



MPS Strategy Update, January 2024

Guy Monson, Senior Partner & Chief Market Strategist

Christopher Cade, Head of UK Sales

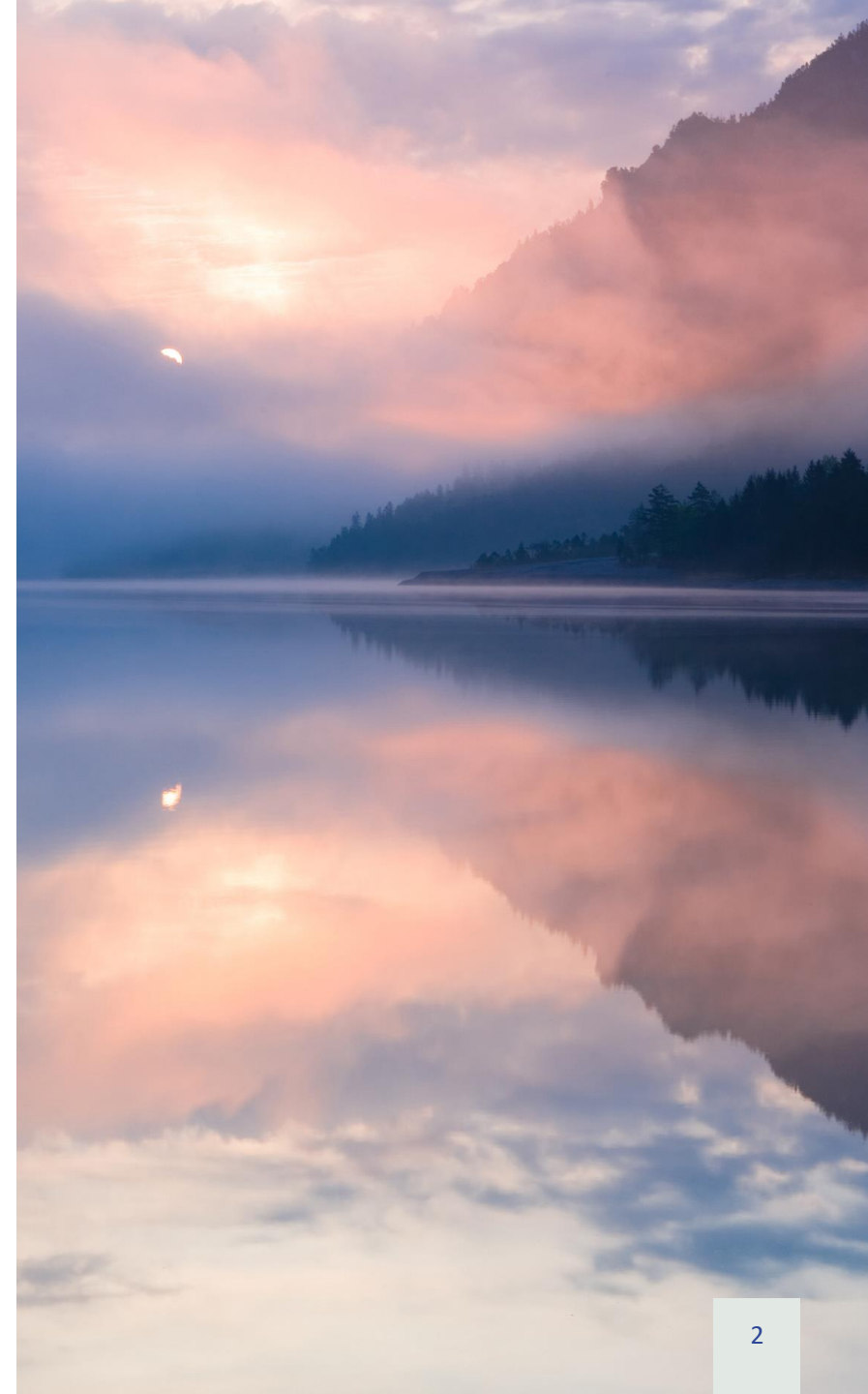
Ben Gilbert, Model Portfolio Manager

Ed Lloyd, Deputy Model Portfolio Manager



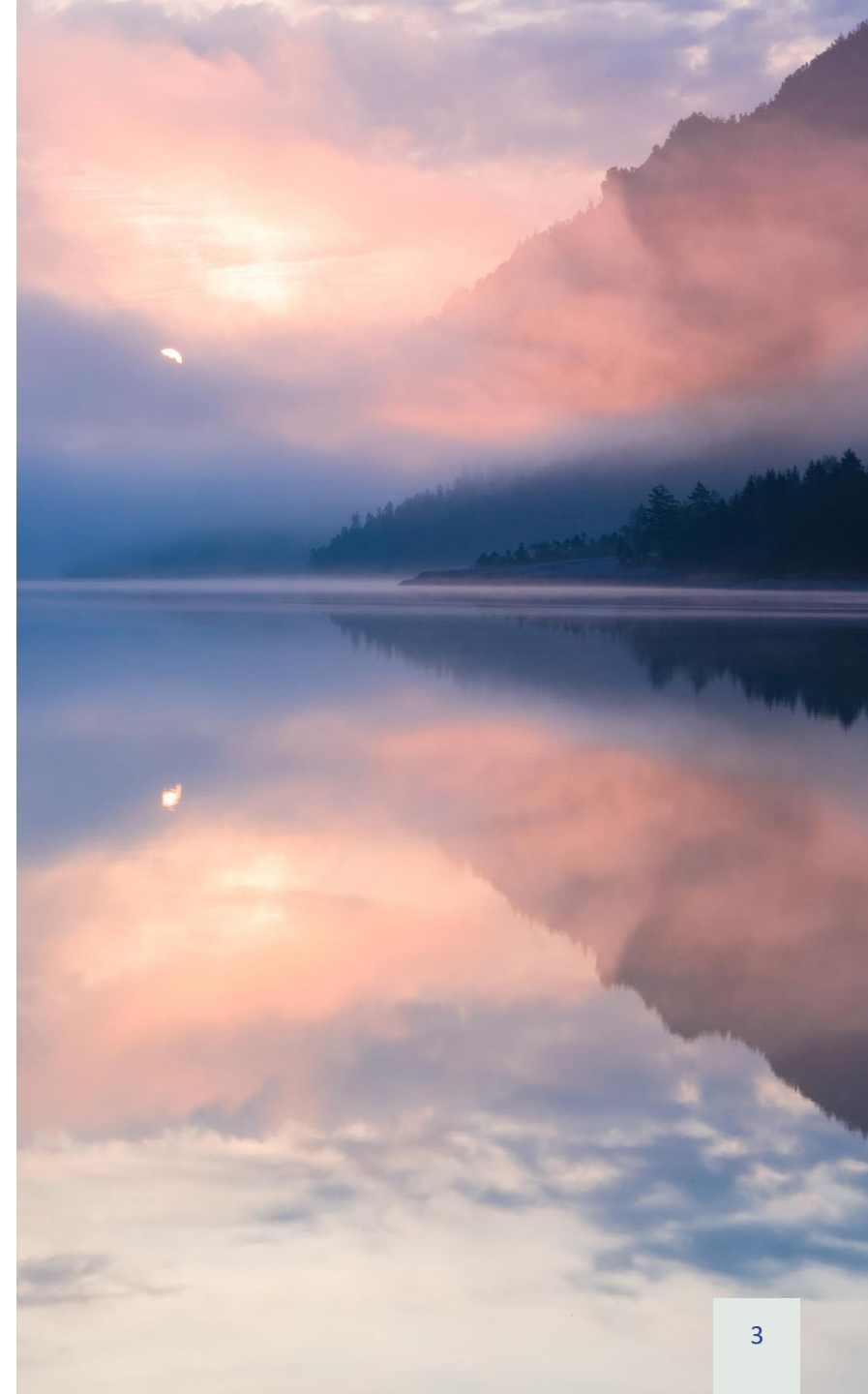
Agenda

1. Review of 2023 - Ben Gilbert
2. Portfolio review - Edward Lloyd
3. 2024 MPS Update - Ben Gilbert
4. Global Strategy - Guy Monson



Client questions

1. What positives can we give our clients?
2. How do equity valuations look using CAPE Shiller?
3. What is your duration call in 2024?
4. Is thematic investing still the best route to investment performance?
5. Is Crypto a legitimate asset class now that the SEC has authorised spot ETF's?

