source: Macrobond, 19.12.23

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Global dividend growth now well ahead of inflation

Global dividend growth & US stock buybacks



Source: Macrobond, 19.12.23

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

5. Risks: Global conflicts worsen – Trump presidency

Conflicts worsen in Mali, Ethiopia, South-Sudan, Ukraine and between Israel & Hamas



Deaths in conflicts double in 2022 – further rise likely 2023

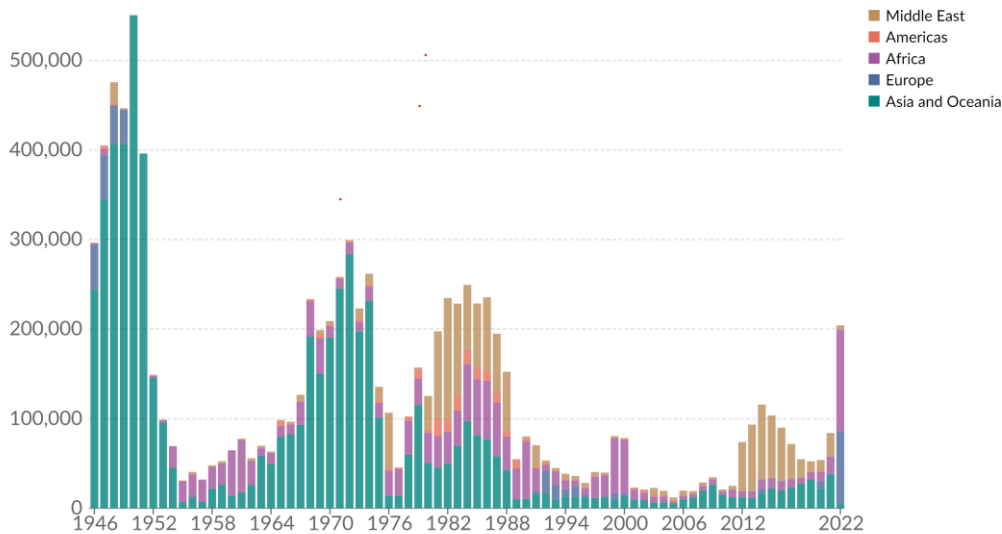


Trump leads Biden in seven swing states

Deaths in state-based conflicts by region

Included are deaths of combatants and civilians due to fighting in interstate¹, intrastate², and extrasystemic³ conflicts that were ongoing that year.

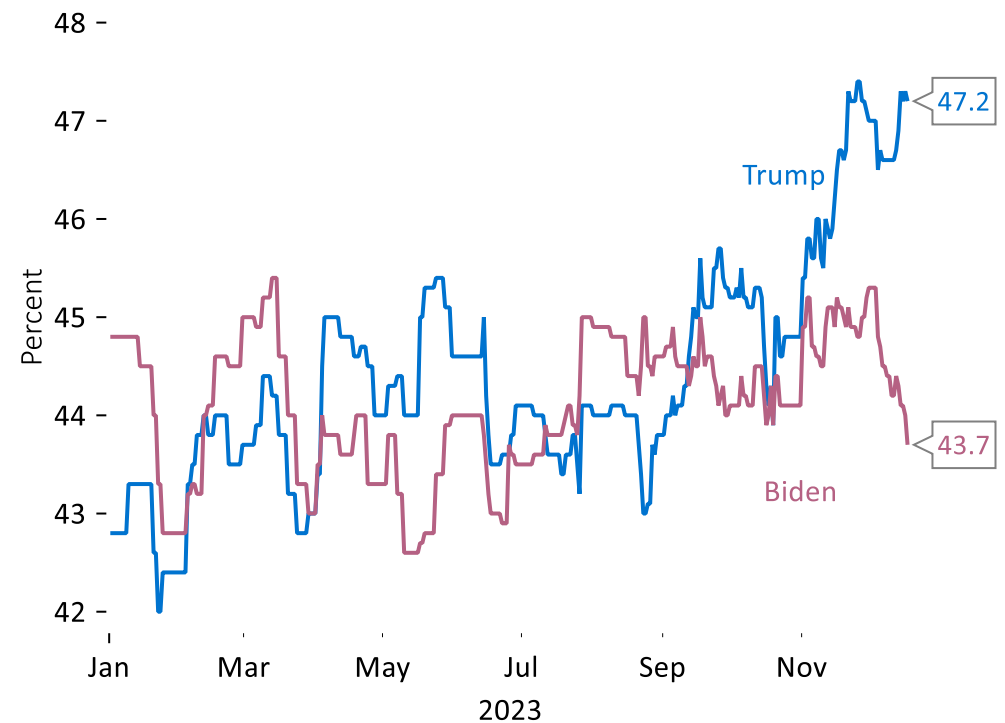
Our World in Data



Data source: Uppsala Conflict Data Program (2023); Peace Research Institute Oslo (2017)
OurWorldInData.org/war-and-peace | CC BY

1. Interstate conflict (UCDP and PRIO): A conflict between states that causes at least 25 deaths during a year. This includes combatant and civilian deaths due to fighting.
2. Intrastate conflict (UCDP and PRIO): A conflict between a state and a non-state armed group that causes at least 25 deaths during a year. This includes combatant and civilian deaths due to fighting. If a foreign state is involved, it is sometimes called "internationalized", and "non-internationalized" otherwise.
3. Extrasystemic conflict (UCDP and PRIO): A conflict between a state and a non-state armed group outside its territory that causes at least 25 deaths during a year. This includes combatant and civilian deaths due to fighting.

United States, Political Polls, RealClearPolitics (RCP), Presidential Elections, Trump vs. Biden



Source: Macrobond, 19.12.23

Policy summary

Disinflationary momentum brings inflation close to target in 2024 – rate hiking cycle over



Global strategy update – January 2024

Bonds	<p>Neutral</p> <ul style="list-style-type: none">• Underweight Govt: Sharp fall in global bond yields means disinflationary conditions already priced in• Overweight Inv. Grade Credit: Yields attractive – Corporate balance sheets healthy – European spreads attractive
Equities	<p>Overweight</p> <ul style="list-style-type: none">• Global: Earnings slowing but still attractive, supply chain pressures easing but tech valuations worrying• Emerging markets: A weaker Dollar and lower US rates attractive – Political/Economic risks in China remain• Equity insurance: Use low equity market volatility to protect against
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>Double Underweight</p> <ul style="list-style-type: none">• Favour Sterling on lower UK political risk and more hawkish BoE
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: Ukraine, Israel-Hamas, Taiwan, N.Korea, Balkans, Africa (coups), Armenia-Azerbaijan

Source: Sarasin & Partners, December 2023

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