

SARASIN  
& PARTNERS

# Six minute strategy

## A surprising resilience

12 January 2024

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# I. Global asset performance 2023 to date

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

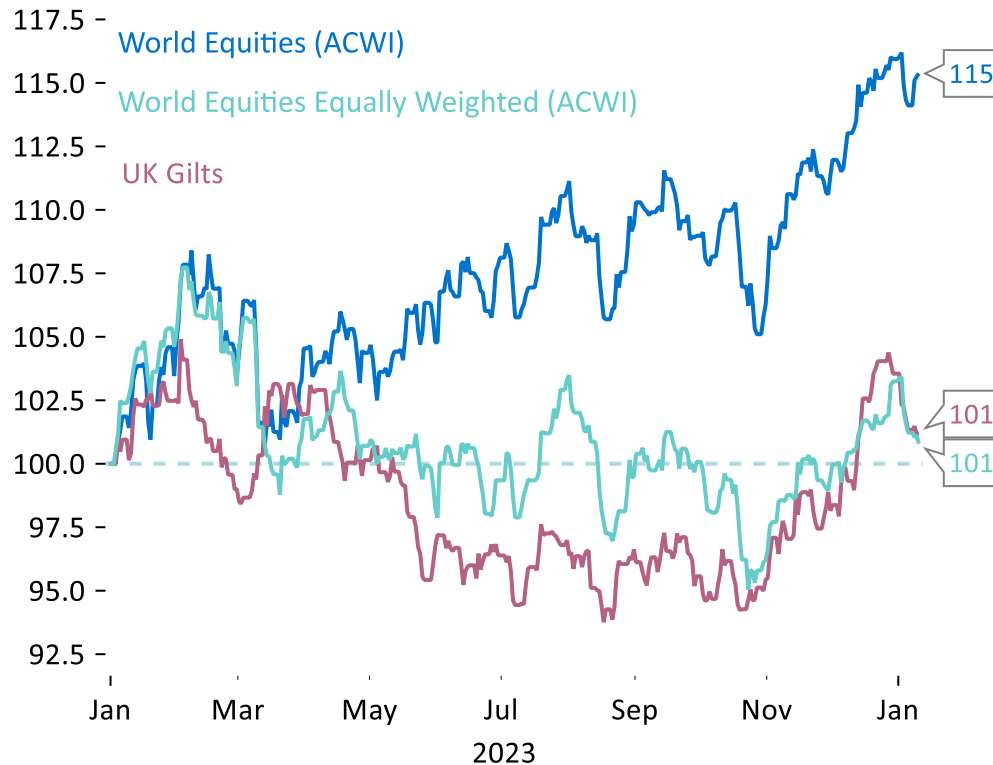


Largest stocks driving global equity performance



US market leadership starting to widen in Q4 2023

## Asset class performance 2023 to date

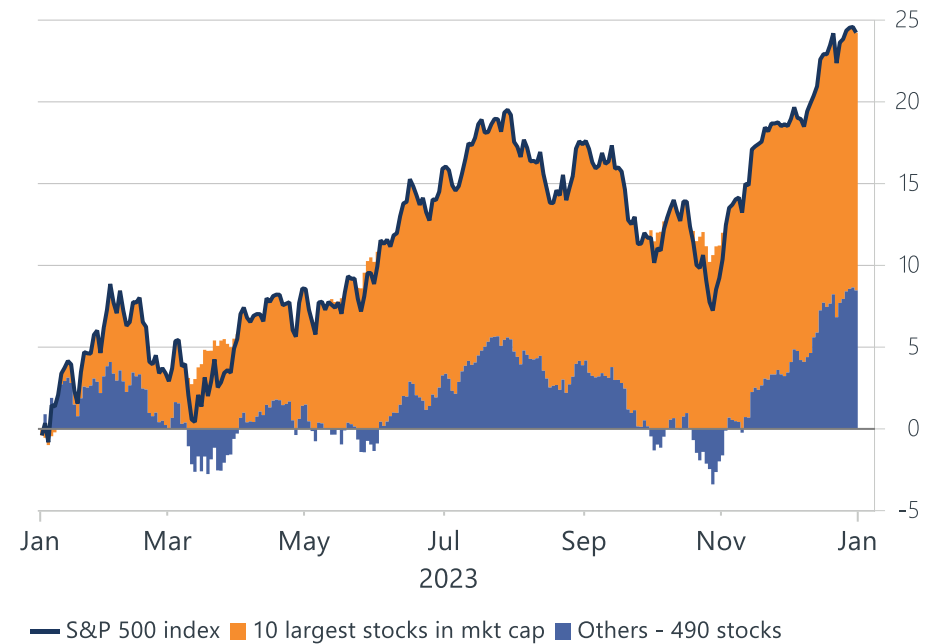


Source: Macrobond, 11.01.24

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

## Largest stocks are driving the current S&P rally

Source: S&P Global



11.01.24 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)



