FAKE or FORTUNE

are things really as they seem?

Introduction

Melanie Roberts

Partner, Head of Charities

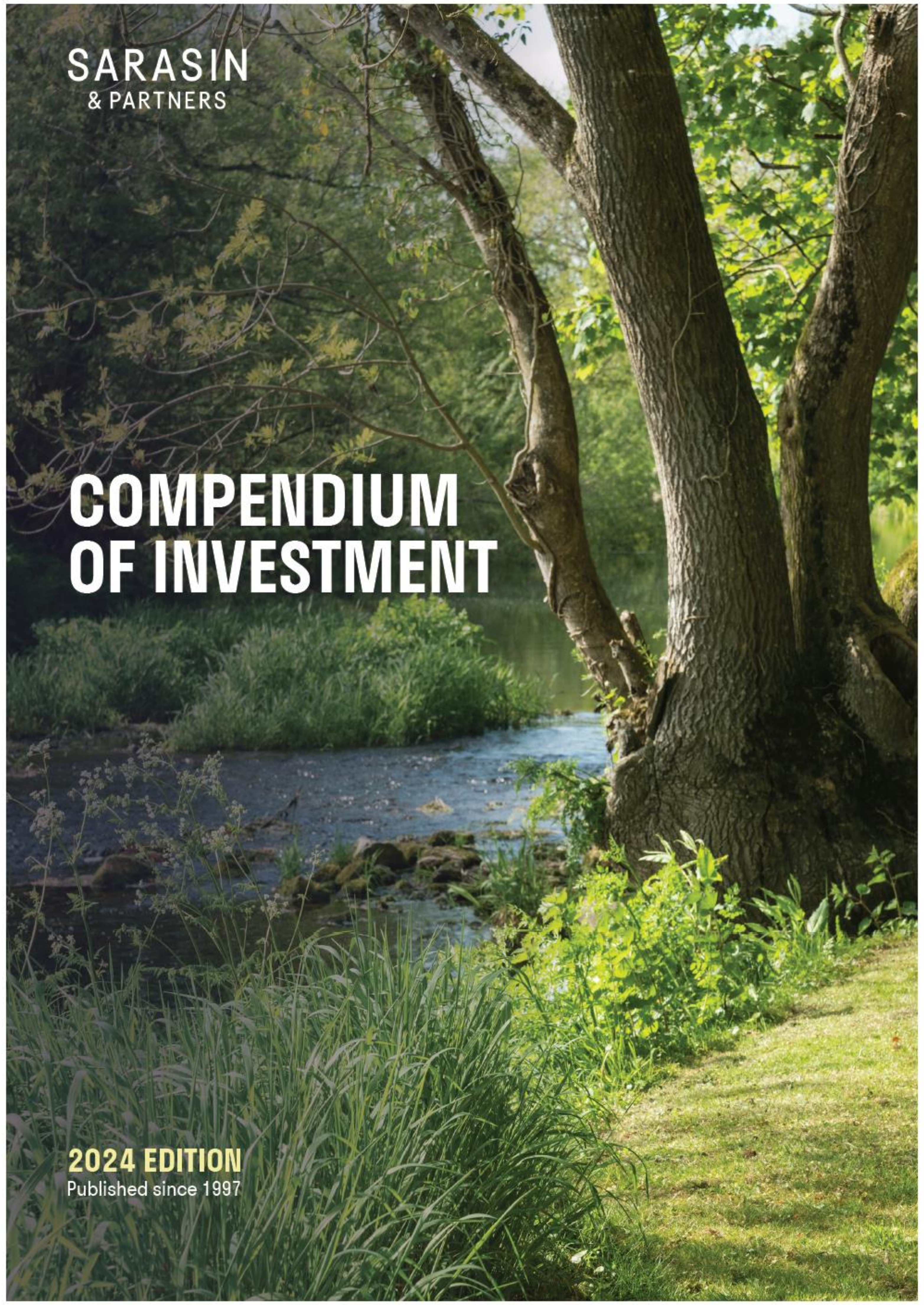
Fake or fortune:

Are things really as they seem?

- The art of navigating a new regime
- Food security in an insecure world
- Decoding creativity, AI unveiled
- Net zero – the upside

Break

- Quiz: Deceptive dilemmas, fake or fortune?
- The political canvas: elections and geopolitics in 2024
- The market outlook with portfolio implications