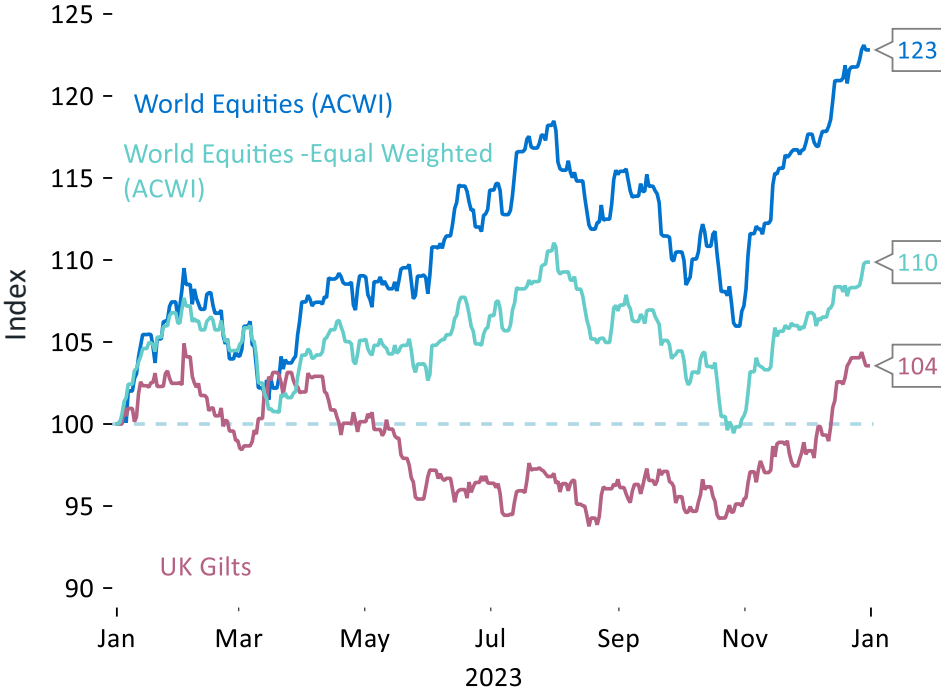


2023 asset market performance

Equity contribution from largest names is unprecedented

Better than expected inflation data triggers Q4 equity rally

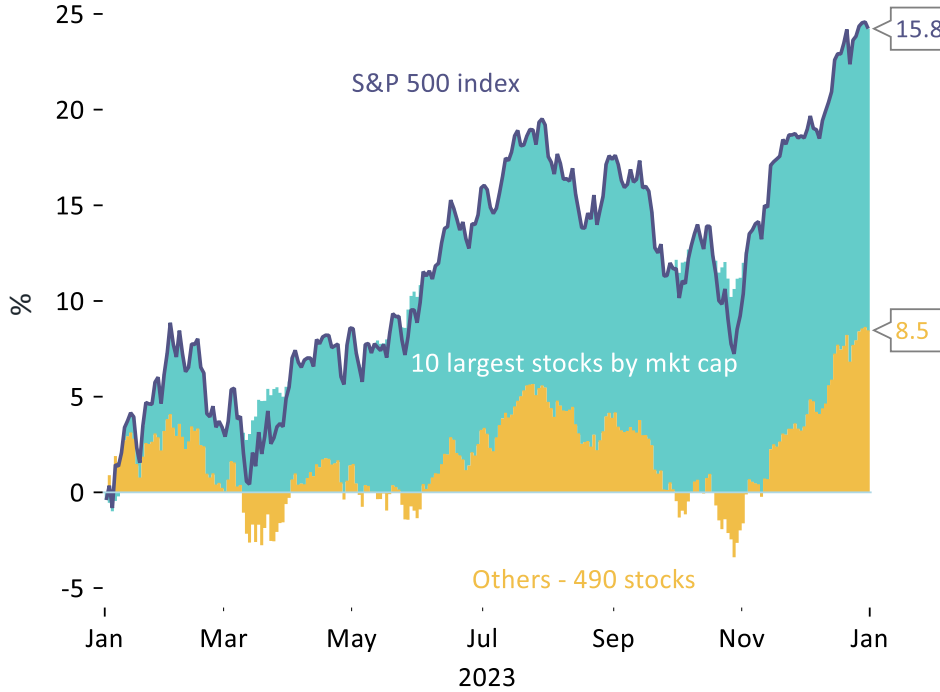
Asset class performance 2023



Source: Macrobond, 05.01.24

Market leadership beginning to widen

Largest stocks are driving the current S&P rally



Source: Macrobond, 05.01.24

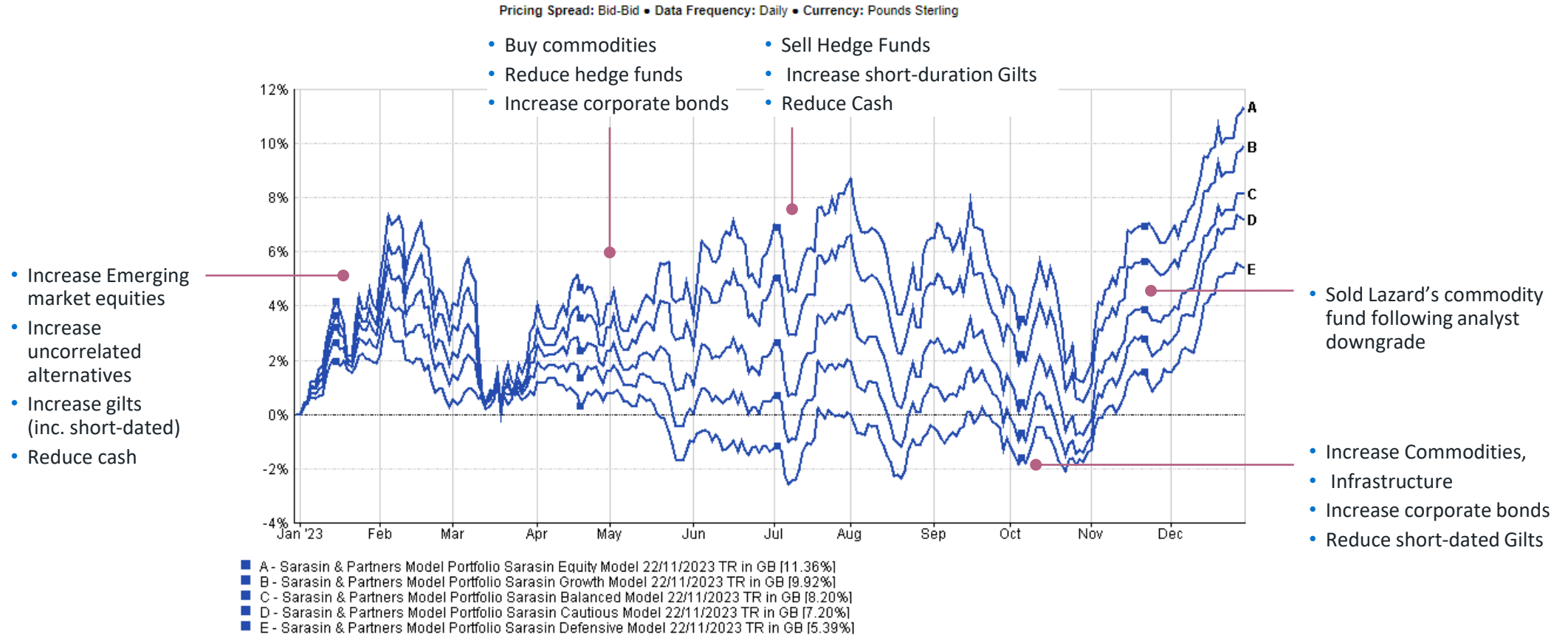
Past performance is not a reliable indicator of future results and may not be repeated.

2023 performance review

A return to a more normal level of activity, after heightened activity in 2022



Sarasin Core Model Portfolios



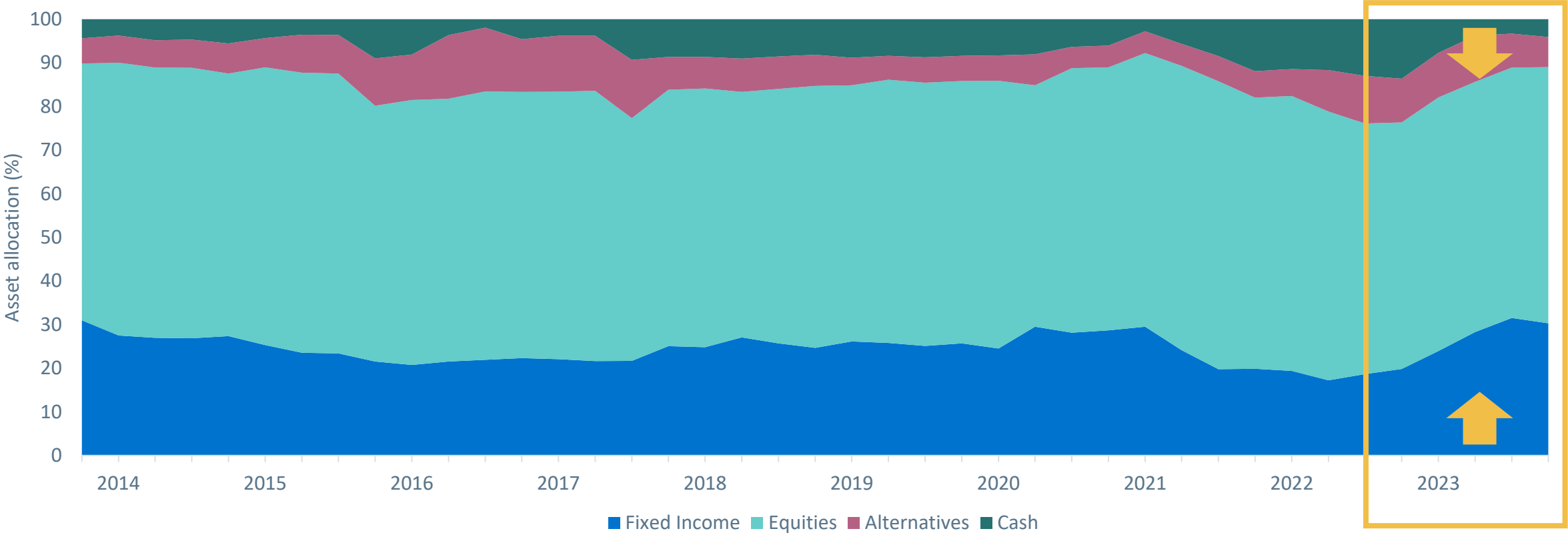
Past performance is not a reliable indicator of future results and may not be repeated.

Source: FE Analytics, 30.12.2022 – 29/12/2023.

Long term tactical asset allocation

At a high level, key feature was increasing Fixed Income and reducing Alts/Cash

 Sarasin Balanced Model Portfolio



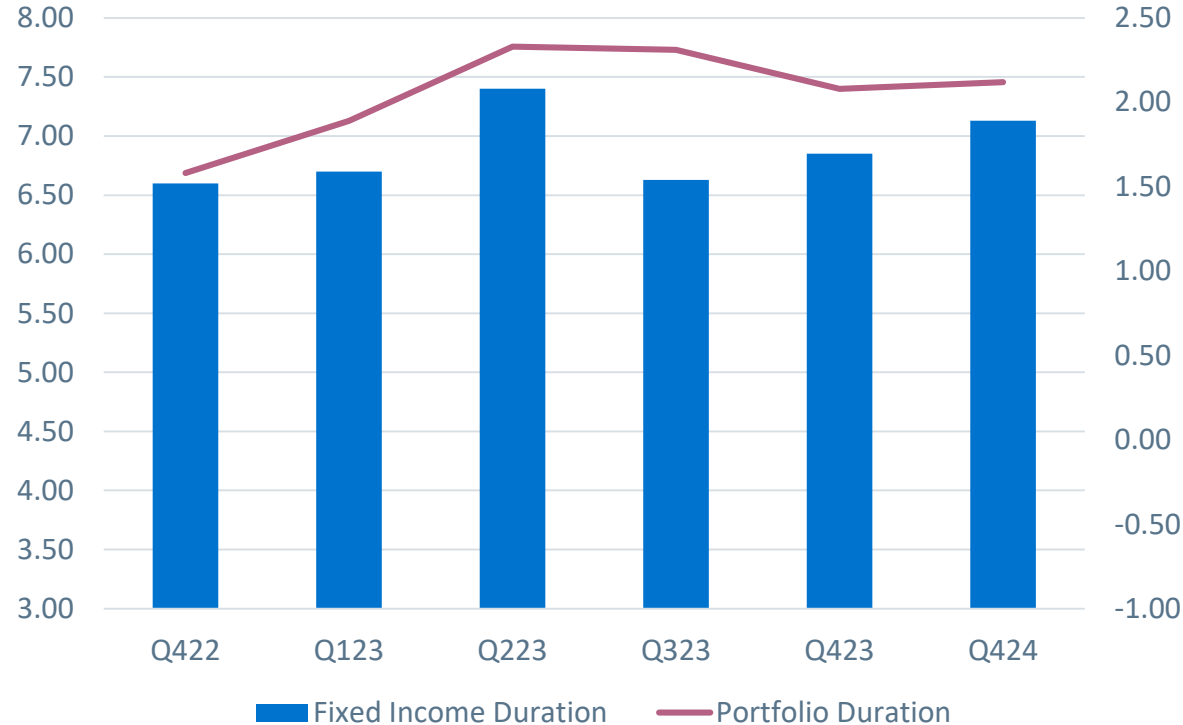
Source: Sarasin & Partners, 31 December 2023