# II. Global asset performance 2023 to date



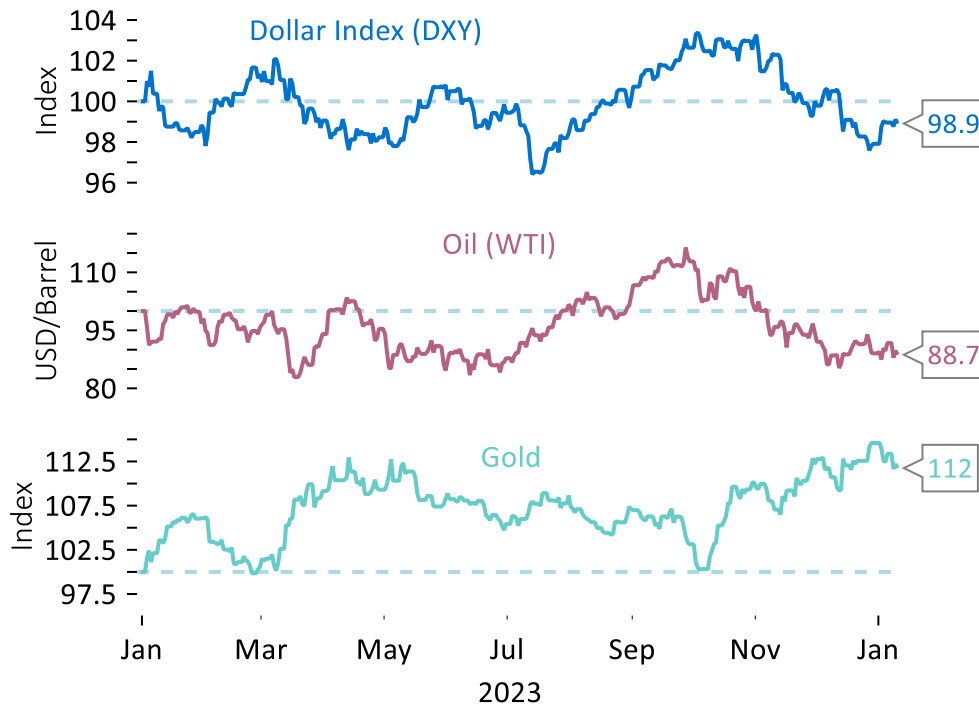
Dollar flat while gold rallies – Oil prices weak despite wars