Sarasin Compendium of Investment

March 2024 edition

Global equity investment has paid off

UK equities **have shrunk** to just **3.5%** of the MSCI AC World Index

Source: Sarasin Compendium of Investment 2024

Equity markets have become more concentrated

10 largest companies

make up

19.1%

of the global equity market

S&P 500 **10** largest companies

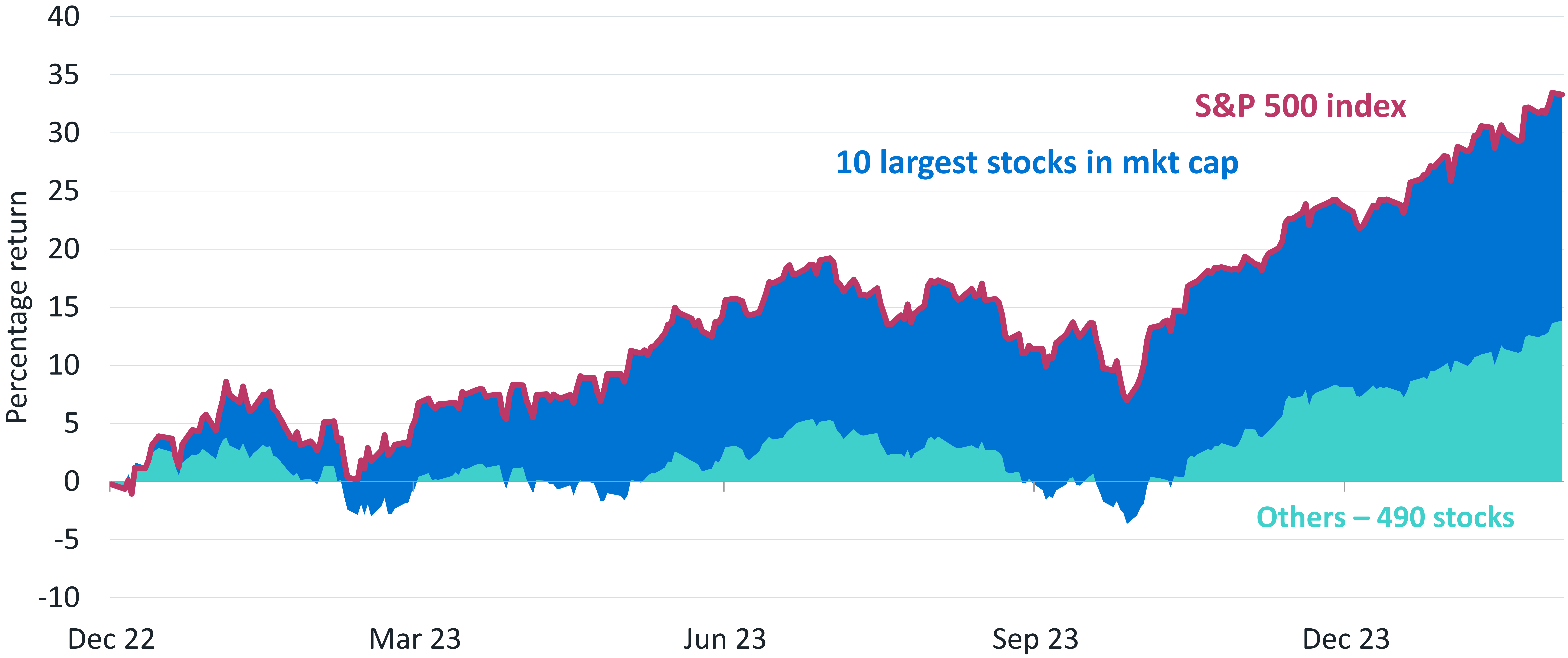
...have driven markets

Apple
Microsoft
Alphabet
Amazon
Nvidia
Tesla
Meta
Exxon
Berkshire
UnitedHealth

For illustrative purposes only.

Source: Sarasin & Partners Compendium of Investment 2024

Unprecedented concentration in US 'Mega-Cap'



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

Source: Macrobond, 05.03.24

Private markets update

Why private equity?

Companies are staying private for longer

Shrinking numbers of companies on the listed markets

Past and future investment returns

Decades of feast and famine

Endowments Model annualised real returns

Time period	Total absolute return	Inflation	Real return
1900s	2.4	1.3	1.1
1910s	5.0	8.3	**-3.0**
1920s	5.9	-2.9	9.1
1930s	4.2	0.4	3.8
1940s	5.4	2.8	2.5
1950s	13.1	4.1	8.6
1960s	8.7	3.7	4.9
1970s	12.4	13.1	**-0.6**
1980s	21.1	6.9	13.2
1990s	13.1	3.5	9.2
2000s	2.5	2.3	0.2
2010s	8.9	2.2	6.5
2020s	6.2	5.1	1.1
Since 1900	**8.3**	**3.7**	**4.4**

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

Source: Sarasin & Partners Compendium of Investment 2024

Decades of feast and famine

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

Source: Sarasin & Partners Compendium of Investment 2024

Projected long-term investment returns

Asset class	Neutral allocation (%)	5–7 year projected total return (%)
Bonds	15.0	4.5
Equities	70.0	7.7
Property	5.0	6.7
Alternatives	10.0	6.5
Cash	0.0	3.3
Total	**100.0**	**7.0**
Inflation		**-2.3**
Target 'real' long-term return		**4.6**