Portfolio Fixed Income Breakdown

Overweighting corporate bonds while adding to duration

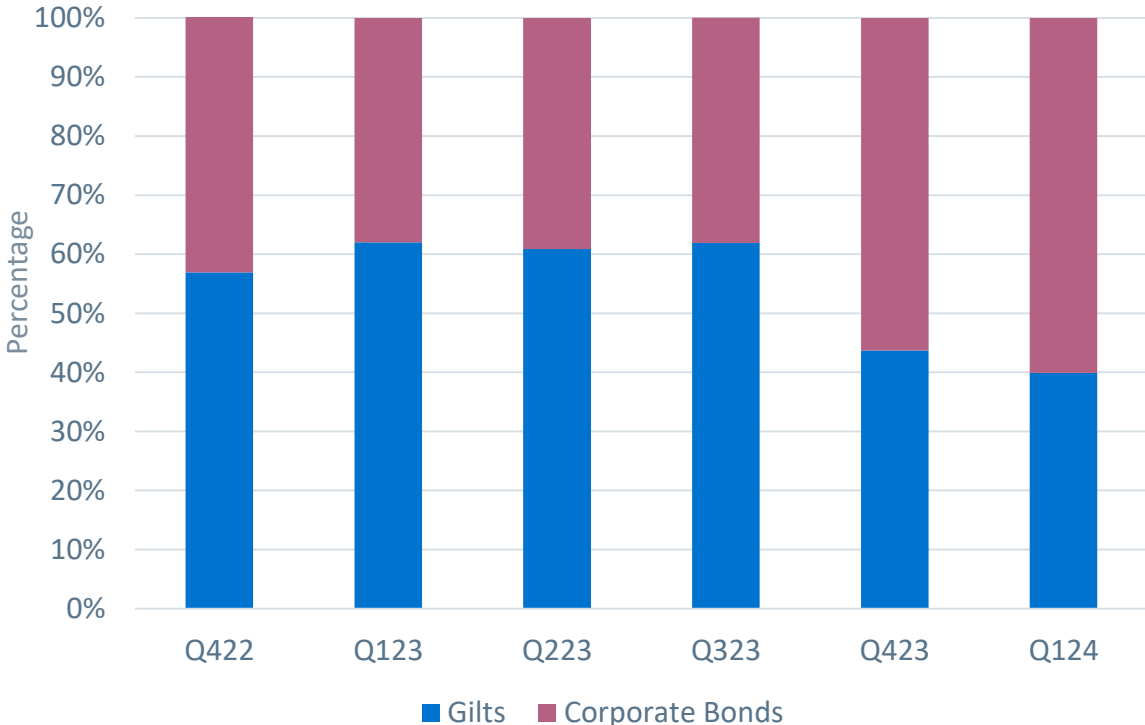
Lengthening of portfolio's duration

Portfolio Duration



Growing conviction in corporate bonds

Bond Allocation

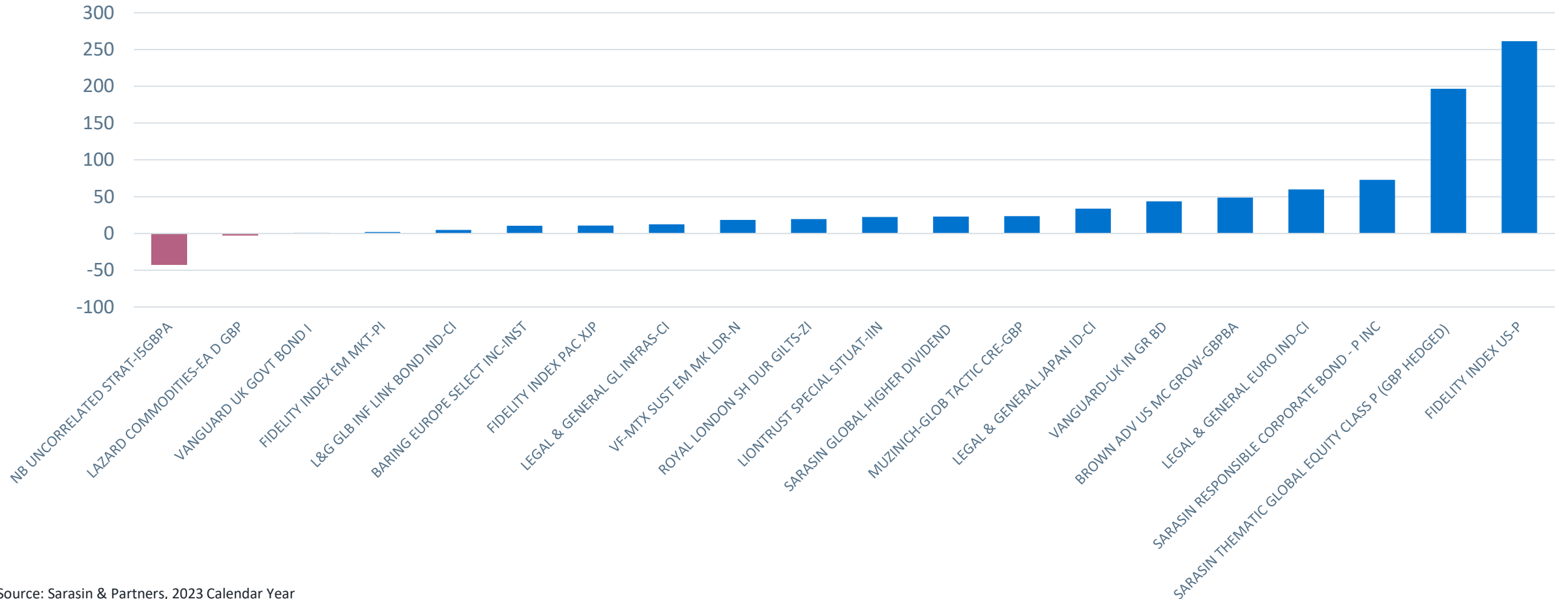


Source: Bloomberg, Sarasin & Partners, Jan 2024

Source: Bloomberg, Sarasin & Partners, Jan 2024

2023 Review – Contribution of underlying funds

 Contribution to performance of underlying funds in Core Balanced MPS Model



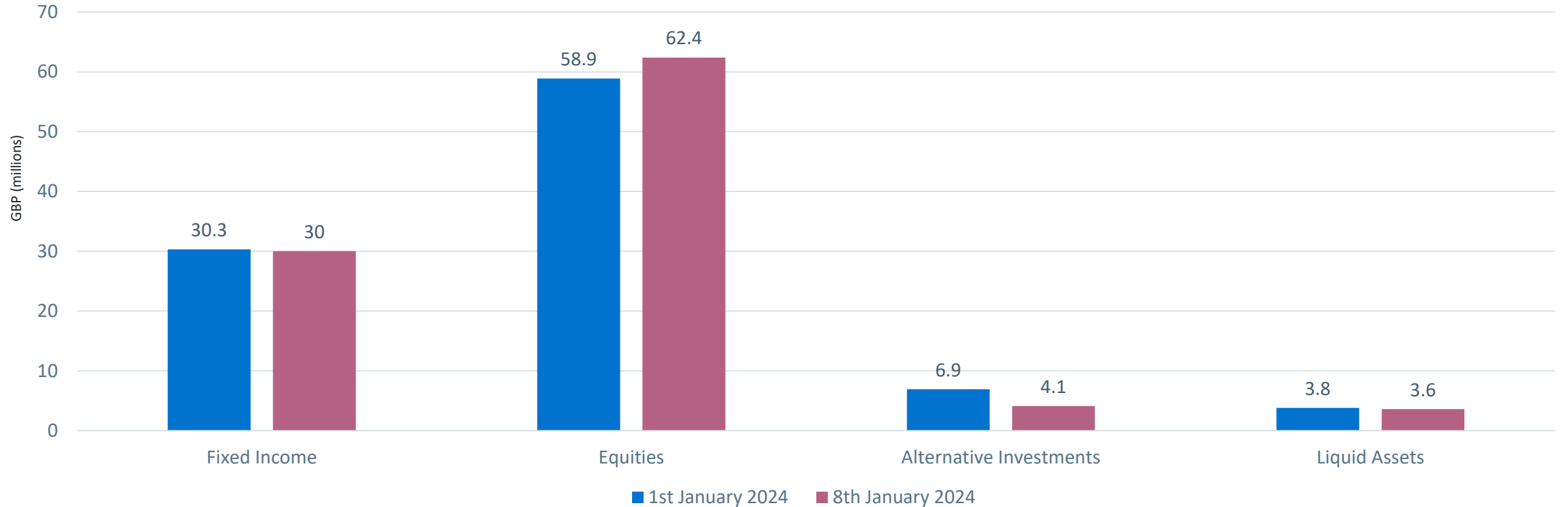
Source: Sarasin & Partners, 2023 Calendar Year

Current Tactical Asset Allocation

Equities: Increase, Fixed Income: Maintain, focus on Corporate, Alternatives: Reduce, Cash: Maintain



Current Asset Allocation Sarasin Core Balanced Model Portfolio



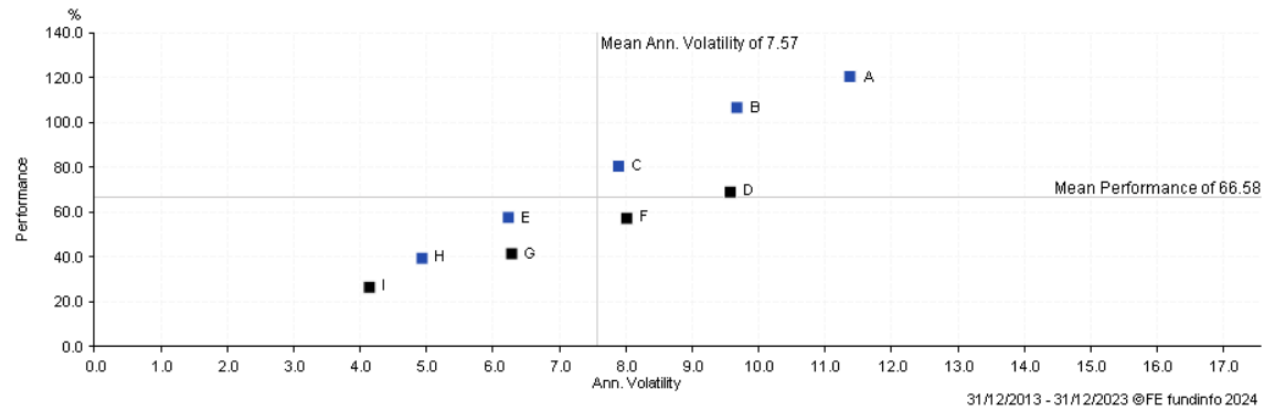
Source: Sarasin & Partners, January 2024

Strong long-term risk-adjusted returns



Sarasin Core Model Portfolio Performance 10 years to 31.12.2023

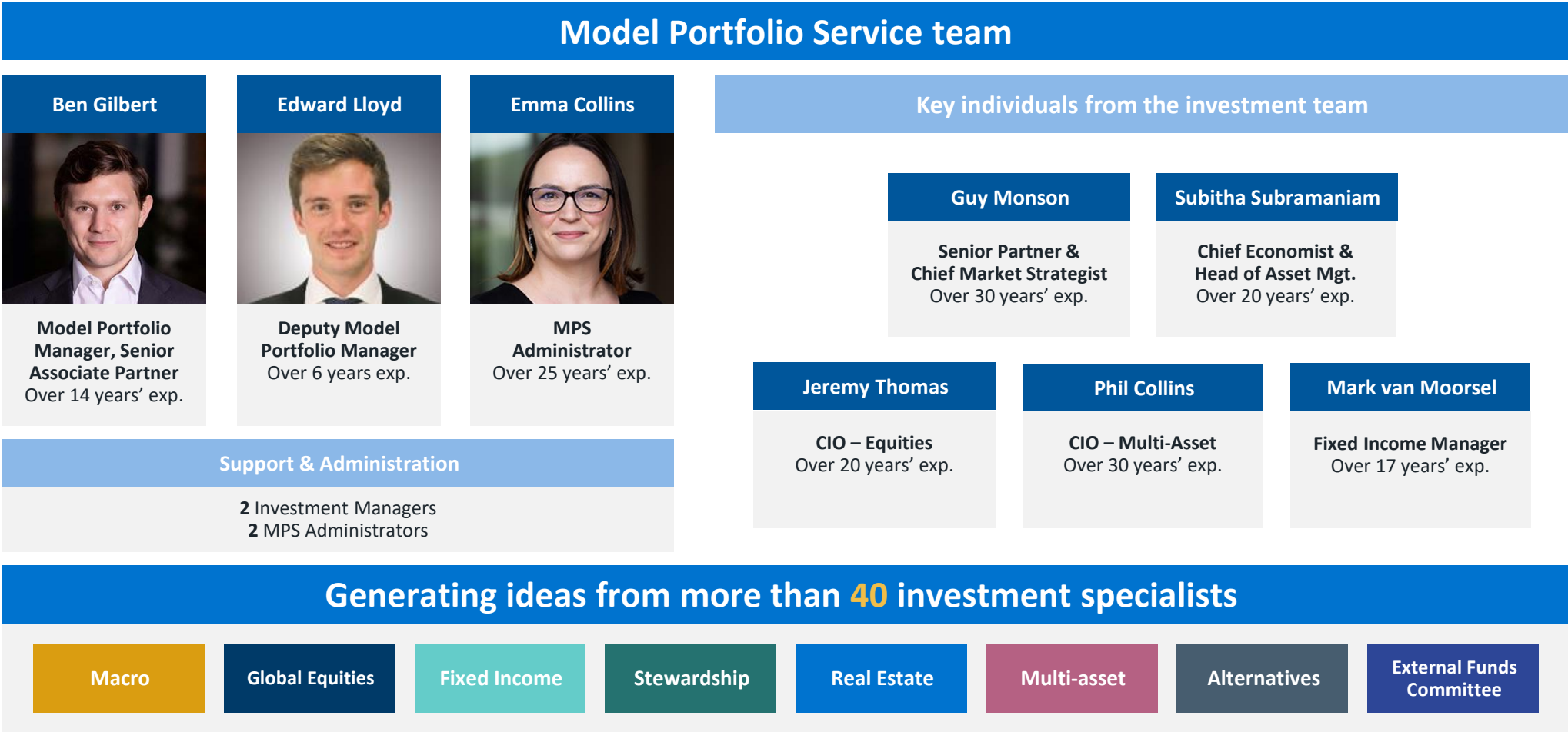
Pricing Spread: Bid-Bid • Currency: Pounds Sterling



Key	Name	Performance	Annualised Volatility
■ A	Sarasin & Partners Model Portfolio Sarasin Equity Model TR in GB	120.46	11.37
■ B	Sarasin & Partners Model Portfolio Sarasin Growth Model TR in GB	106.55	9.67
■ C	Sarasin & Partners Model Portfolio Sarasin Balanced Model TR in GB	80.50	7.89
■ D	ARC Sterling Equity Risk PCI TR in GB	69.07	9.57
■ E	Sarasin & Partners Model Portfolio Sarasin Cautious Model TR in GB	57.59	6.23
■ F	ARC Sterling Steady Growth PCI TR in GB	57.34	8.01
■ G	ARC Sterling Balanced Asset PCI TR in GB	41.46	6.28
■ H	Sarasin & Partners Model Portfolio Sarasin Defensive Model TR in GB	39.58	4.93
■ I	ARC Sterling Cautious PCI TR in GB	26.66	4.14

Past performance is not a reliable indicator of future results and may not be repeated. Source: FE Analytics, 31.12.2013 - 31.12.2023

Model Portfolio Service team



*Source Sarasin & Partners LLP as at December 2023

Global Strategy & Market Outlook

Guy Monson, Senior Partner & Chief Market Strategist

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01

Market performance

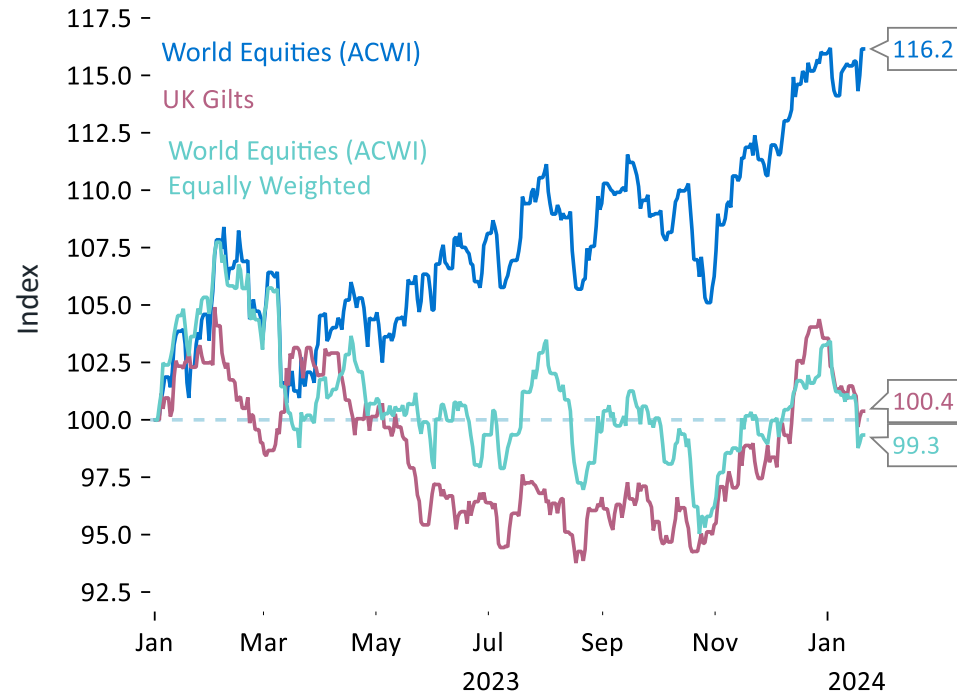
1. Global asset performance 2023

Unprecedented concentration of 2023 equity returns in US 'Mega-Cap'



Largest stocks driving global equity performance

Asset class performance 2023 to date (GBP)



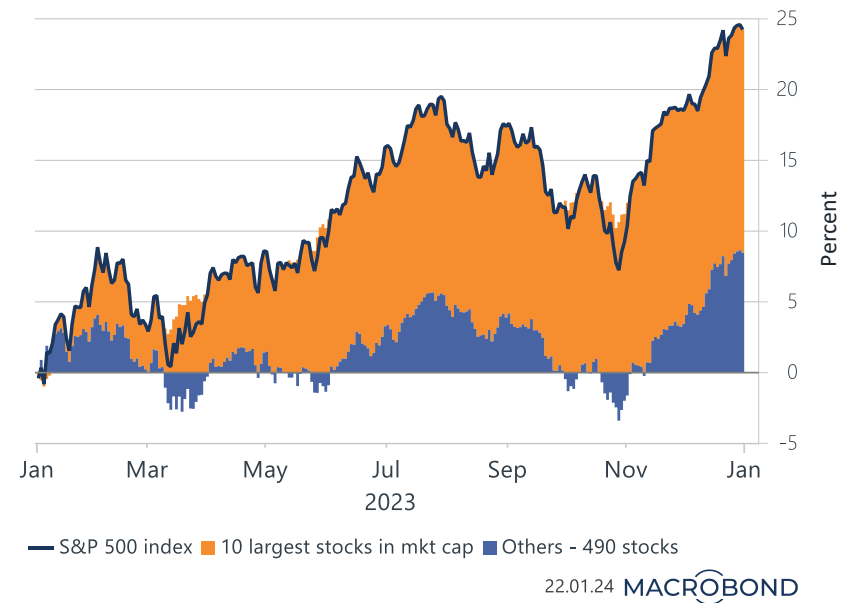
Source: Macrobond, 22.01.24



US market leadership starting to widen in Q4 2023

Largest stocks are driving the current S&P rally

Source: S&P Global



22.01.24 MACROBOND

The market capitalisation of the Magnificent Seven* is equivalent to that of the stock markets of Japan, UK and Canada combined