Bond volatility still elevated – VIX near 5 yr. lows

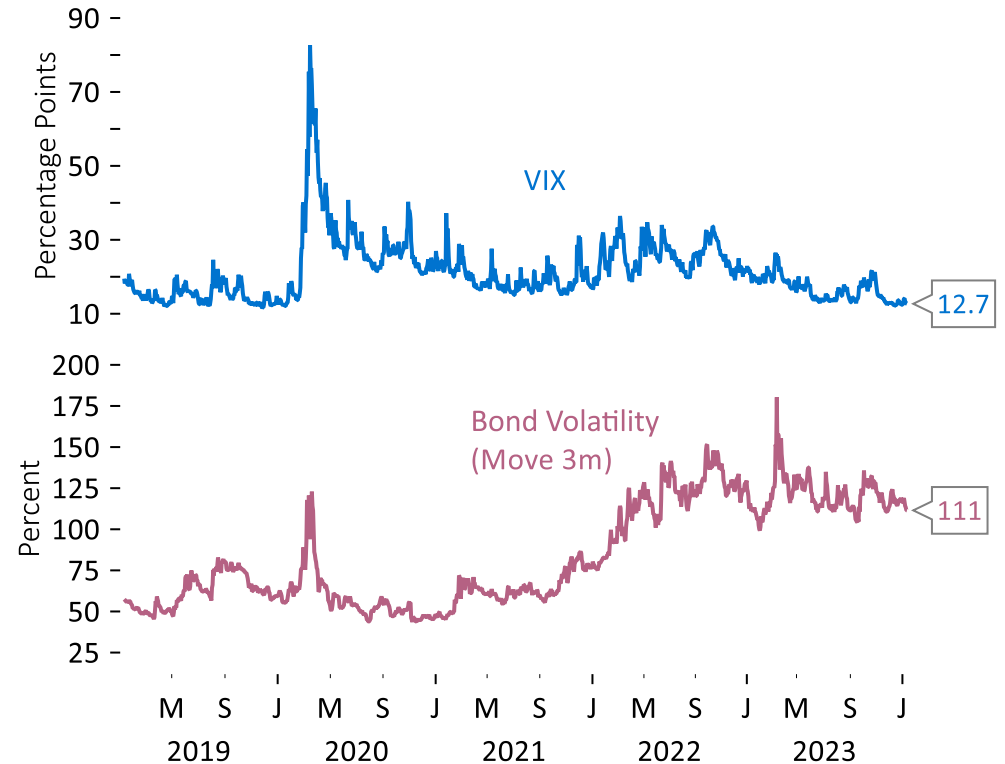
## Asset class performance 2023

Jan 1, 2023 = 100



Source: Macrobond, 11.01.24

## S&P500 (VIX) & Bond Market Volatility



Source: Macrobond, 11.01.24

# Global inflation

## UK & Global headline CPI continues to fall sharply

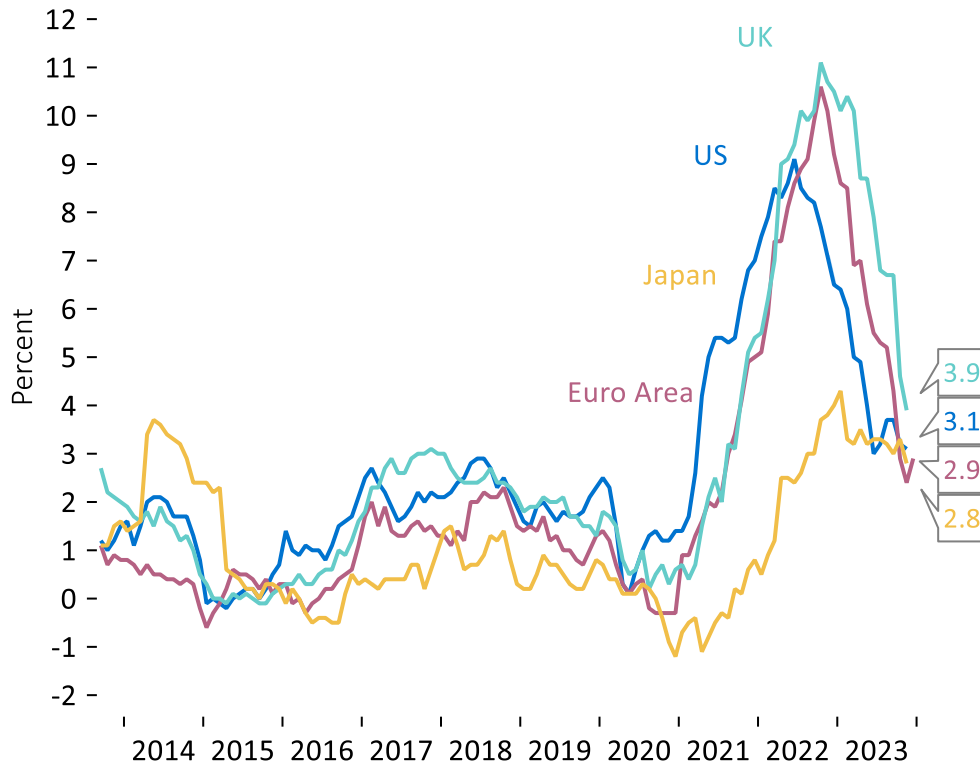


Better inflation data in the UK, US and Euro area



UK headline inflation below 3% by Q2 2024

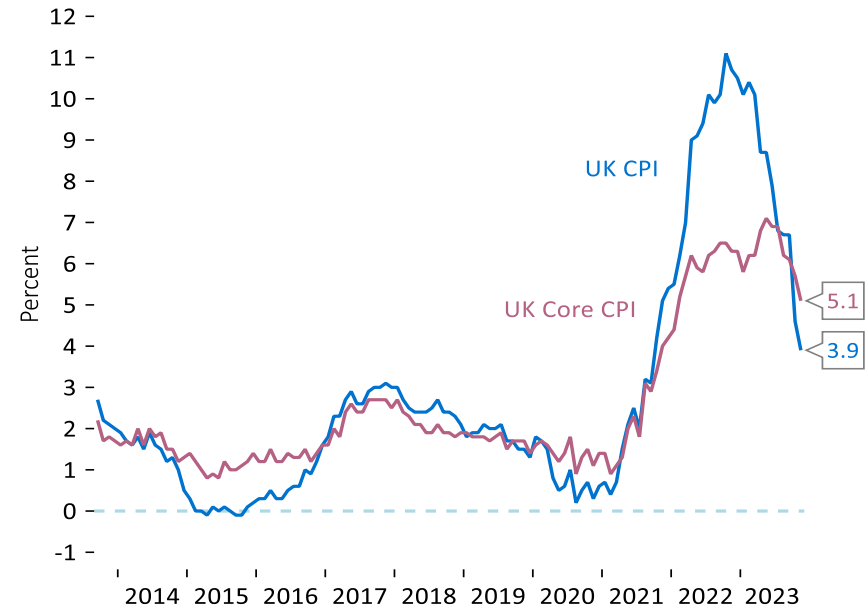
### Headline Inflation (CPI)



