

SARASIN

Six Minute Strategy

So, what could go wrong?



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Equities: The 2024 outlook for earnings & dividends is robust

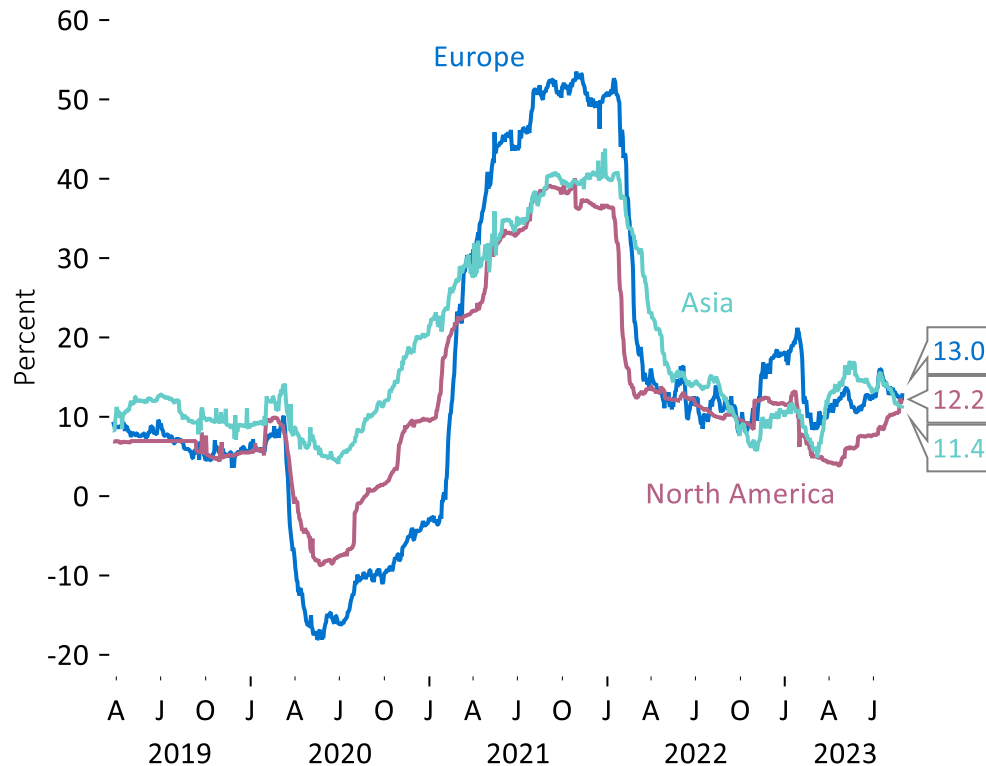


Forward earnings estimates for 2024 are rising at c.12%