Jan 2023 Bloomberg – Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, Meta)

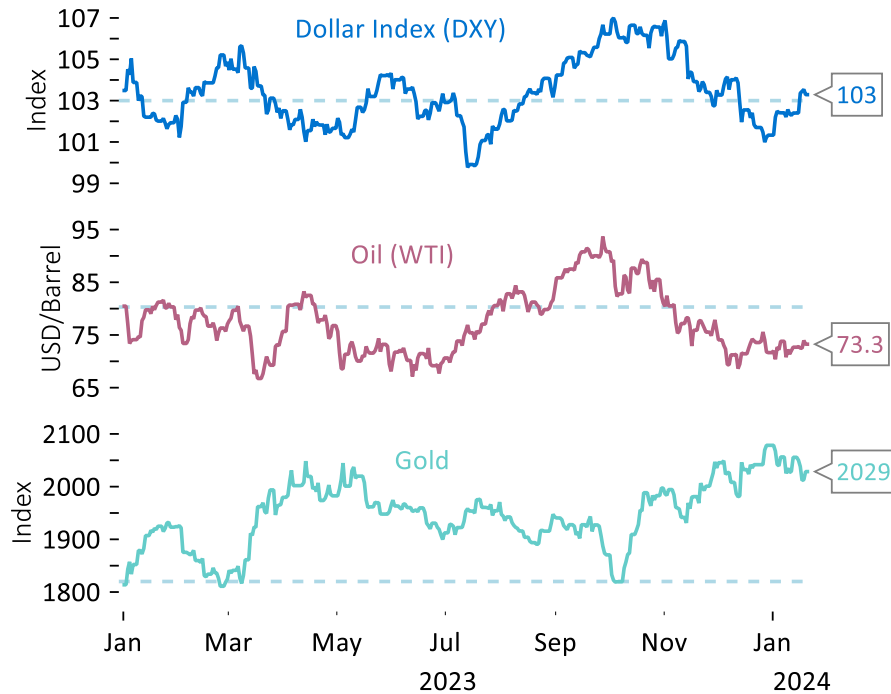
Past performance is not a reliable indicator of future results and may not be repeated.

2. Global asset performance 2023



Dollar flat while gold rallies – Oil prices weak despite wars

Asset class performance 2023 to date

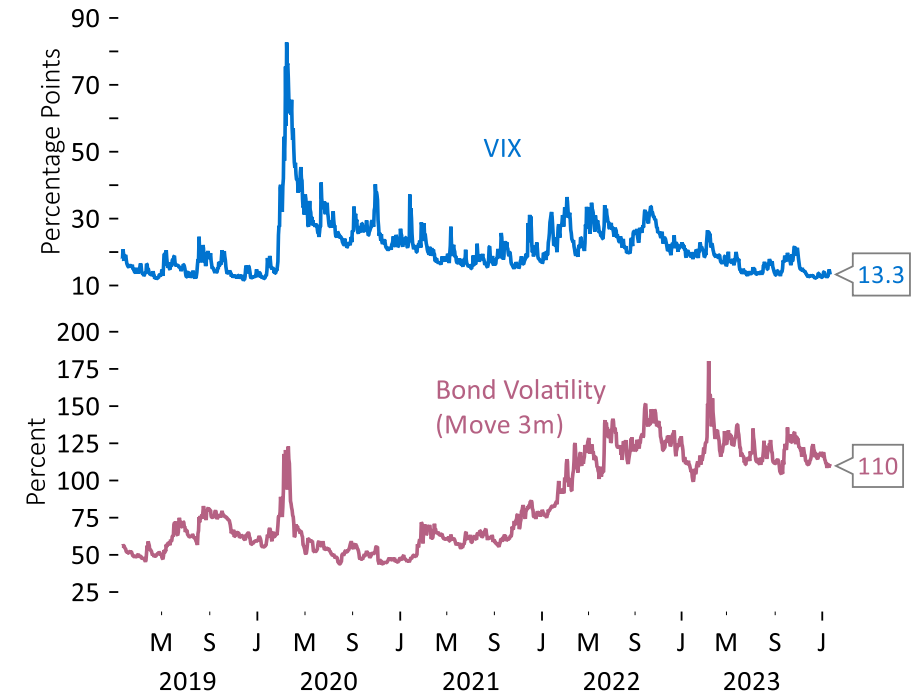


Source: Macrobond, 22.01.24



Bond volatility still elevated – VIX near 5-year lows

S&P500 (VIX) & Bond Market Volatility



Source: Macrobond, 22.01.24

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

02

Inflation

Global inflation trending down despite monthly volatility

Inflation rates have converged across countries just above central bank targets

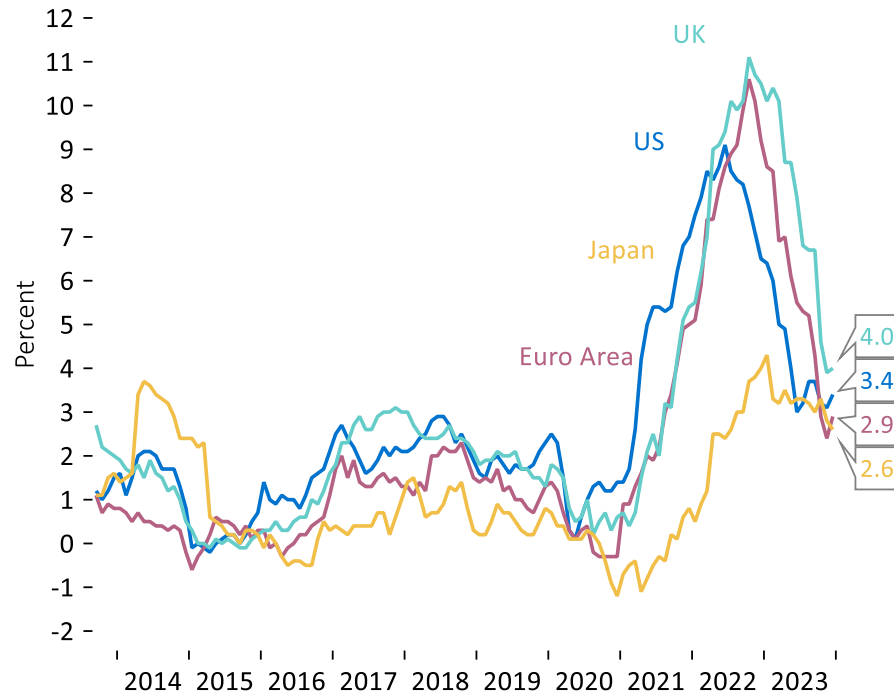


Falling inflation in Europe and UK has caught up with the US



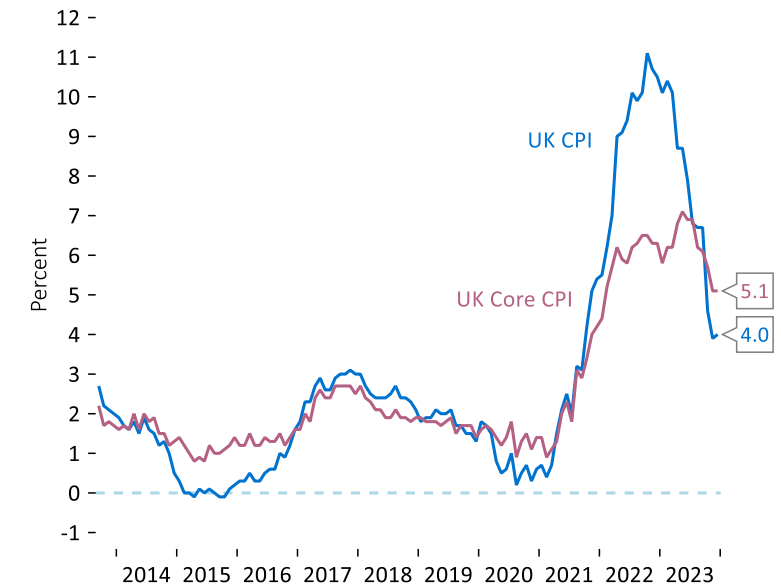
UK headline inflation could reach 2% by mid-year

Headline Inflation (CPI)



Source: Macrobond, 22.01.24

UK Headline & core Inflation



Source: Macrobond, 22.01.24

UK forecasts*	2023	2024	2025
Inflation	4.4	2.5	2.2
<i>Current consensus</i>	4.5	2.6	2.0
GDP	0.5	0.5	1.5
<i>Current consensus</i>	0.5	0.4	1.2

* Sarasin Forecasts December 2023

Source: Macrobond October 2023 and Sarasin forecasts September 2023

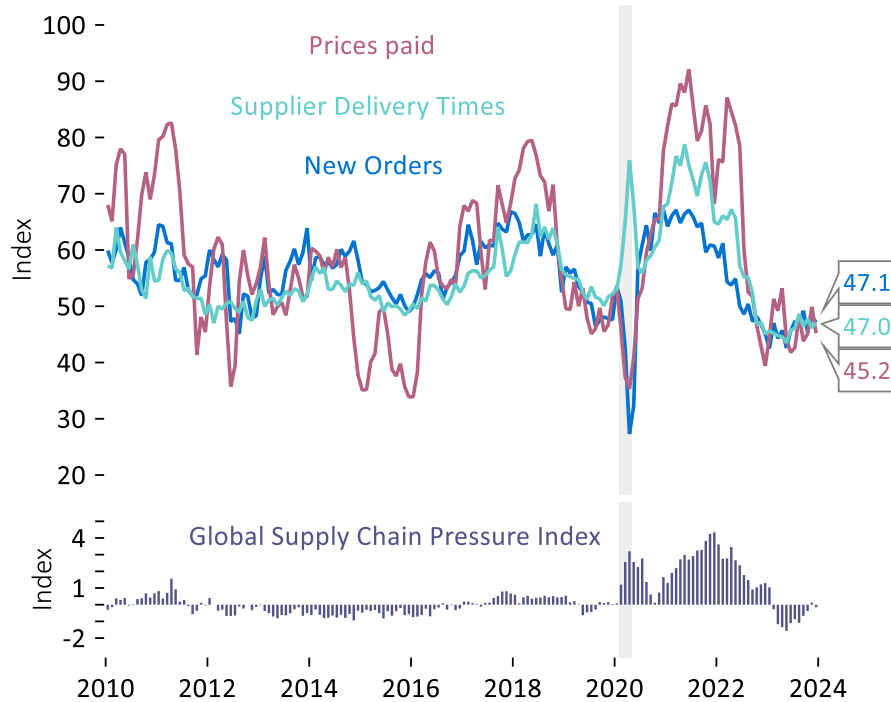
Supply chain slack will help cap consumer product prices