Source: Macrobond, 11.01.24

Source: Macrobond October 2023 and Sarasin forecasts September 2023

### UK Headline & Core Inflation



Source: Macrobond, 11.01.24

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

\* Sarasin Forecasts December 2023

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

# US pricing pressures ease

Global supply chains have normalised rapidly – Core inflation rate is falling

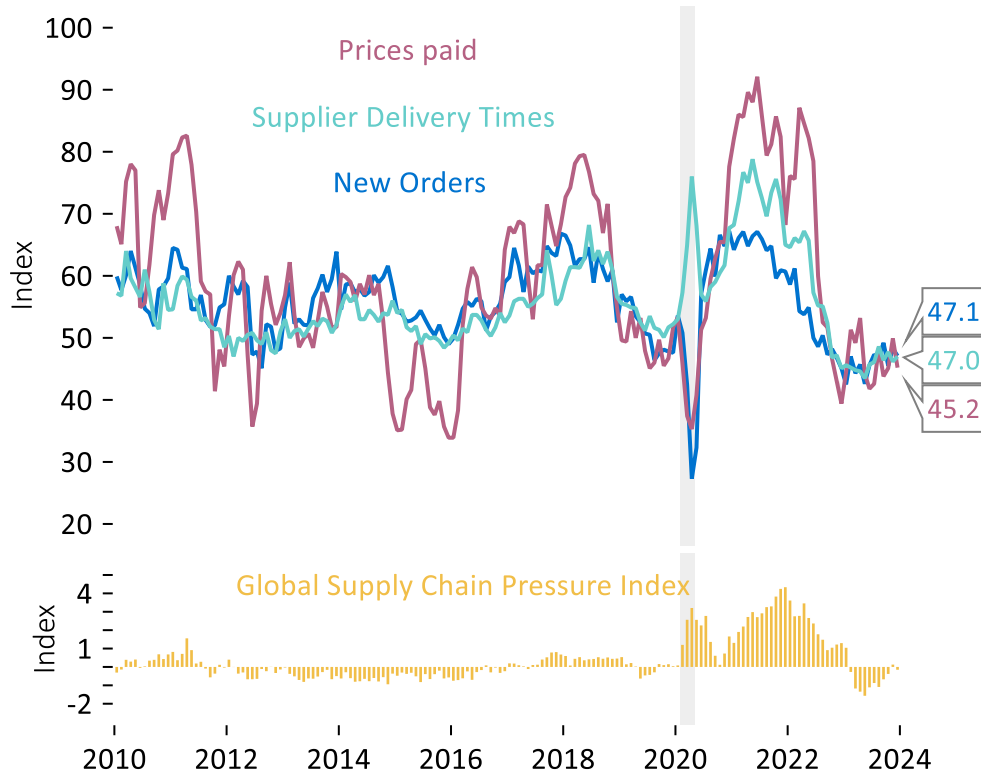


Corporate pricing pressure easing sharply



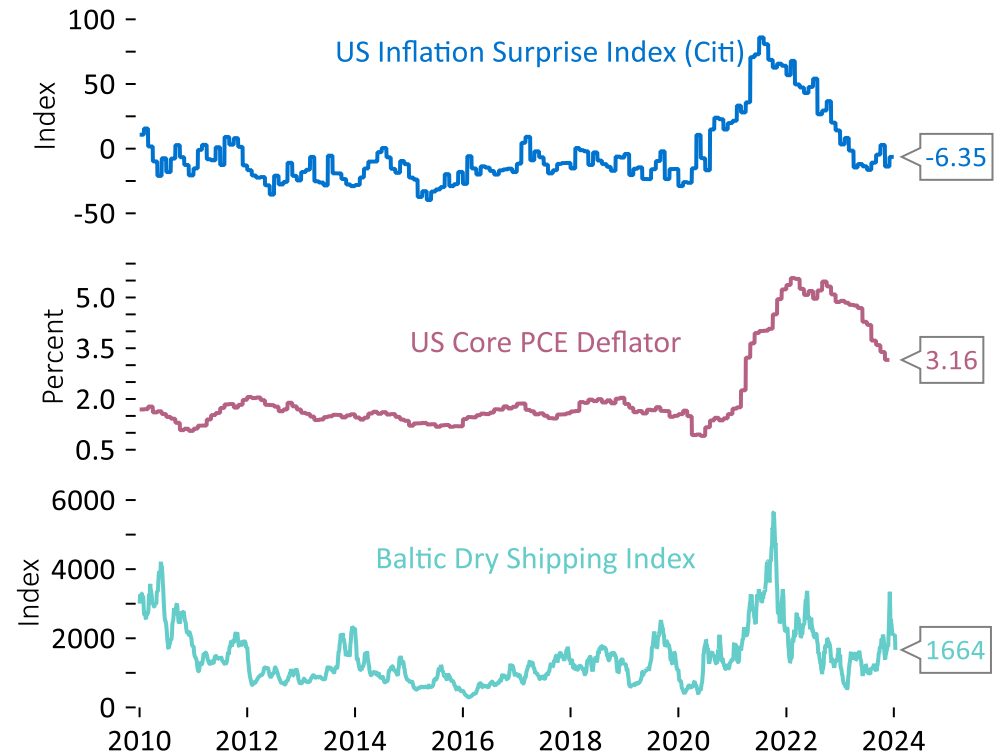
US Inflation surprises fade – shipping rates rise on Red Sea