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

Source: Sarasin & Partners Compendium of Investment 2024

The art of navigating a new regime

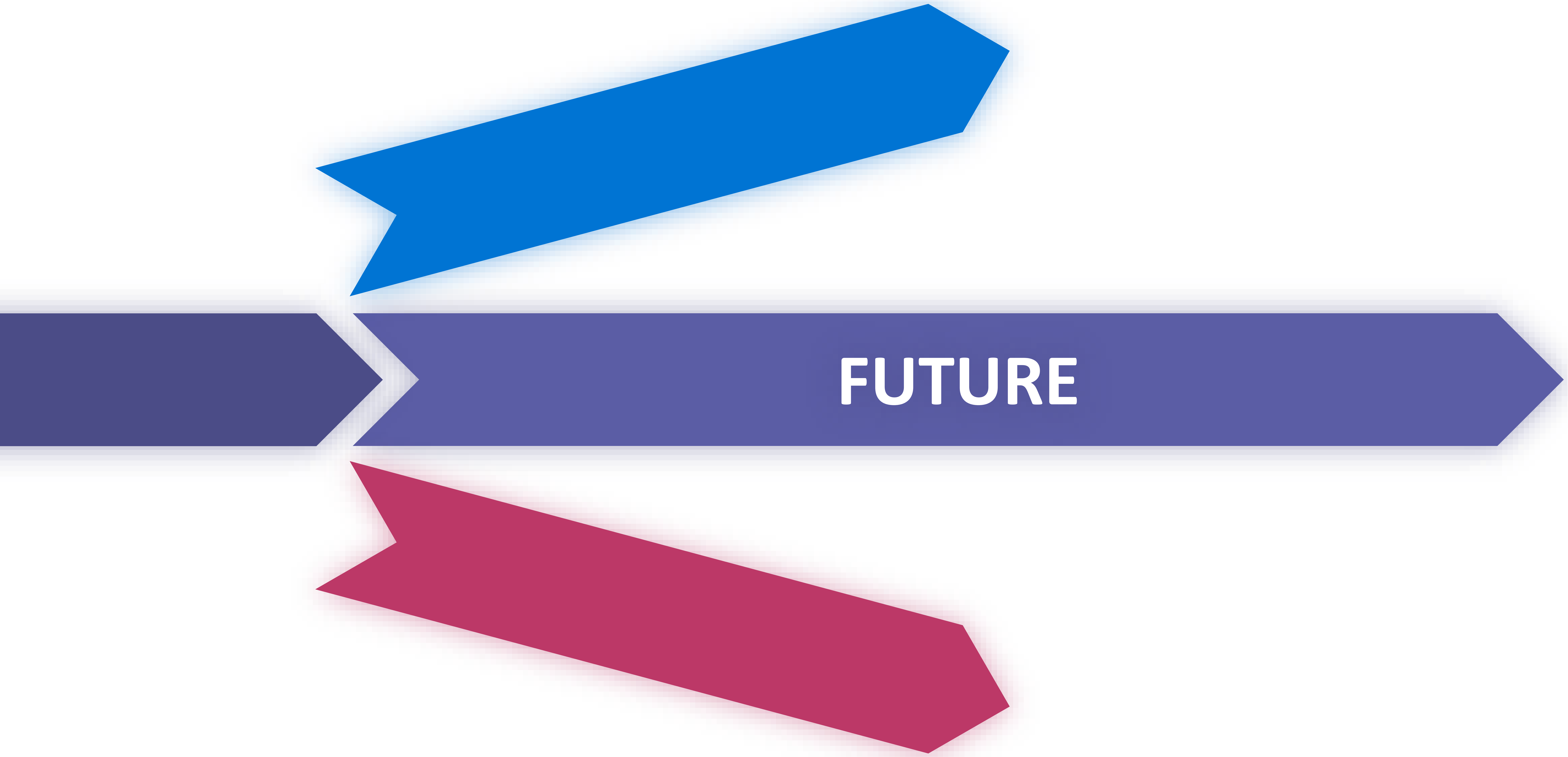
Subitha Subramaniam, Chief Economist
Alexander True, Partner

Making sense of the world around you

“I can calculate the movement of stars, but not the madness of men.”