Factory prices still easing but impact of Red Sea shipping attacks noticeable



Supply chain pressure gauges remain below neutral levels

US - ISM Manufacturing & Global Supply Chains

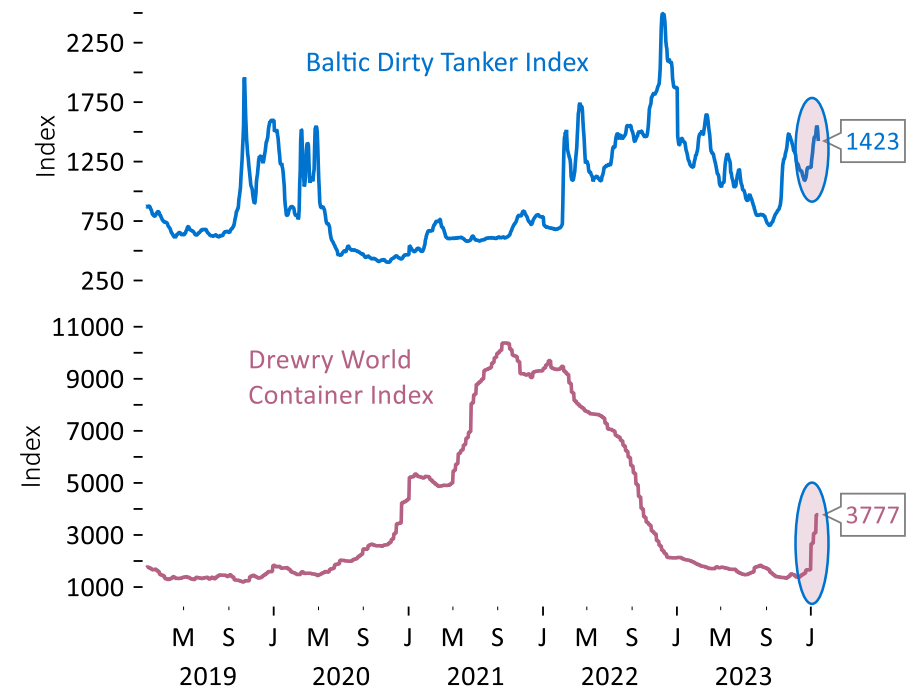


Source: Macrobond, 22.01.24



Tanker rates climbing in the face of Red Sea attacks

World Shipping Rates



Source: Macrobond, 22.01.24

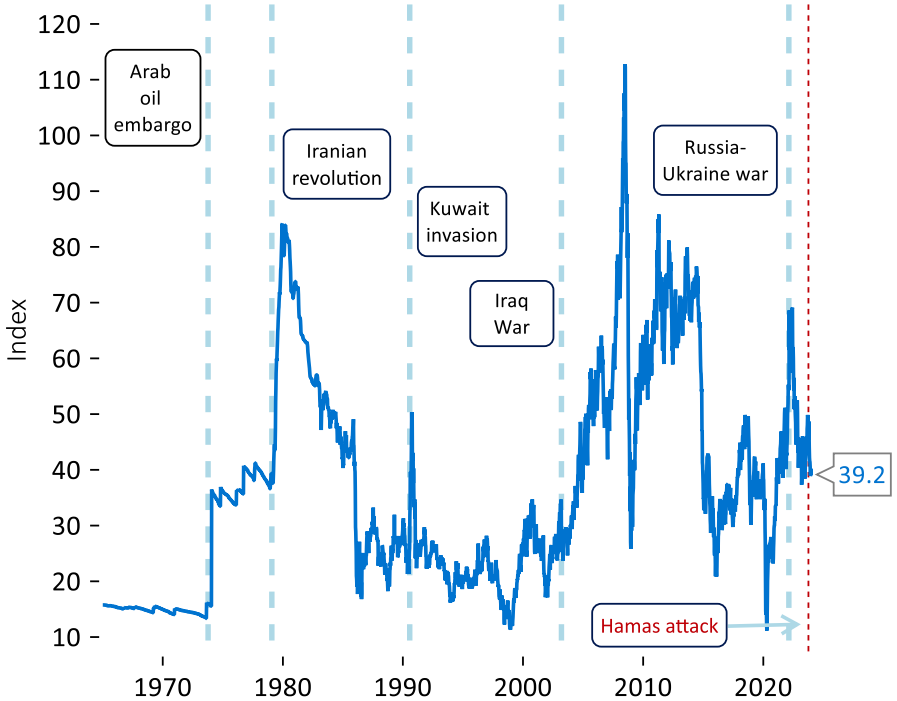
The Baltic Dirty Index indicates the cost of shipping unrefined oil on an average cost of 17 routes

It will still take a wider regional crisis to lift oil prices

Massive rise in US domestic oil production has blunted influence of OPEC +

US real oil prices & major Middle East conflicts

Real Oil Price (WTI)

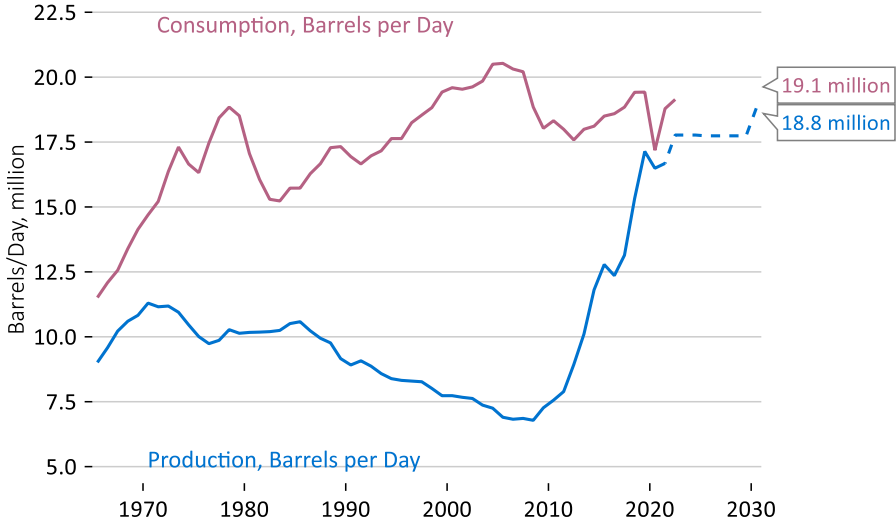


Source: Macrobond, 22.01.24

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

US oil production surge & oil price scenarios

United States, BP Statistical Review of World Energy, Oil



Source: Macrobond, 22.01.24

Middle East Scenarios	Impact on Energy Supply and Shipping Rates	Oil Price (USD)	Gas Price (% increase)	Container Shipping Rates (% increase)
Base	Minimal energy impact; high shipping rates normalise in Feb	70-80	10%	Momentary 80-100%
Adverse	Similar to the Iraq War in 2003 with loss of 3mb/day; shipping temporarily diverted over 2024H1 – western military deterrence ultimately effective	100-110	50%	Temporary 50-100%
Ugly	Similar to oil embargo in 1973 with loss of 6-7m day; shipping permanently diverted over 2024	130-150	300%	Short-term 80-100% Long-term 20-30%

03

Growth

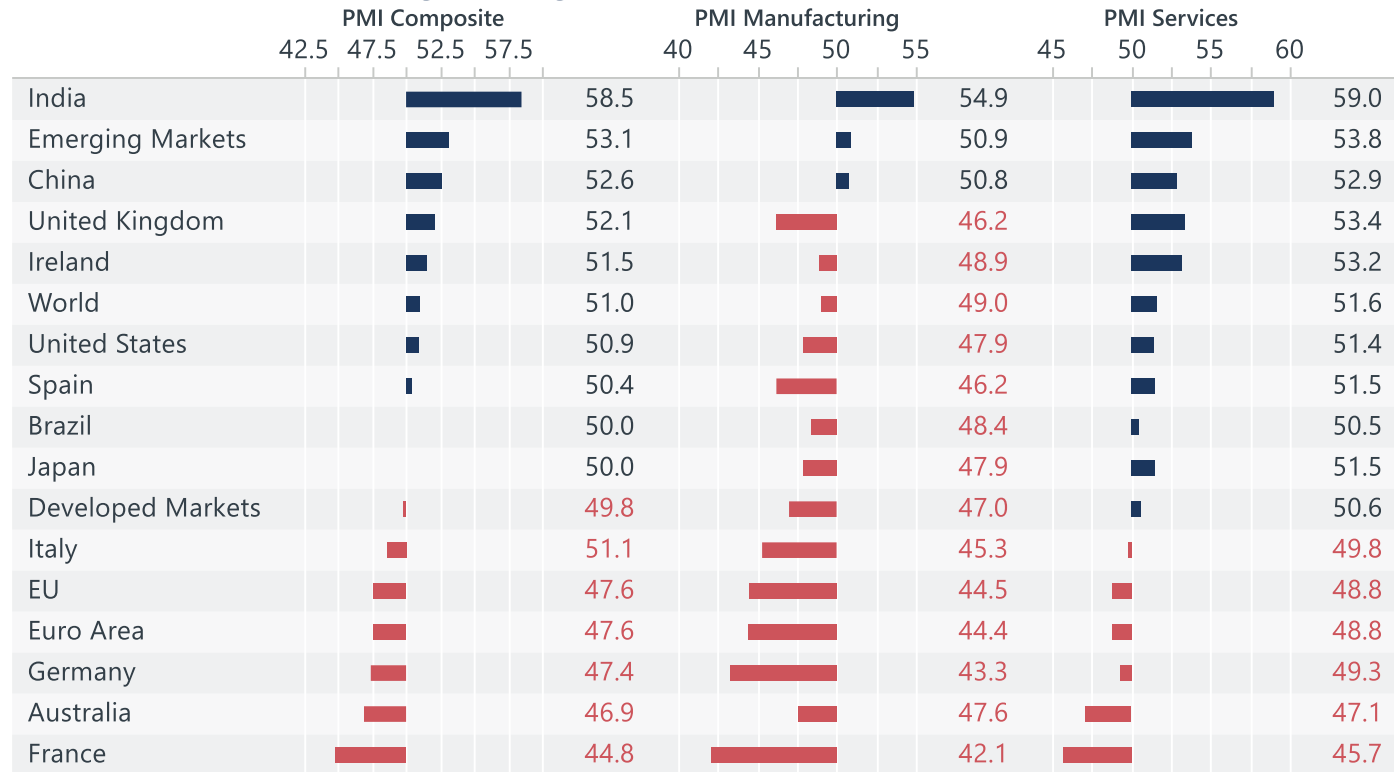
Growth: business surveys suggest weak growth at best

Manufacturing weak – Recession risk highest in Europe – UK services surprisingly strong



Global Purchasing Managers' Surveys

S&P Global - Purchasing Managers' Index (PMI)



Source: Macrobond, 22.01.24

Note: PMI >50 = explains indication of expansion of economy
 < 50 = explains indication of contraction of economy

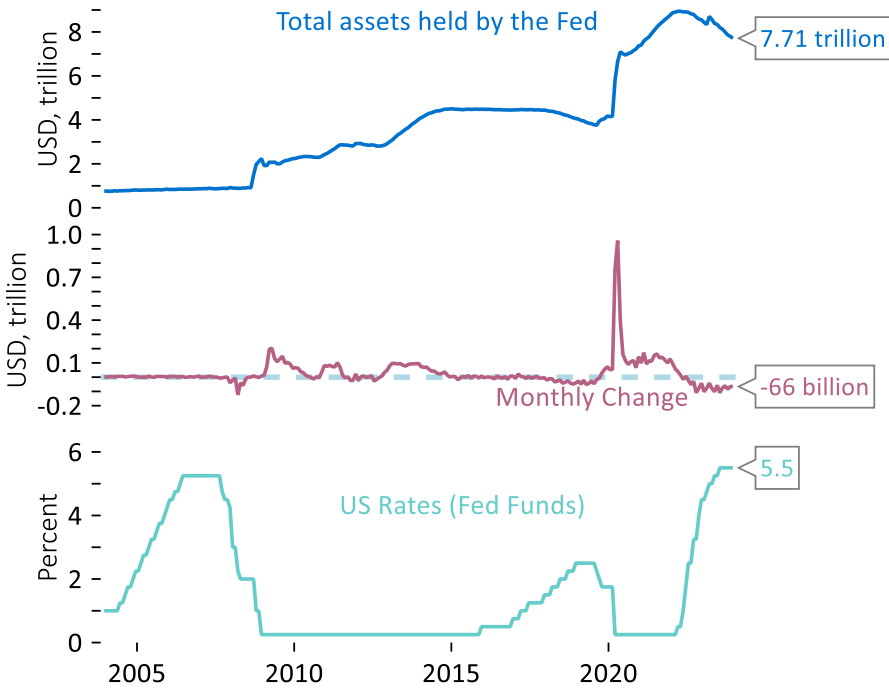
US: Tighter monetary policy is showing in the labour market

Lower hiring and quits suggest workers are less confident switching



A shrinking Fed balance sheet and higher rates

US Federal Reserve Balance Sheet & Rates

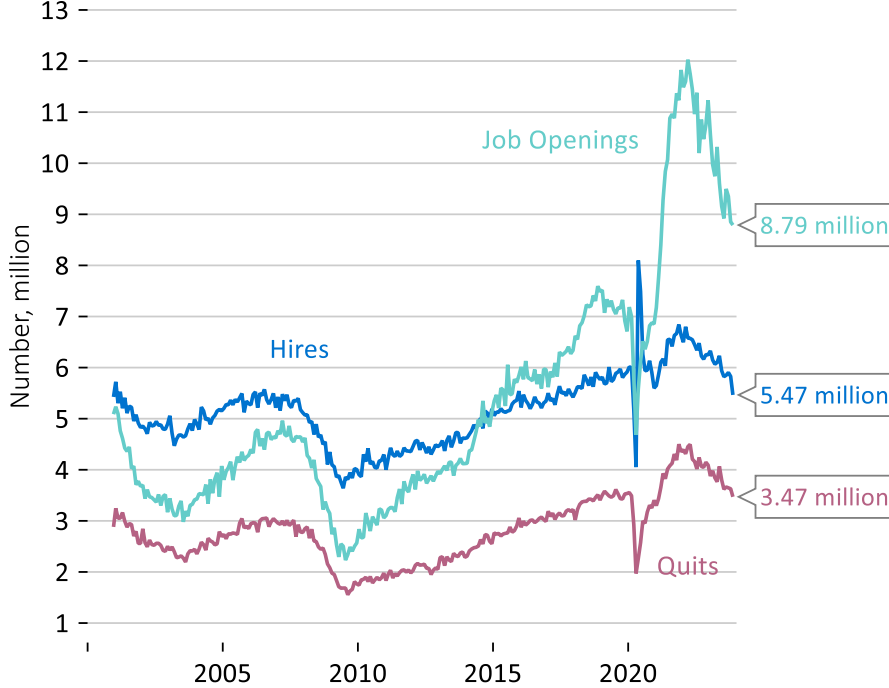


Source: Macrobond, 22.01.24



US jobs market slowly easing – hiring & quits down

US, Labour Turnover, Nonfarm, Total



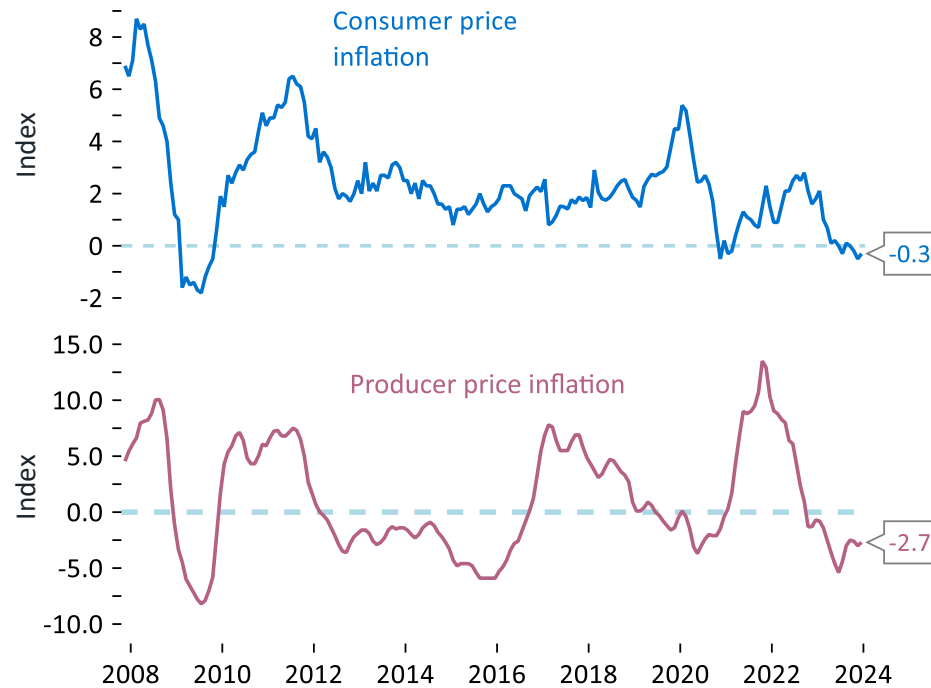
Source: Macrobond, 22.01.24

China: Property market has not yet stabilised – parallels with Japanese debt/property shock