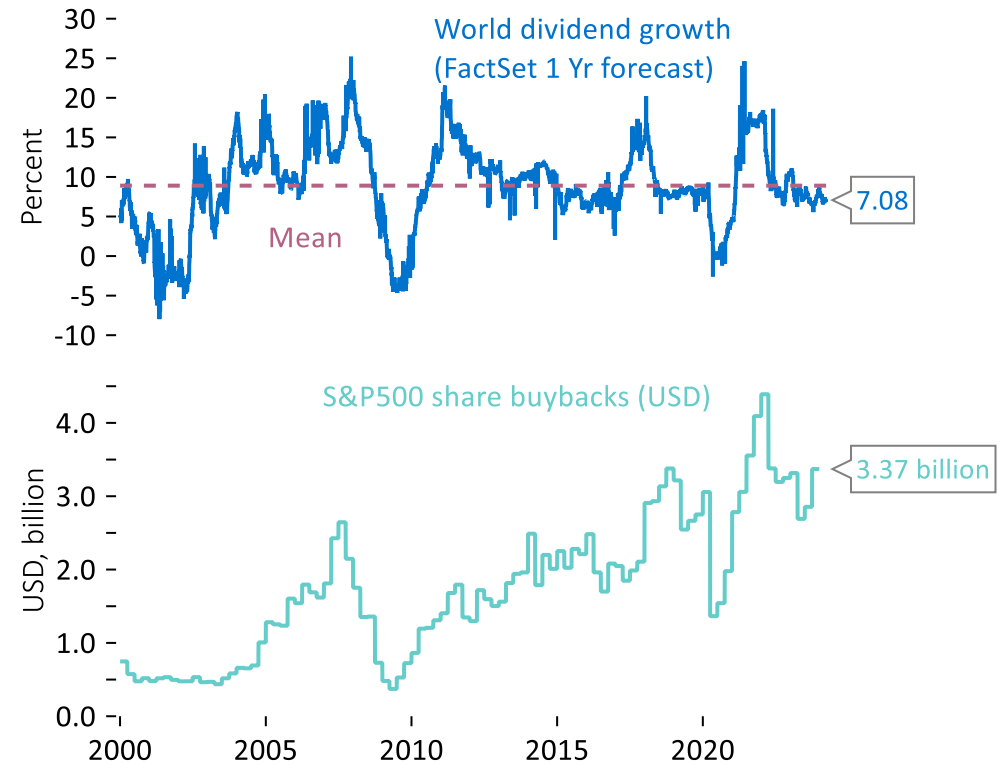
Global dividend growth well ahead of inflation

Regional EPS Growth Rate (1 year forecast)



Source: Macrobond, 27.03.24

Global Dividend Growth & US Stock Buybacks



Source: Macrobond, 27.03.24

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

Where are the risks?