## US - ISM Manufacturing & Global Supply Chains



Source: Macrobond, 11.01.24

## US Inflation Surprise Index, PCE Core & Shipping Costs



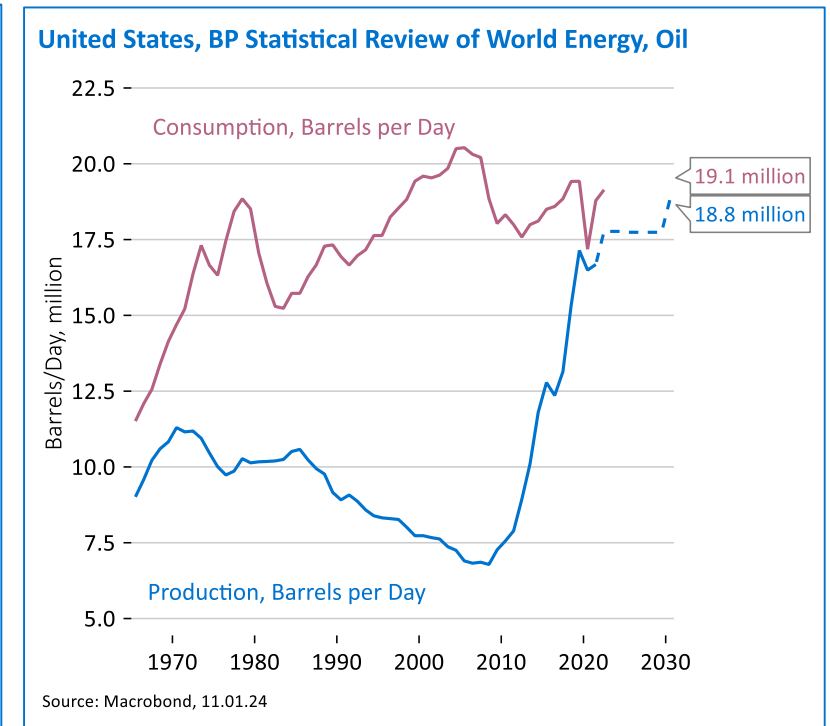
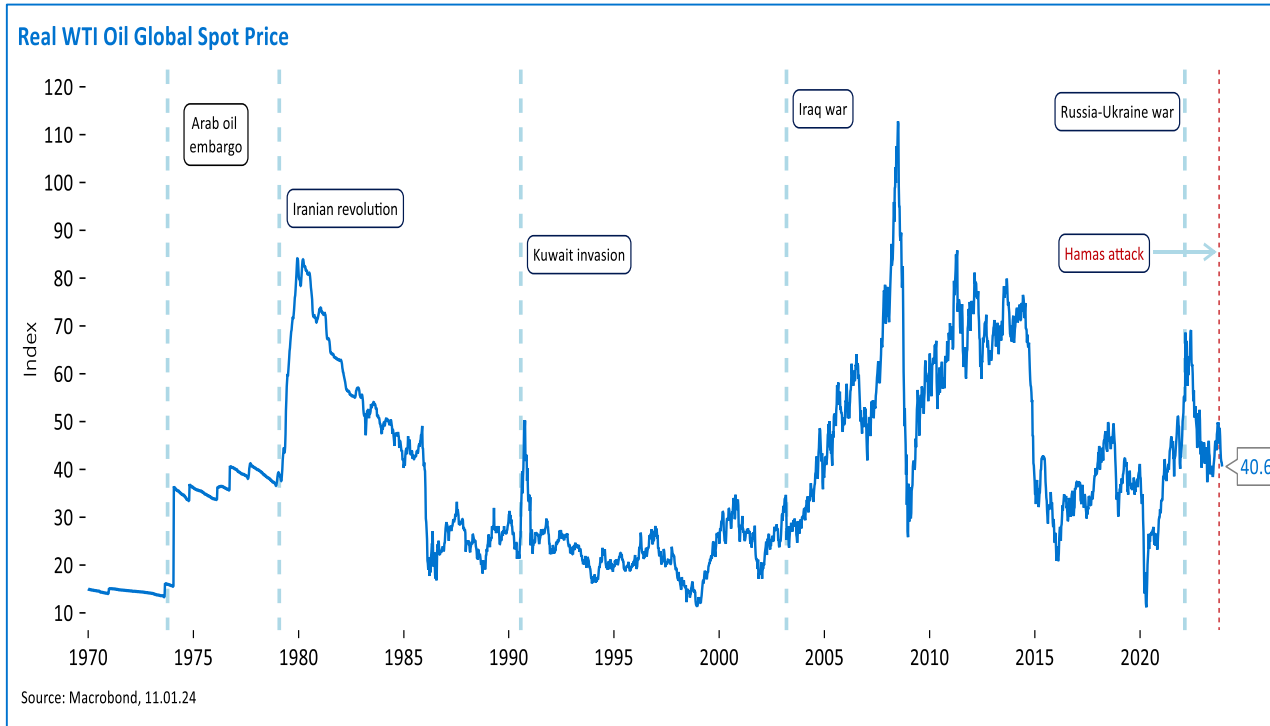
Source: Macrobond, 11.01.24