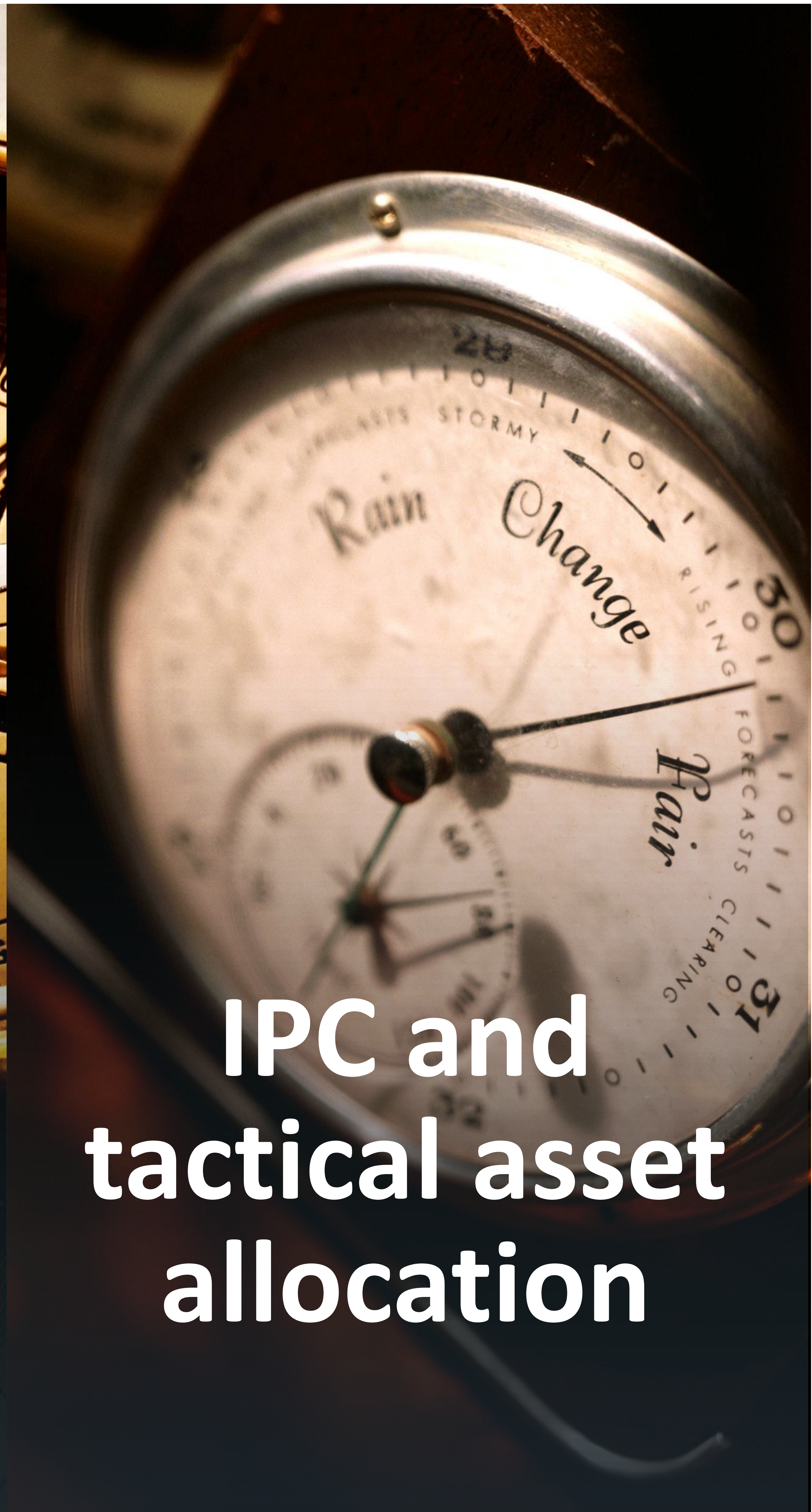
—Isaac Newton

PRESENT

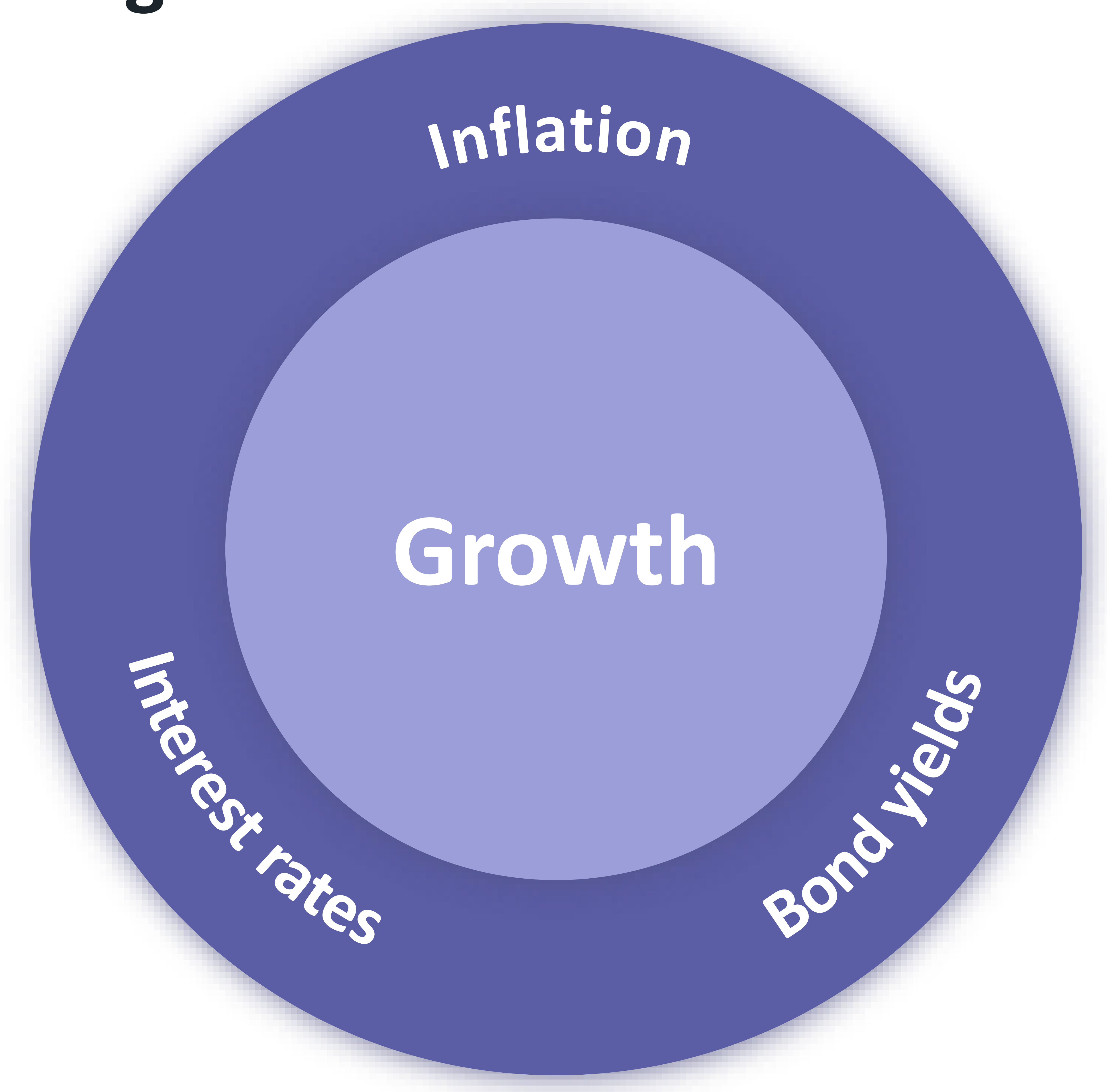

FUTURE


“Critical junctures are forks in the road, not dead ends.”
—Daron Acemoglu, Economist