1. US real rates are high – could something break?

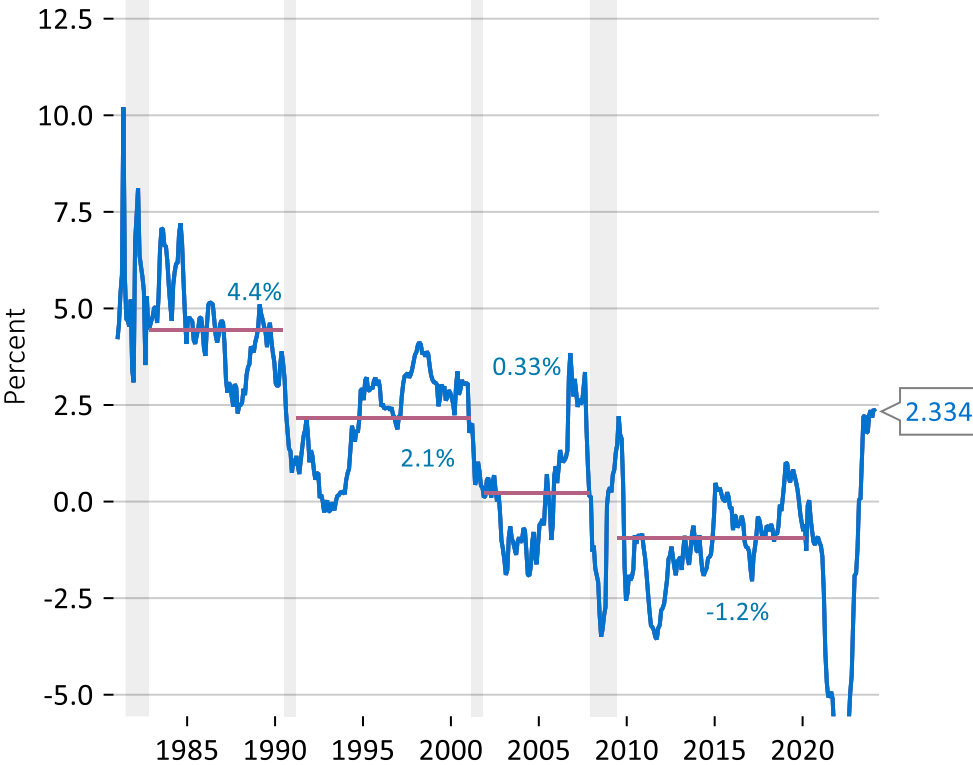


Real neutral rates should be around 1% -1.5%



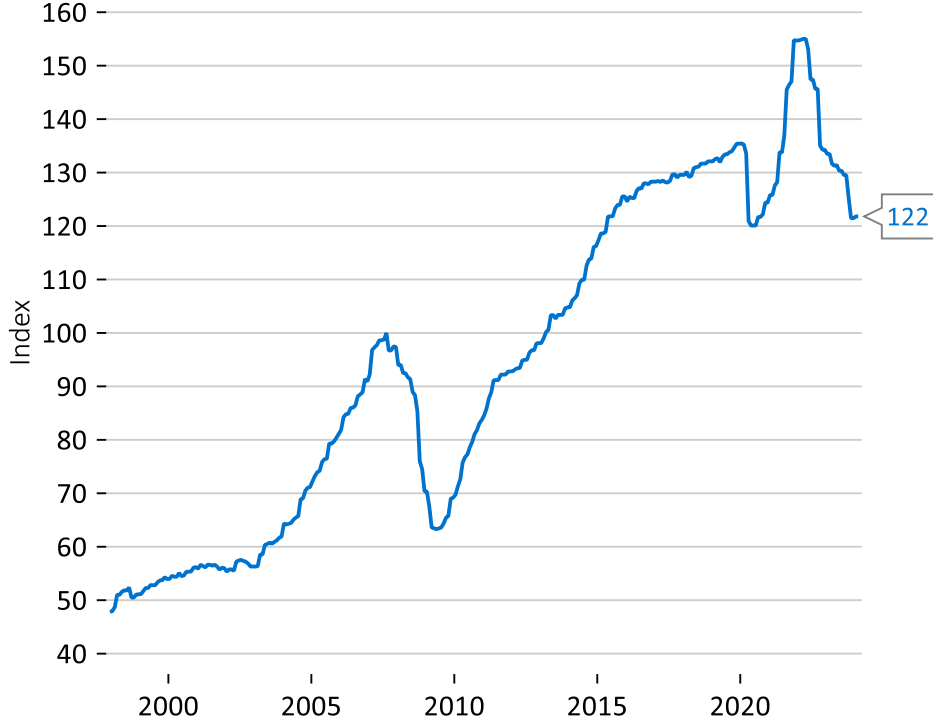
Global real estate: A perfect storm - climate, rates & WFH*