Stubborn Chinese deflation suggests fiscal stimulus needed

China inflation measures

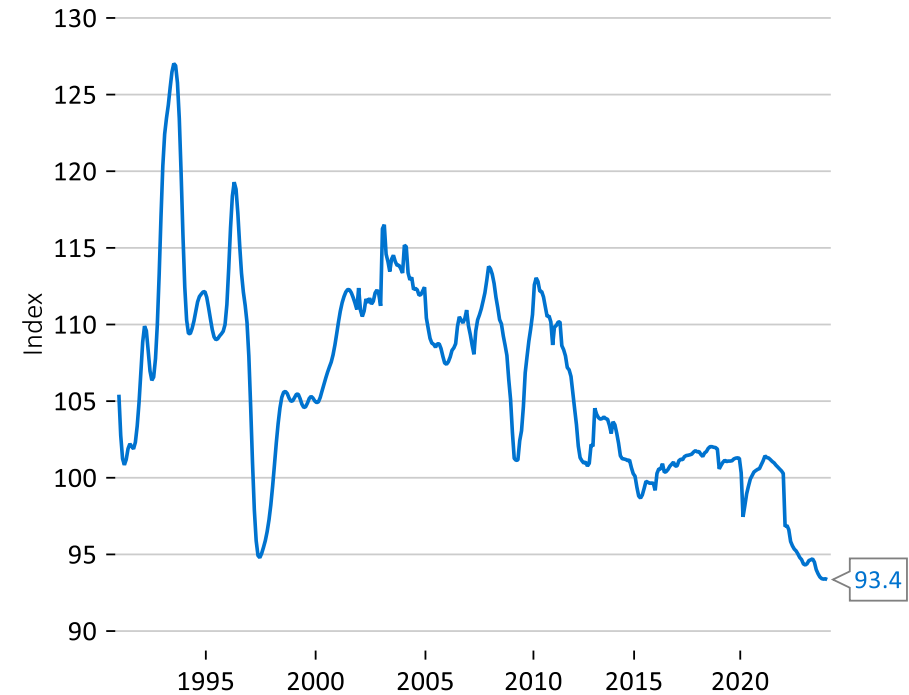


Source: Macrobond, 22.01.24



Chinese real estate indicators the most negative in 30 years

China National Real Estate Climate Index



Source: Macrobond, 22.01.24

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

Source: The real-estate climate index is a composite index reflecting the current situation and development trends of the Chinese real estate market.

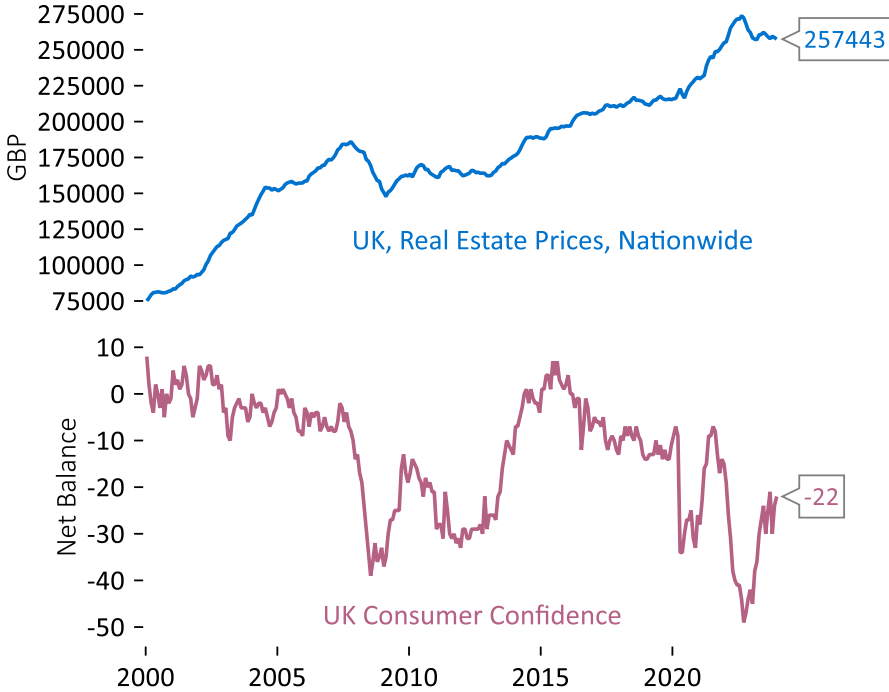
UK: Growth outlook is improving amid falling inflation

Forward looking indicators more positive



Housing market stabilises and confidence rebounds

UK House Prices & Consumer Confidence

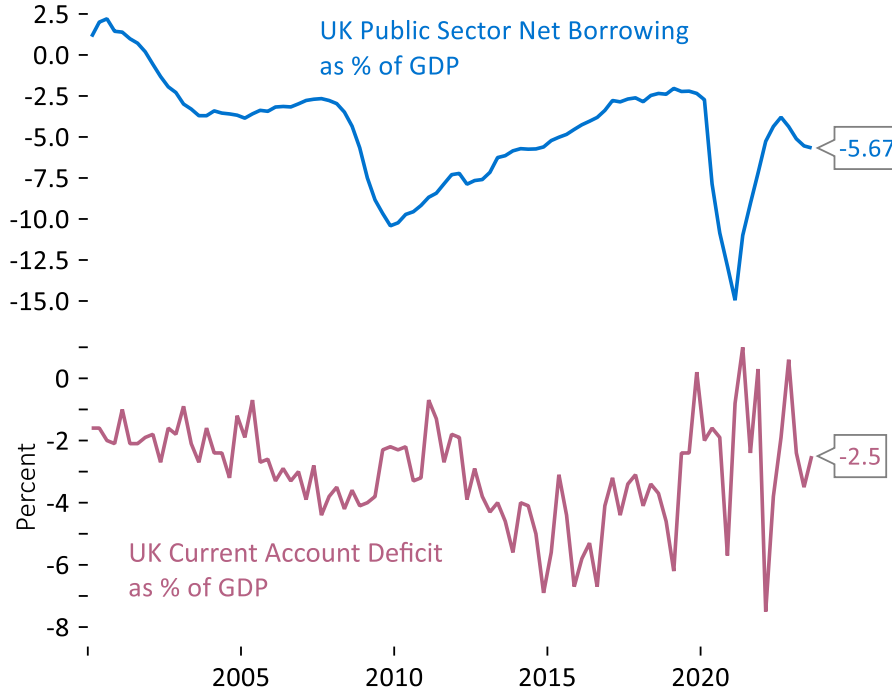


Source: Macrobond, 22.01.24



UK twin deficits start to narrow

UK Budget Balance and Current Account as % GDP



Source: Macrobond, 22.01.24

04

Rates

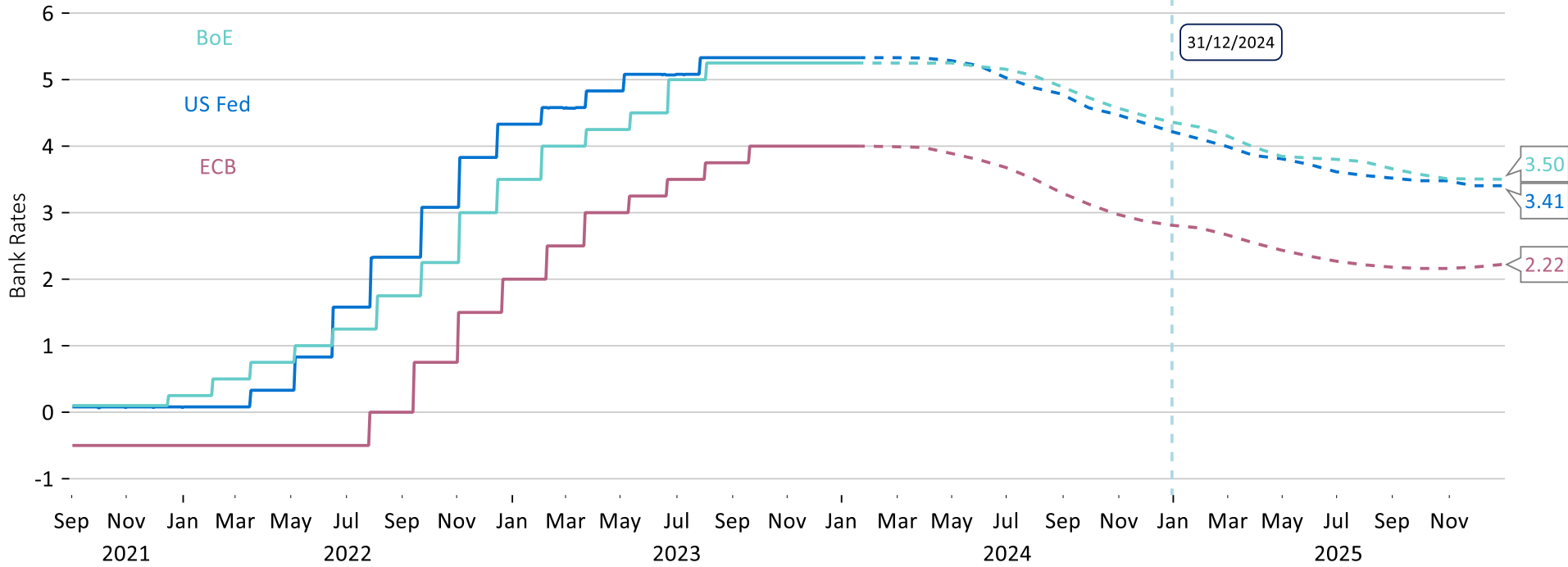
Markets anticipating aggressive rate cuts in 2024

We expect six US rate cuts in 2024 & four in 2025 taking rates to c.3% by June 2025



Central bank interest rates & market projections

Central banks' policy rates and market-implied rate trajectories



Source: Macrobond, 22.01.24

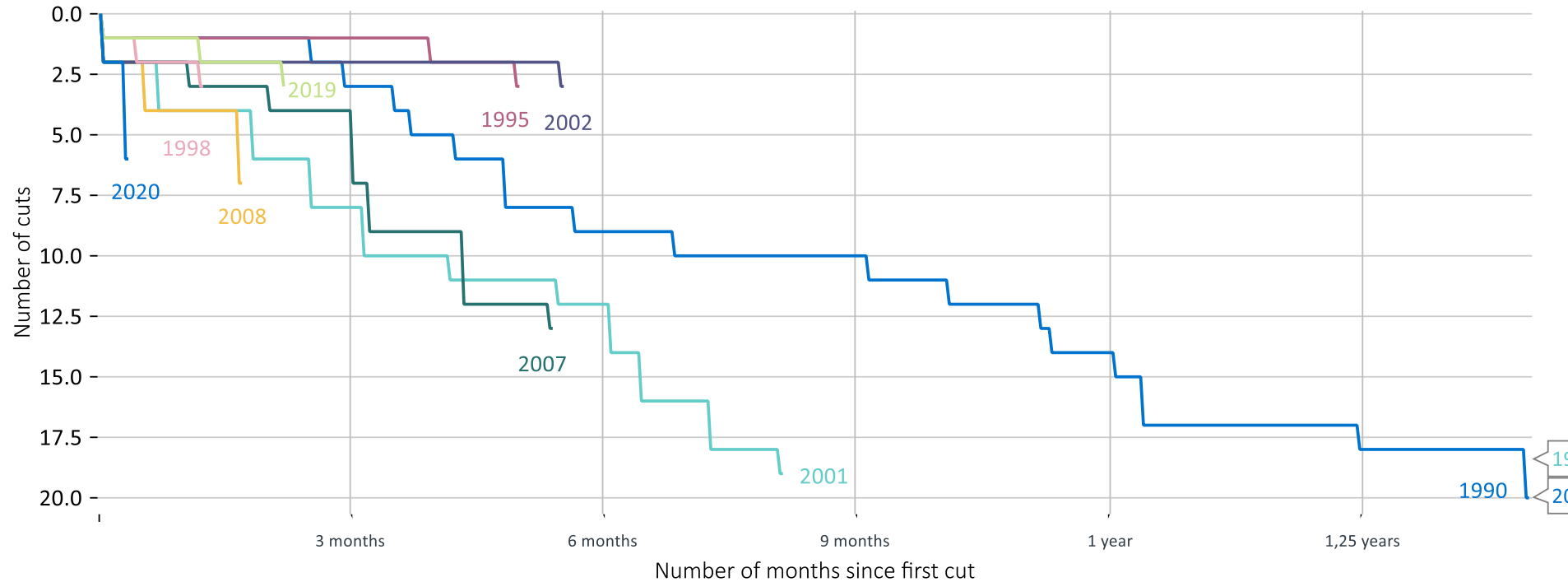
The historic profile of US rate cuts is typically rapid