# It will 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



Source: Sarasin & Partners October 2023

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

Israel-Hamas 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%

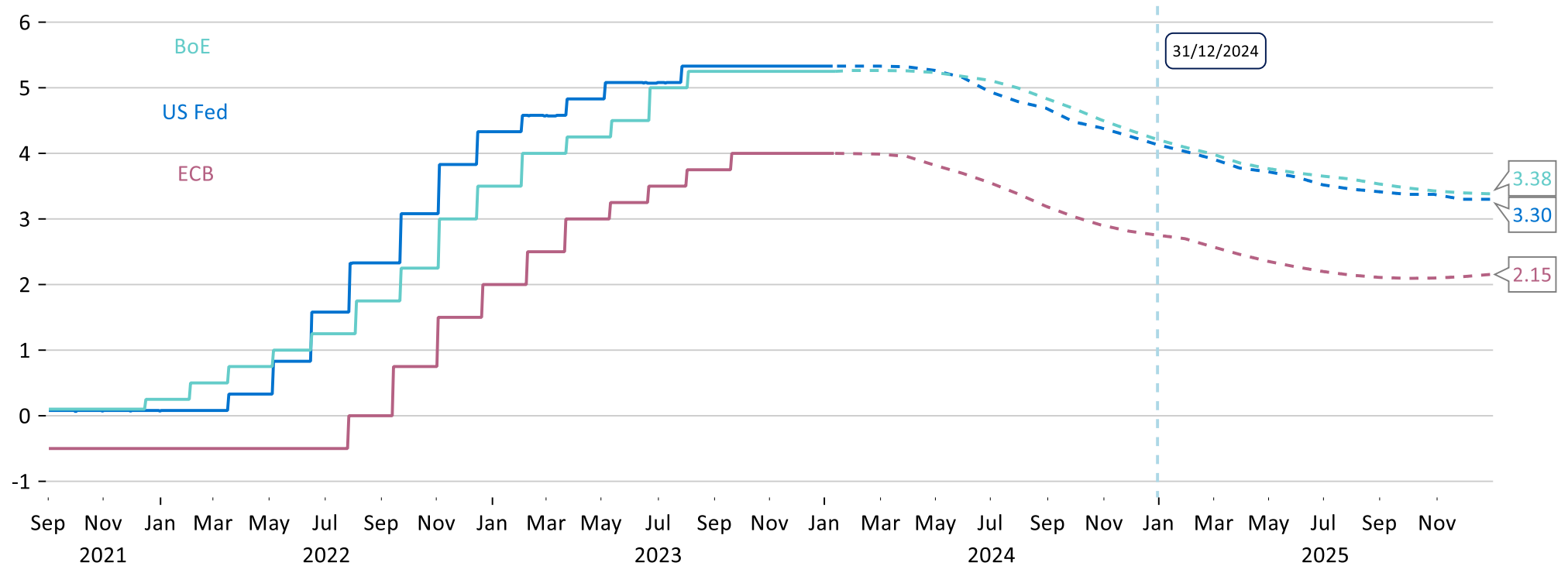
# Markets anticipating aggressive US rate cuts in 2024