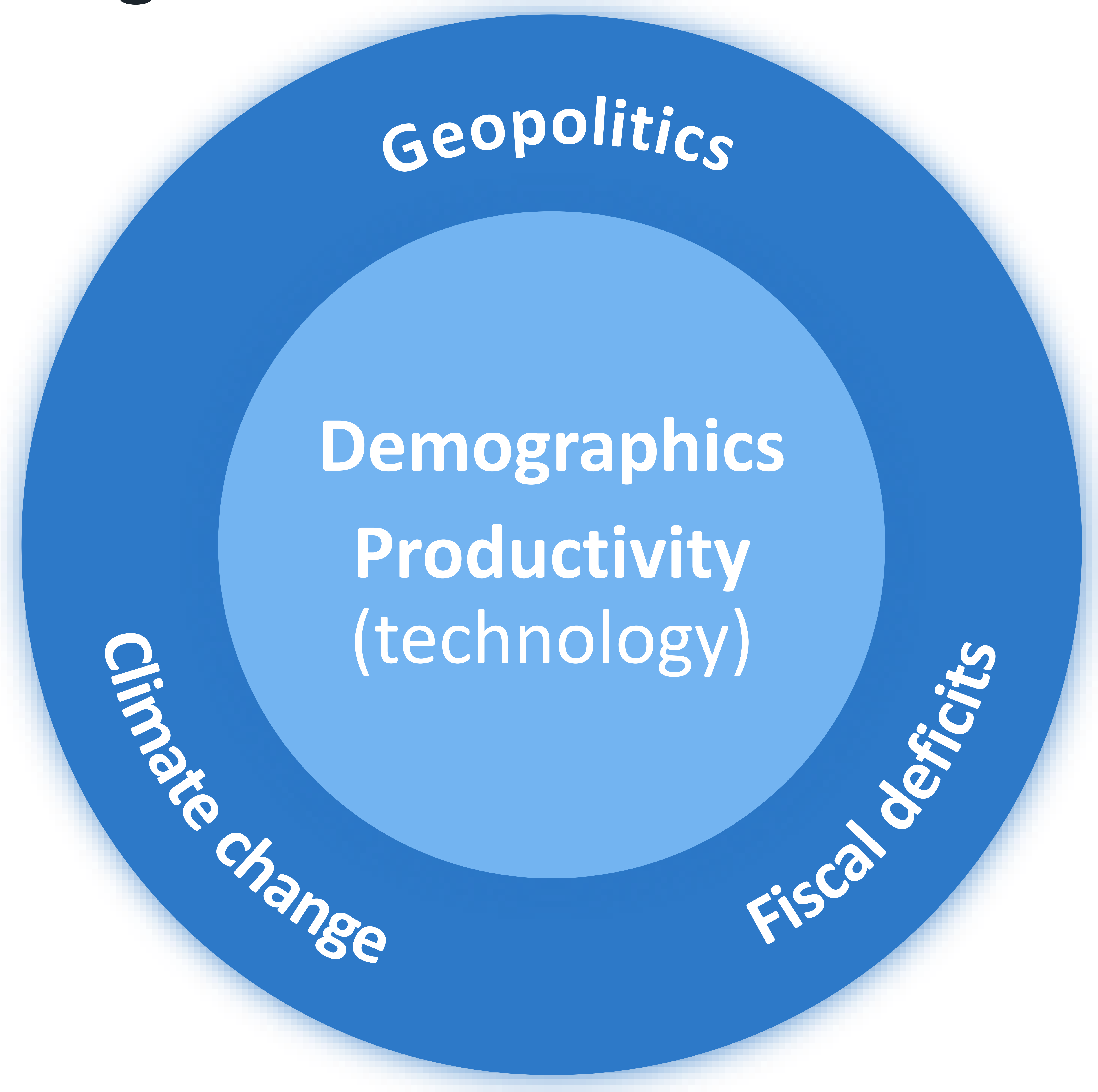
Navigational tools



How to build a regime

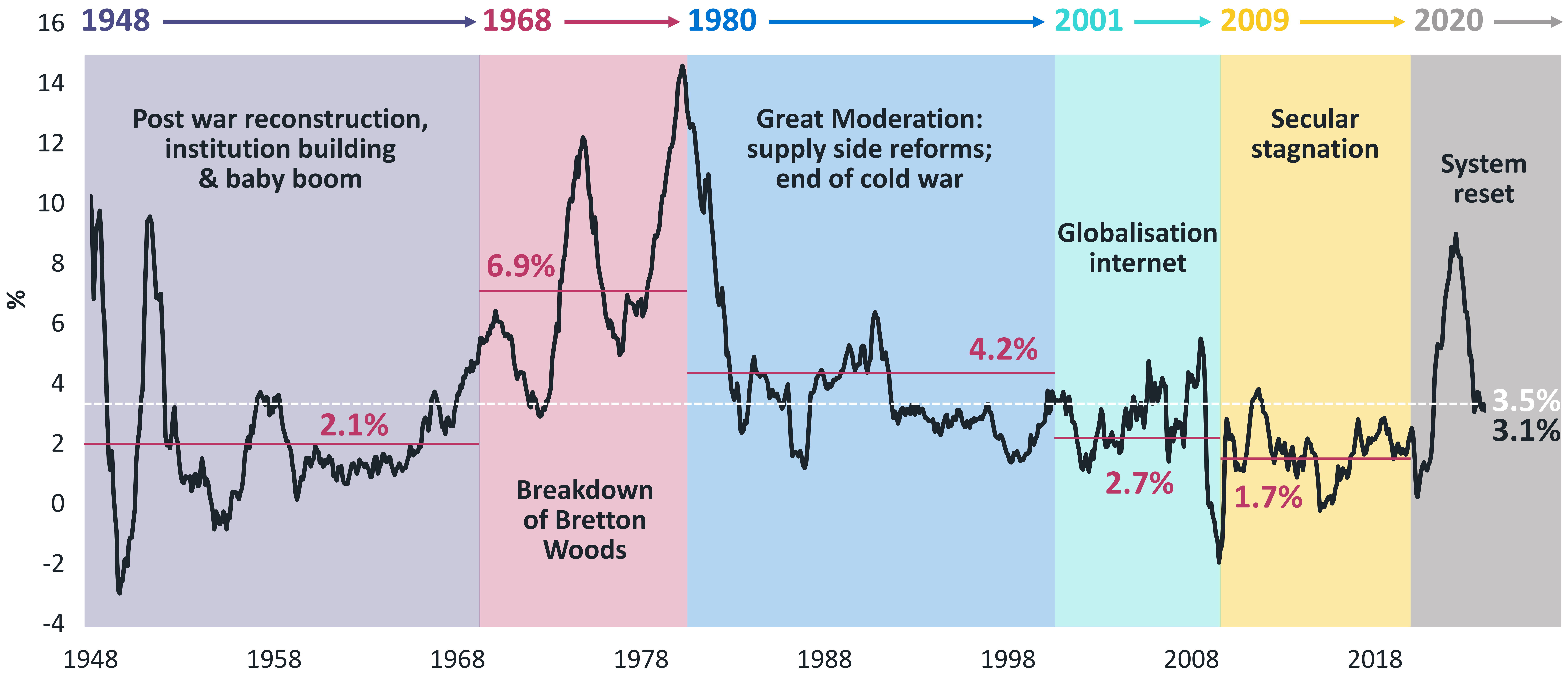