The Matterhorn or Table Mountain – Central banks and markets disagree



US Rates: 2007, 2001 and 1990 all a rapid series of rate cuts

Federal Reserve Cutting Cycles since 1990



Source: Macrobond, 22.01.24

“With economic activity and labor markets in good shape, and inflation coming down gradually to 2%, I see no reason to move as quickly or cut as rapidly as in the past”

Federal Reserve Governor
Chris Waller – Jan 2024

05

Market implications

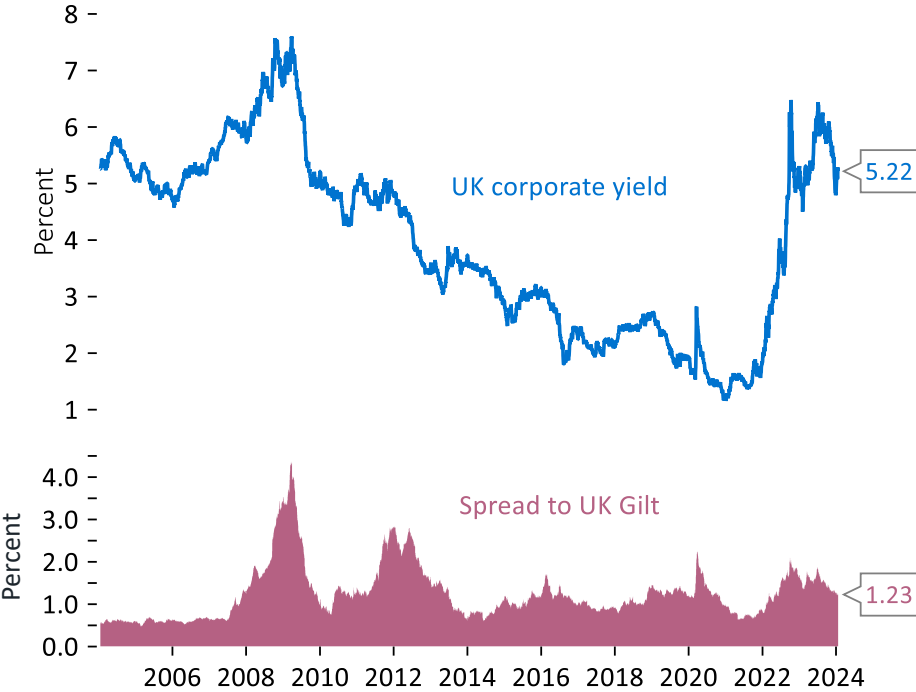
1. Bonds: UK corporate issues attractive

Sterling corporate bonds now offer value against other assets

 Sterling Corporate bond yields attractive – duration neutral

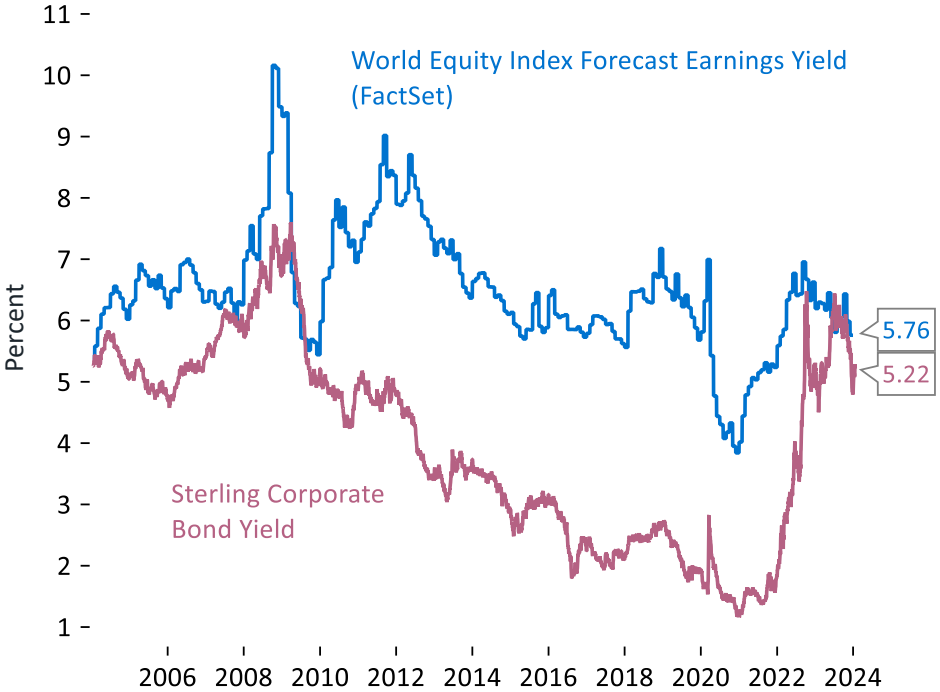
 No more equity 'TINA'* – bonds are a real competitor

UK Corporate Bond Yields and Spread



Source: Macrobond, 22.01.24

Bond and Equity Yields



Source: Macrobond, 22.01.24

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

* TINA "There is no alternative"

2. Forecast 2024 earnings & dividends remain robust

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

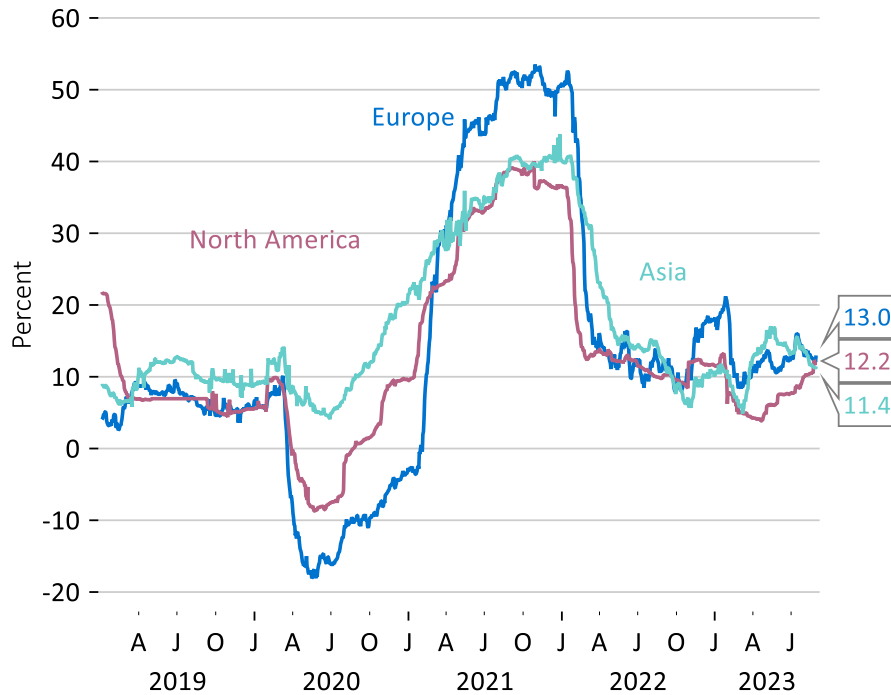


Corporate earnings for 2024 still look robust



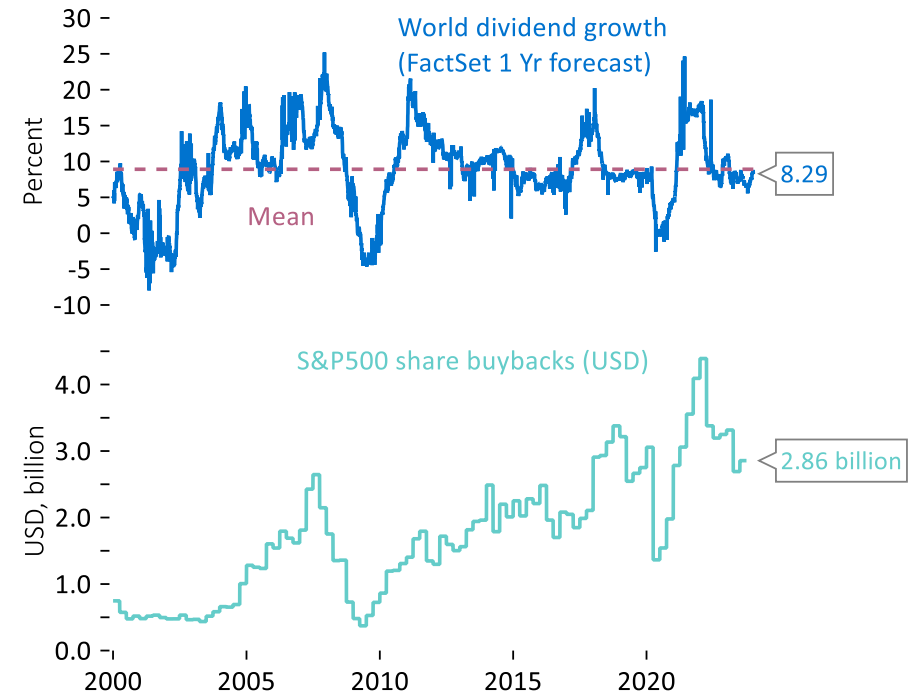
Global dividend growth now well ahead of inflation

Regional EPS Growth Rate (1 year forecast)



Source: Macrobond, 22.01.24

Global dividend growth & US stock buybacks



Source: Macrobond, 22.01.24

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

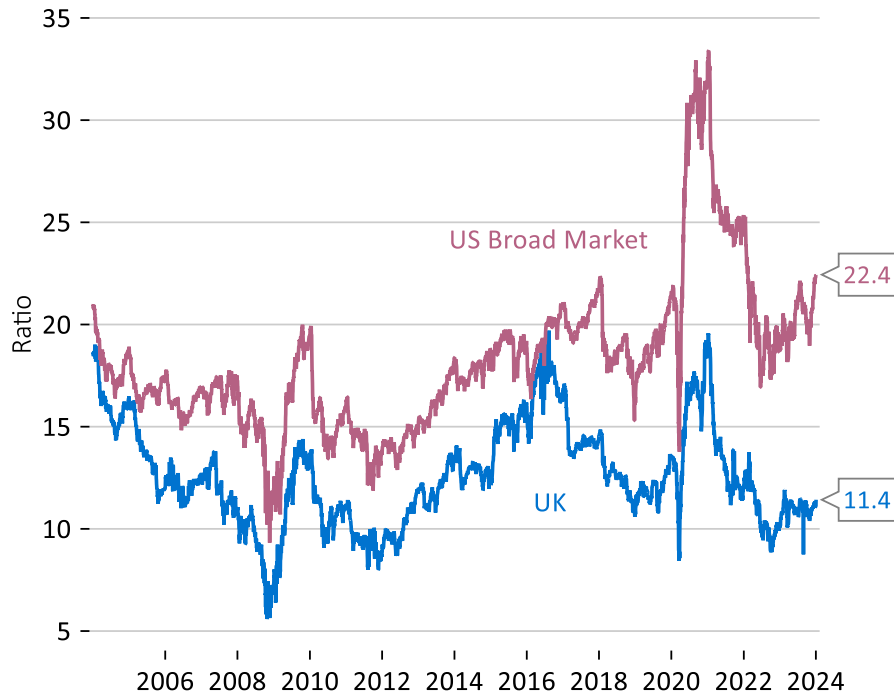
3. Global equity valuations offer opportunities

Higher growth equities in lower growth markets should perform



US & UK show almost 50% deviation in PE over 20 years

P/E Ratio 1 Year Forward (FactSet)



Source: Macrobond, 22.01.24

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



PE to Growth Rates (PEG) similar across regions

MSCI Index Dec 2023	P/E Forward	10Y Earnings growth % p.a.*	PE/Growth (PEG)	Div Yld (%)
MSCI US	20.0	6.3	3.1	1.4
MSCI World	16.6	5.4	3.1	2.0
MSCI Ex US	13.3	4.3	3.0	3.1
MSCI UK	10.8	3.7	2.9	3.6

Source: MSCI January 2024 & Sarasin.

* 10 years to December 2023

**PEG PE/Growth

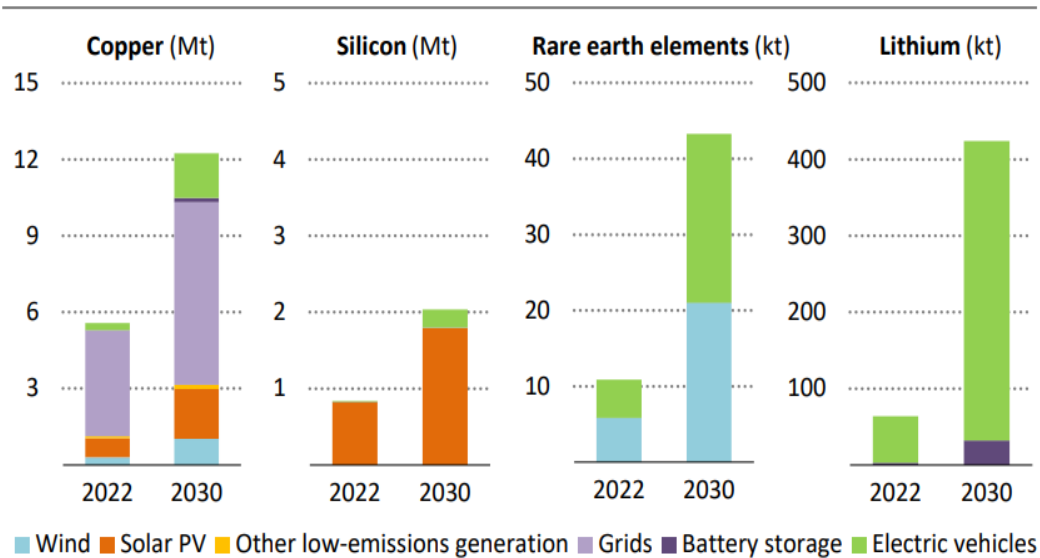
4. Climate change – risk and opportunity

Massive demand for critical minerals & falling cost of renewables



Critical minerals for electrification and demand 2030

Figure 1.27 ▶ Demand for critical minerals for selected clean electricity supply and electrification technologies in the APS, 2022 and 2030



IEA. CC BY 4.0.