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



## Market projections for central bank rates

Central banks' policy rates and market-implied rate trajectories



Source: Macrobond, 11.01.24

# Forecast 2024 earnings & dividends remain robust

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

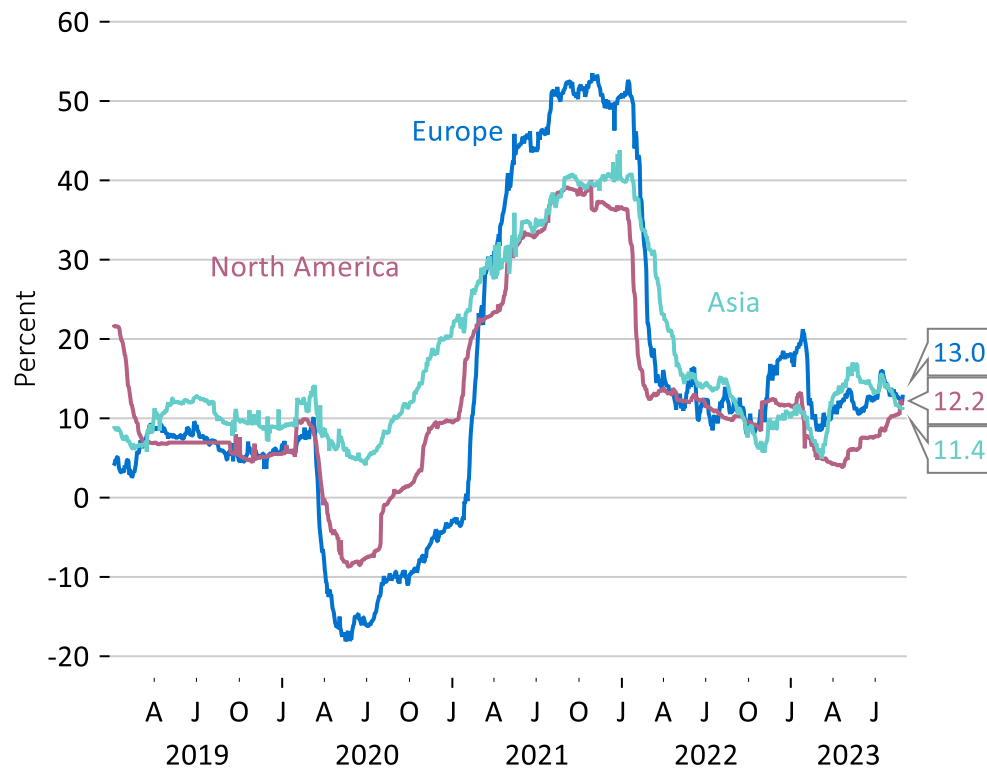


Corporate earnings for 2024 still look robust



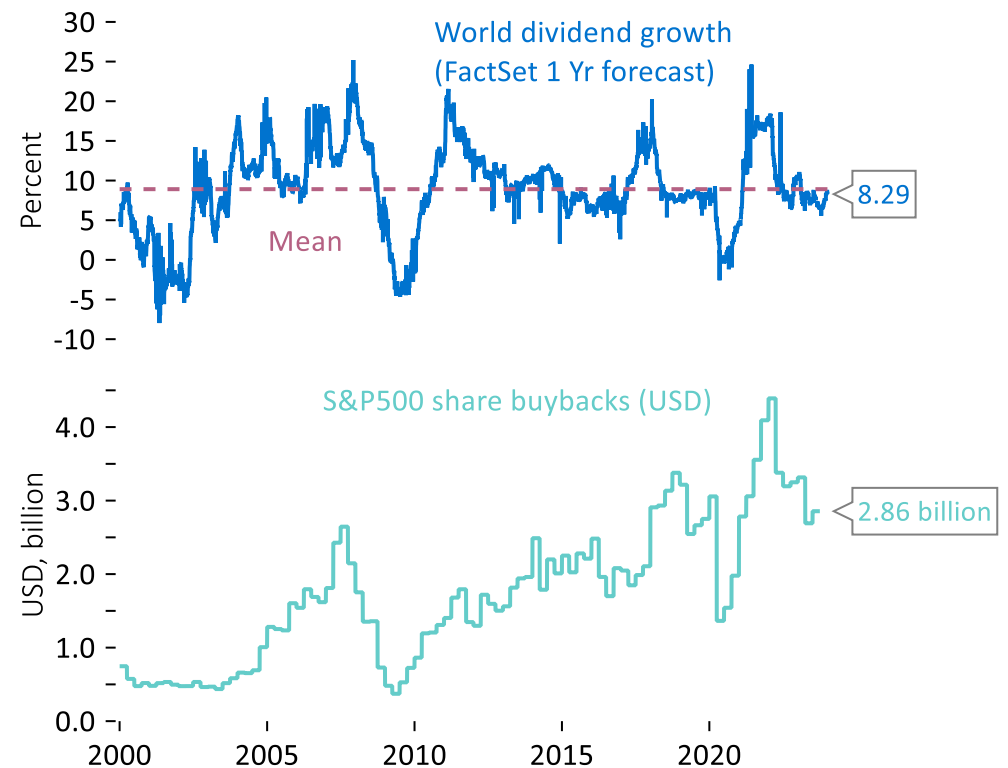
Global dividend growth now well ahead of inflation

Regional EPS Growth Rate (1 year forecast)



Source: Macrobond, 11.01.24

Global dividend growth & US stock buybacks



Source: Macrobond, 11.01.24

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



# Policy summary

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



Global strategy update – January 2024

<b>Bonds</b>	<p><b>Neutral</b></p> <ul style="list-style-type: none"><li>• <b>Underweight Govt:</b> Sharp fall in global bond yields means disinflationary conditions already priced in</li><li>• <b>Overweight Inv. Grade Credit:</b> Yields attractive – Corporate balance sheets healthy – European spreads attractive</li></ul>
<b>Equities</b>	<p><b>Overweight</b></p> <ul style="list-style-type: none"><li>• <b>Global:</b> Earnings slowing but still attractive, supply chain pressures easing but tech valuations worrying</li><li>• <b>Emerging