US real policy rate calculated using CPI



Source: Macrobond, 27.03.24

US Commercial Property Price Index, Green Street Advisors



Source: Macrobond, 27.03.24

*WFH – Work from home

2. Bond supply surging as deficits climb & central banks unwind

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

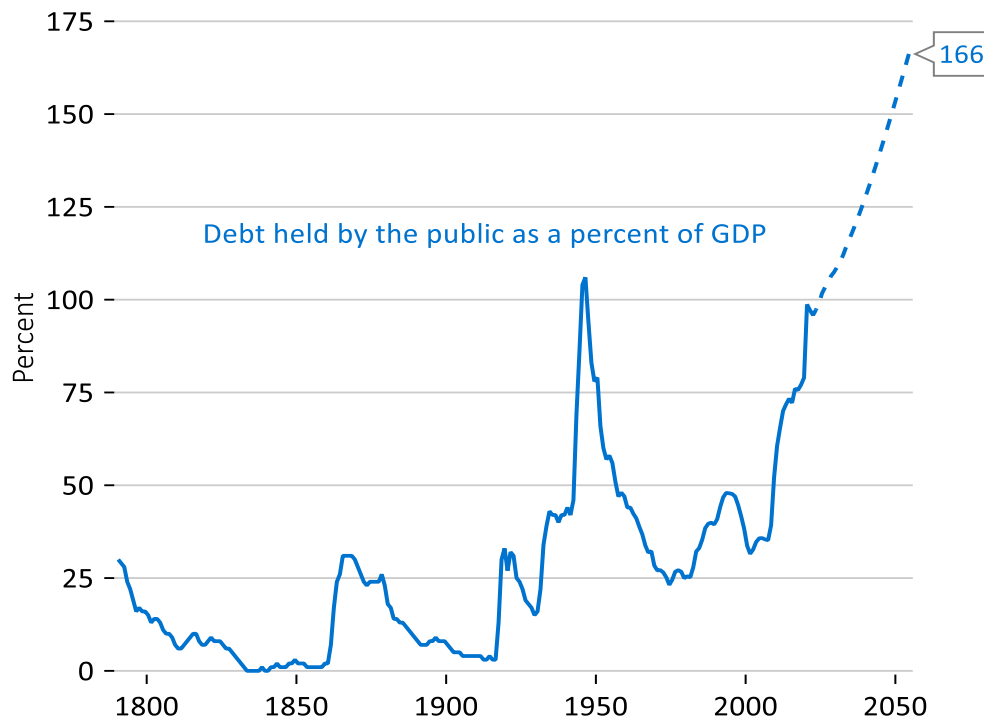


Trajectory of US borrowing is unsustainable in long term



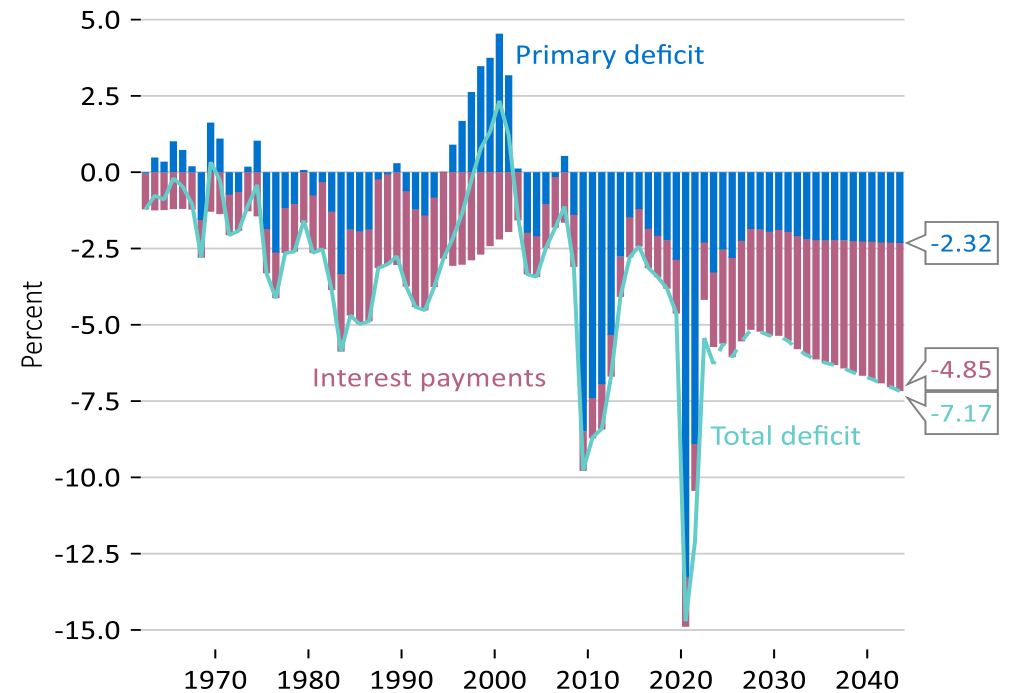
US budget deficit will be dominated by interest payments

Extended baseline forecasts by the CBO



Source: Macrobond, 27.03.24

US Deficits & Interest Payments



Source: Macrobond, 27.03.24

‘The danger of course is what the UK faced with former prime minister Truss...’