How to build a regime



Regimes drive outcomes

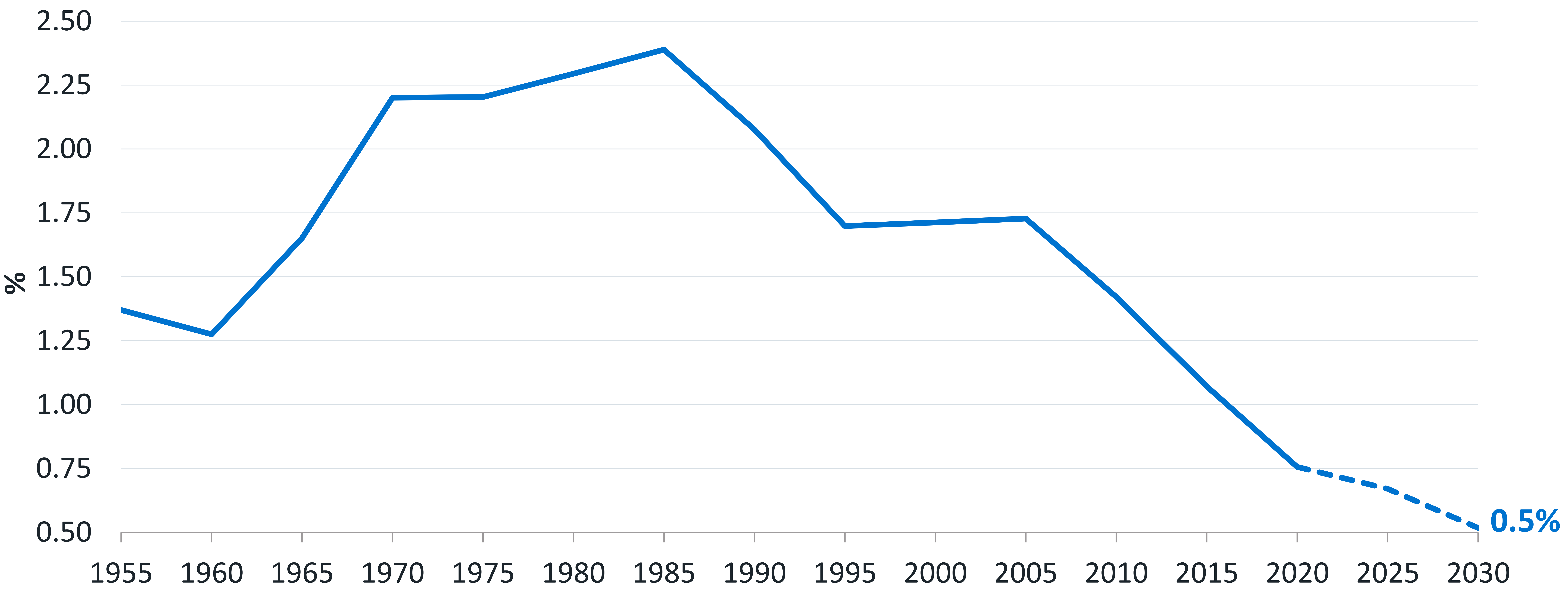
US Headline CPI