markets:</b> A weaker Dollar and lower US rates attractive – Political/Economic risks in China remain</li><li>• <b>Equity insurance:</b> Use low equity market volatility to utilise portfolio protection where appropriate</li></ul>
<b>Alternatives</b>	<p><b>Neutral</b></p> <ul style="list-style-type: none"><li>• <b>Neutral Correlated:</b> Higher interest rates mostly priced in – discounts attractive</li><li>• <b>Underweight Uncorrelated:</b> Hedge funds and absolute return unlikely to outperform cash/bonds</li><li>• <b>Overweight</b> positions in <b>Gold</b> as hedge against a failure in the financial system. <b>Carbon &amp; Climate Transition Metals</b> attractive</li></ul>
<b>Cash (tactical)</b>	<p><b>Double Underweight</b></p> <ul style="list-style-type: none"><li>• <b>Favour Sterling on</b> lower UK political risk and more hawkish BoE</li></ul>
<b>Risks</b>	<ol style="list-style-type: none"><li>1. <b>Liquidity risks</b> elevated as central bank balance sheets shrink &amp; real rates turn positive</li><li>2. Long-term risk from failing to <b>secure climate targets</b></li><li>3. Political risk from <b>military conflict</b> has climbed as Pax Americana ends: Ukraine, Israel-Hamas, Taiwan, N.Korea, Balkans, Africa (coups), Armenia-Azerbaijan</li></ol>

Source: Sarasin & Partners, December 2023

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