Phillip Swagel US Congressional Budget Office
March 2024

Fiscal burden worsened by rising healthcare and defence spending, and higher interest payments

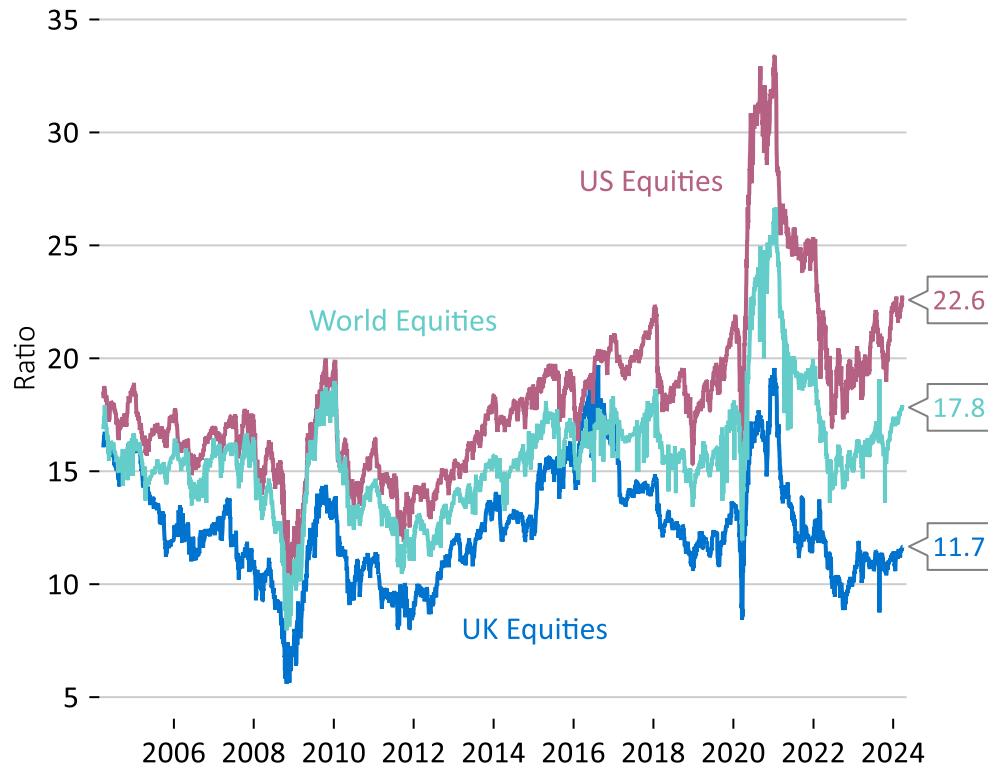
3. Equity valuations high but not in all markets

Wide dispersion of valuation across countries & styles suggests a wide range of outcomes



20 years of widening valuation gaps

P/E Ratio 1 Year Forward (FactSet)



Source: Macrobond, 27.03.24

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Growth outperformance opening opportunities elsewhere

Relative Factor & Style Performance Compared to MSCI World Equity



Source: Macrobond, 27.03.24

Magnificent Seven - Performance 2024 YTD
 Tesla -29%, Apple -12%, Alphabet +8%, Microsoft +12%, Amazon +17%, Meta + 40%, Nvidia +87%

4. 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)