Macrobond: February 2024

Demographics

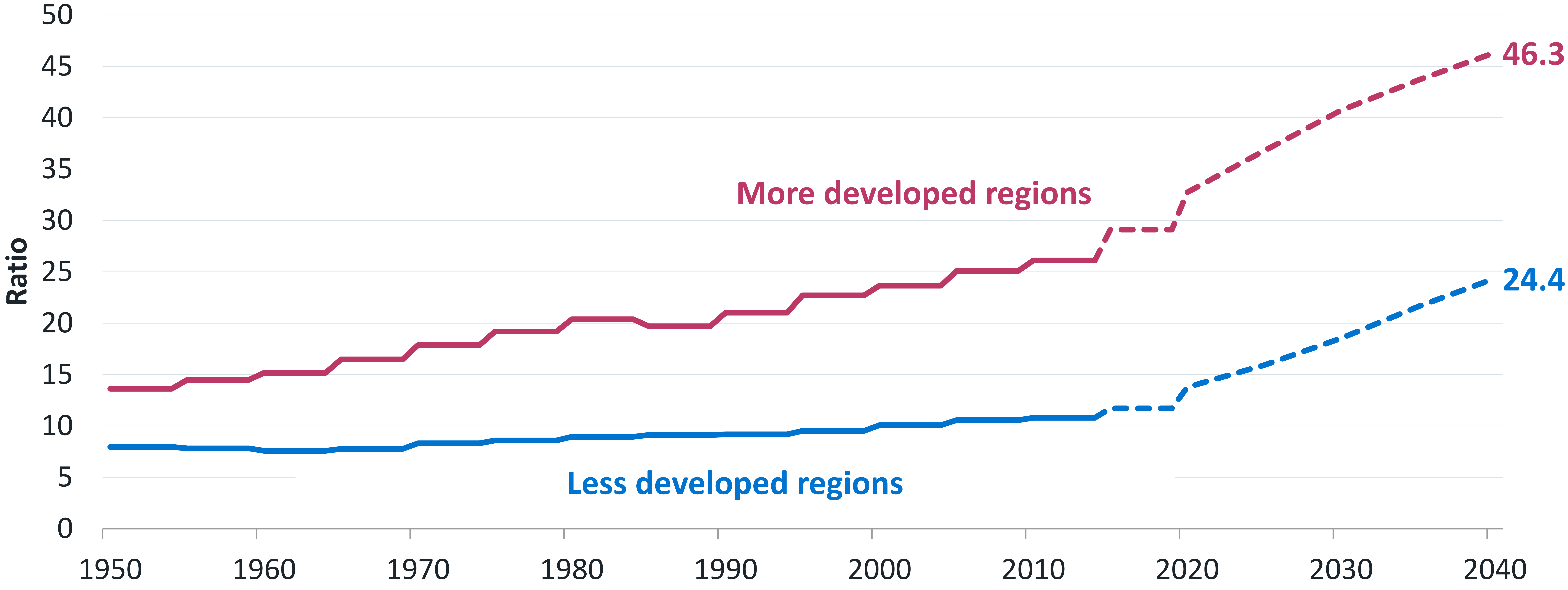
Working age population (% change)