Electrification raises demand for key critical minerals by two- to seven-times by 2030

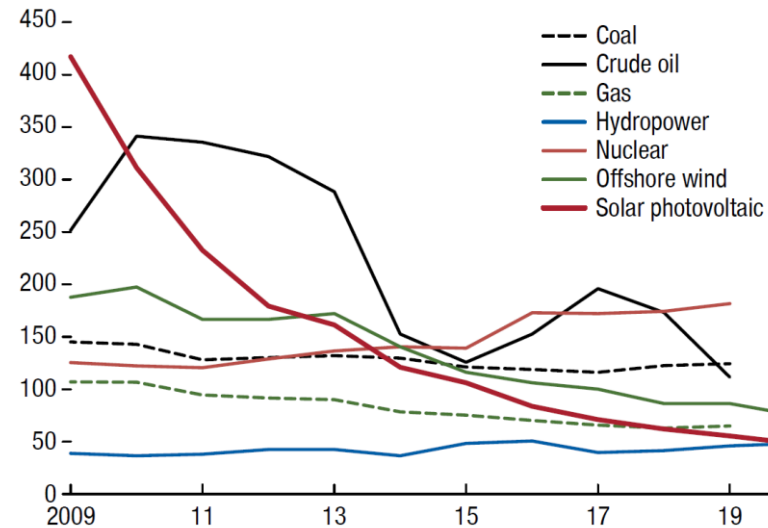
Source: IEA Dec 2023



Solar cheaper than all fossil fuels as technology advances

Figure 1.11. Learning Curves for Power Generation, by Technologies

(US dollars per megawatt-hour)



Sources: IRENA 2022; Way and others 2022; and Ziegler and Trancik 2021a, 2021b.

Note: The figure shows the levelized cost of electricity: The average net present cost of electricity generation over the lifetime of the generator.

Source: IMF Nov 2023

Known and commercially proven technologies can achieve about 90 percent of the emission reductions necessary to achieve climate goals by 2030

IMF Nov 2023

06

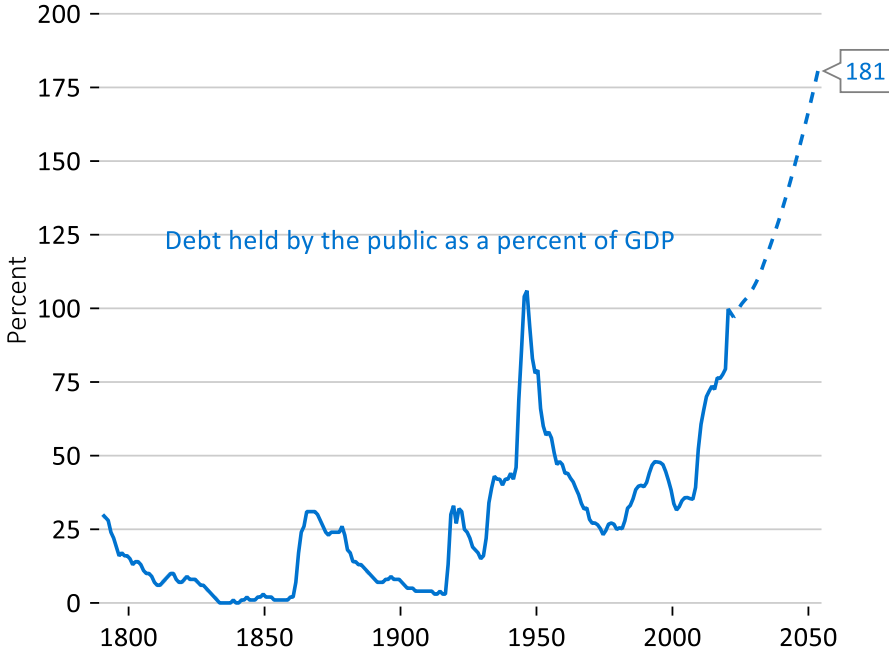
Market risks

Risk 1: Supply of debt growing as US deficit climbs & Fed unwinds

Bond valuations are attractive but surge in supply means accumulating positions cautiously

Trajectory of US borrowing is unsustainable in long-term

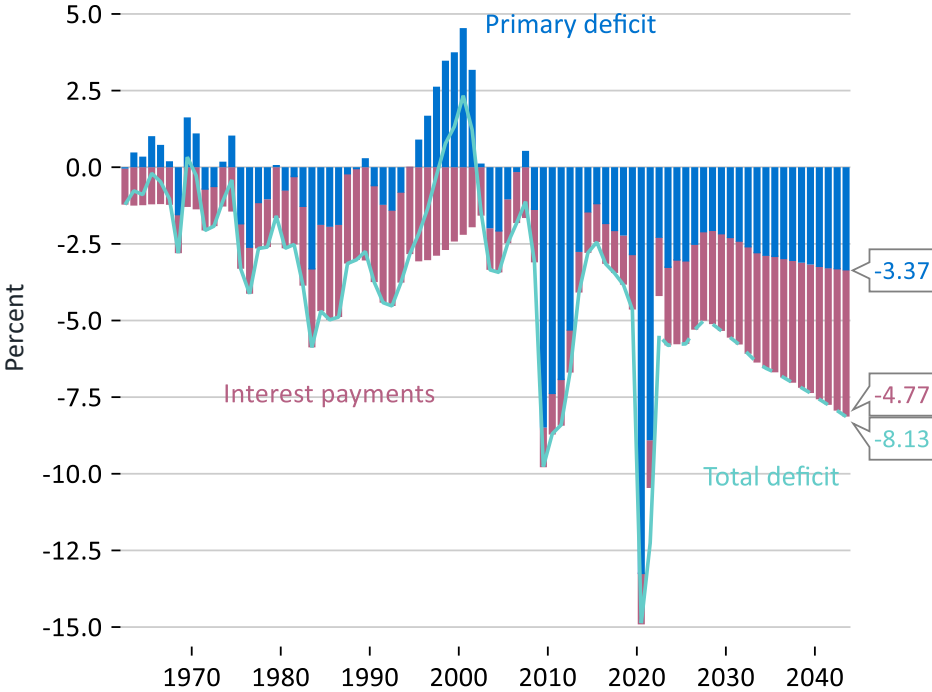
Extended baseline forecasts by the CBO
(US Congressional Budget Office)



Source: Macrobond, 22.01.24

US budget deficit will be dominated by interest payments

US Deficits & Interest Payments



Source: Macrobond, 22.01.24

Risk 2: Trade: new barriers are reversing decades-long globalisation

Walled gardens – IMF estimates costs could be as much as 7% of global output

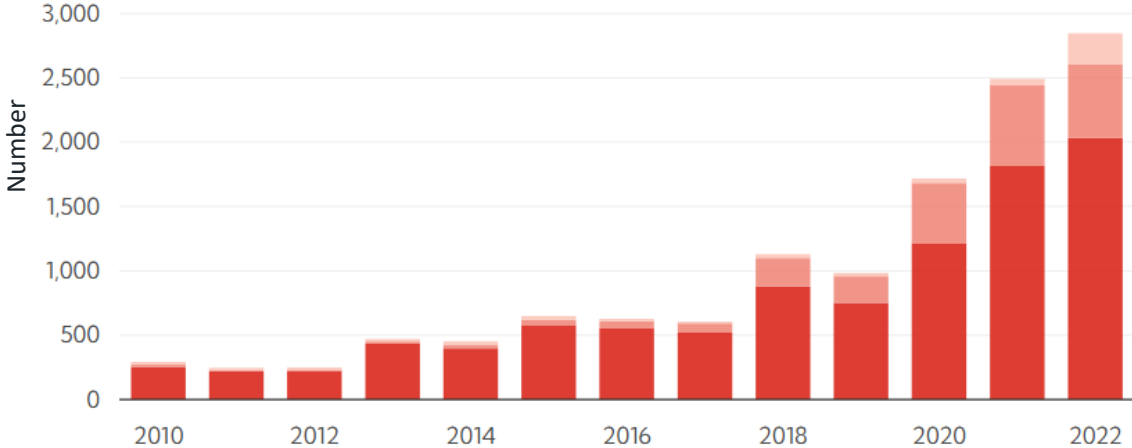
Trade fragmentation could cost 7% of GDP over time (IMF)

Walled off

Restrictions on trade have greatly increased in recent years.

Number of trade restrictions imposed annually worldwide

■ Goods ■ Services ■ Investment



Source: Global Trade Alert and IMF staff calculations. Jan 2023

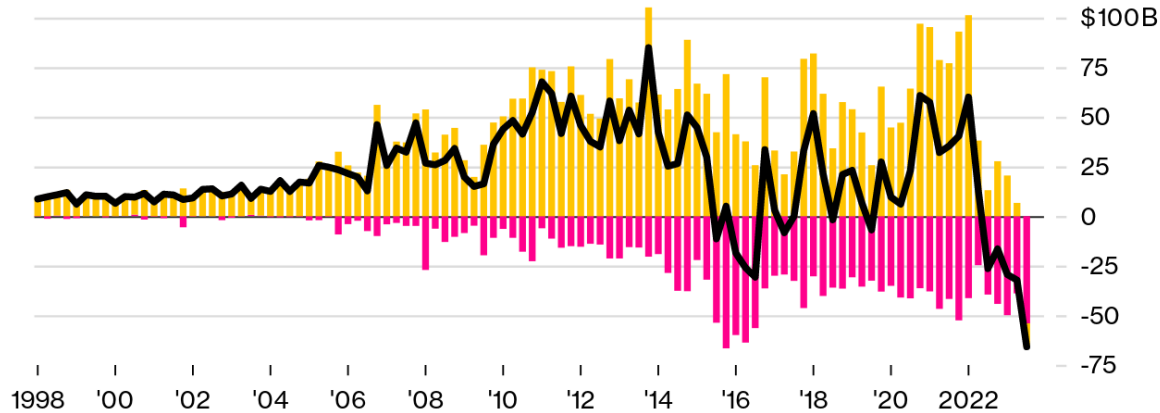


Foreign direct investment into China slumps

Staying Away

Investment into China turned negative for the first time since 1998

— Net foreign direct investment ■ Outbound FDI (assets) ■ Inbound FDI (liabilities)



Source: China's State Administration of Foreign Exchange



Source: Bloomberg Nov 2023

Risk 3: Geopolitics

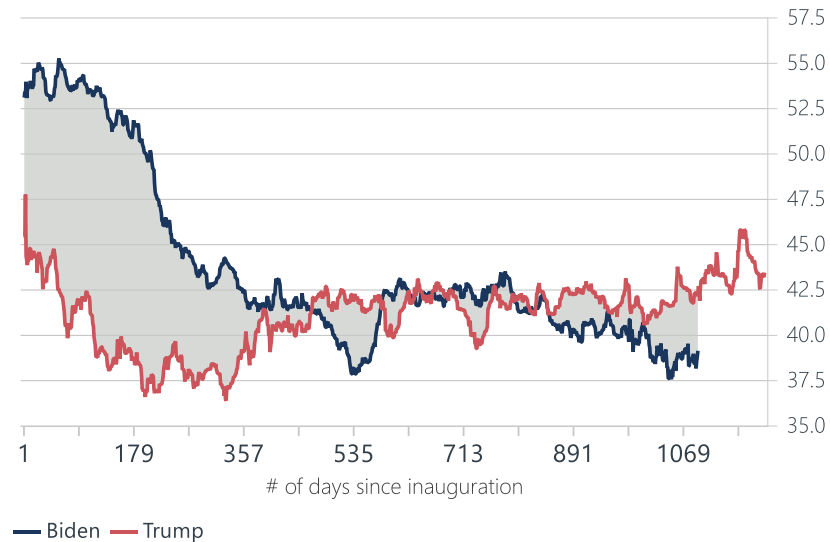
“An era of conflict and confrontation” Ursula von der Leyen Davos Jan 2024



Biden’s slow fade compared to Trump’s fall and recover

Approval ratings since taking office: Biden vs. Trump

Source: FiveThirtyEight



22.01.24 MACROBOND

Incumbent presidents (there have been 10 since WWII) normally win re-election (7) unless there is a recession as happened to Gerald Ford (aftermath of first oil shock), Jimmy Carter (second oil shock) and George H.W Bush.

Brookings Feb 2012



Geopolitical risk high in 2024

Key events 2024

- 1. Hamas-Israel War** escalation in Red Sea and Lebanon – so far oil prices remain weak. Human suffering on both sides intense
- 2. Stalemate likely to continue in Ukraine** but with worsening attacks on civilian infrastructure
- 3. Fifty countries** will hold elections in 2024 with more than 2 billion voters
- 4. US – House, Senate and Presidency** all up for grabs in November
- 5. UK election** offers little policy difference between parties, especially on economics
- 6. Taiwanese election result** increases China escalation risk

07 Summary

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 utilise portfolio protection where appropriate
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. Red Sea shipping attacks impacting global freight rates

Source: Sarasin & Partners, December 2023

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