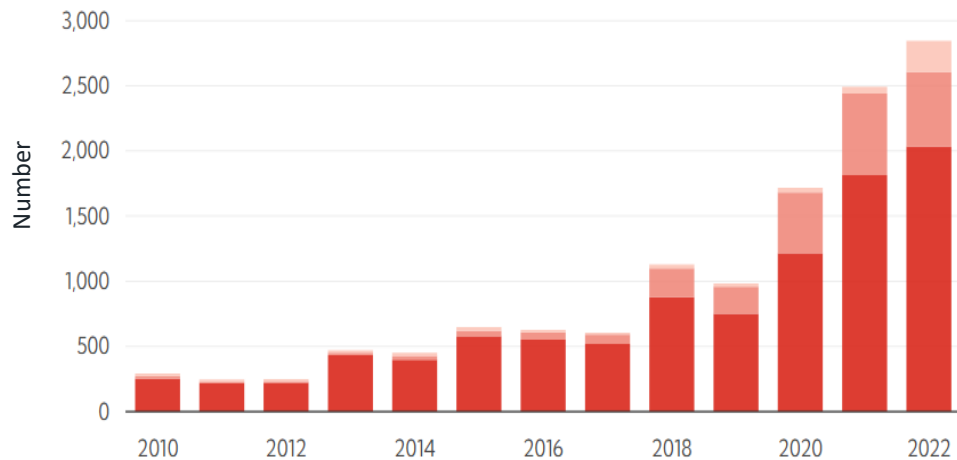
World trade flows are starting to slow

Walled off

Restrictions on trade have greatly increased in recent years.

Number of trade restrictions imposed annually worldwide

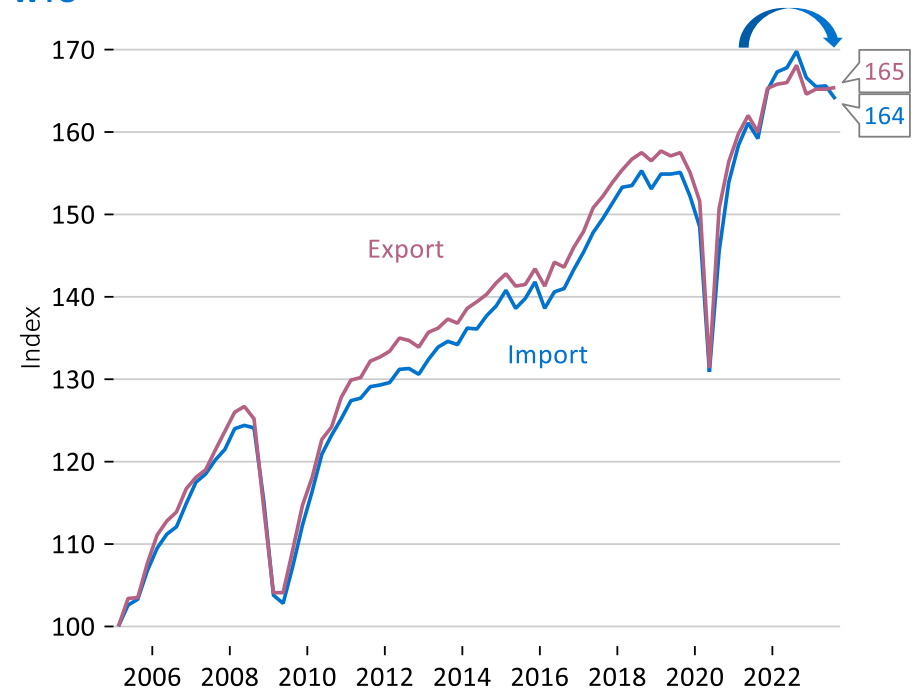
■ Goods ■ Services ■ Investment



Source: Global Trade Alert and IMF staff calculations.



World, Foreign Trade Volume Index WTO



Source: Macrobond, 27.03.24

“I’m a big believer in tariffs”

Donald Trump March 2024

‘China has moved to remove from government computers & servers US microprocessors made by Intel and AMD as the tech rift deepens.’ FT March 2024

Conclusion

Investment risks and strategies to mitigate them across portfolios

- 1. US real rates are high & rising – could something break?** *Avoid high leverage/distressed assets and vulnerable real estate*
- 2. Bond supply surging as US deficit climbs.** *Watch for a crisis in policy credibility (PM Truss), look for natural buyers (e.g. pension funds) to absorb central bank bond sales*
- 3. Equity valuations high but not in all markets/styles.** *Be aware of rising valuations and equity concentration risks. Evaluate other investment styles including dividend growth mandates*
- 4. Trade: new barriers are reversing decades-long globalisation.** *Limit Chinese exposure despite cheap valuations, favour domestic or ‘friendly’ supply chains, watch for regulatory challenge*

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