Source: Macrobond, 01.03.24

Demographics

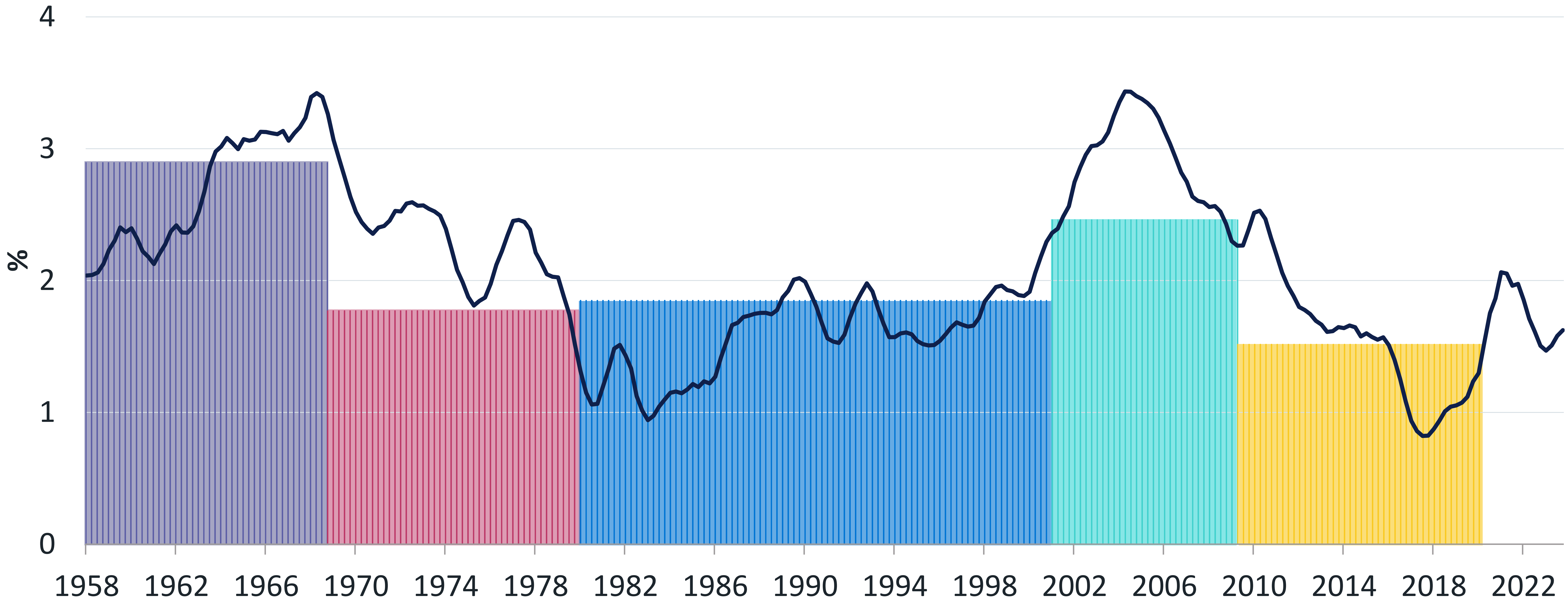
Old-age dependency ratio



Source: Macrobond, 05.03.24

Productivity

US business productivity



Source: Macrobond, 04.03.24

Next Generation EU

European Green Deal

Infrastructure and Jobs Act

CHIPS Act

Inflation Reduction Act

Source: Wikimedia Commons


Birmingham
London

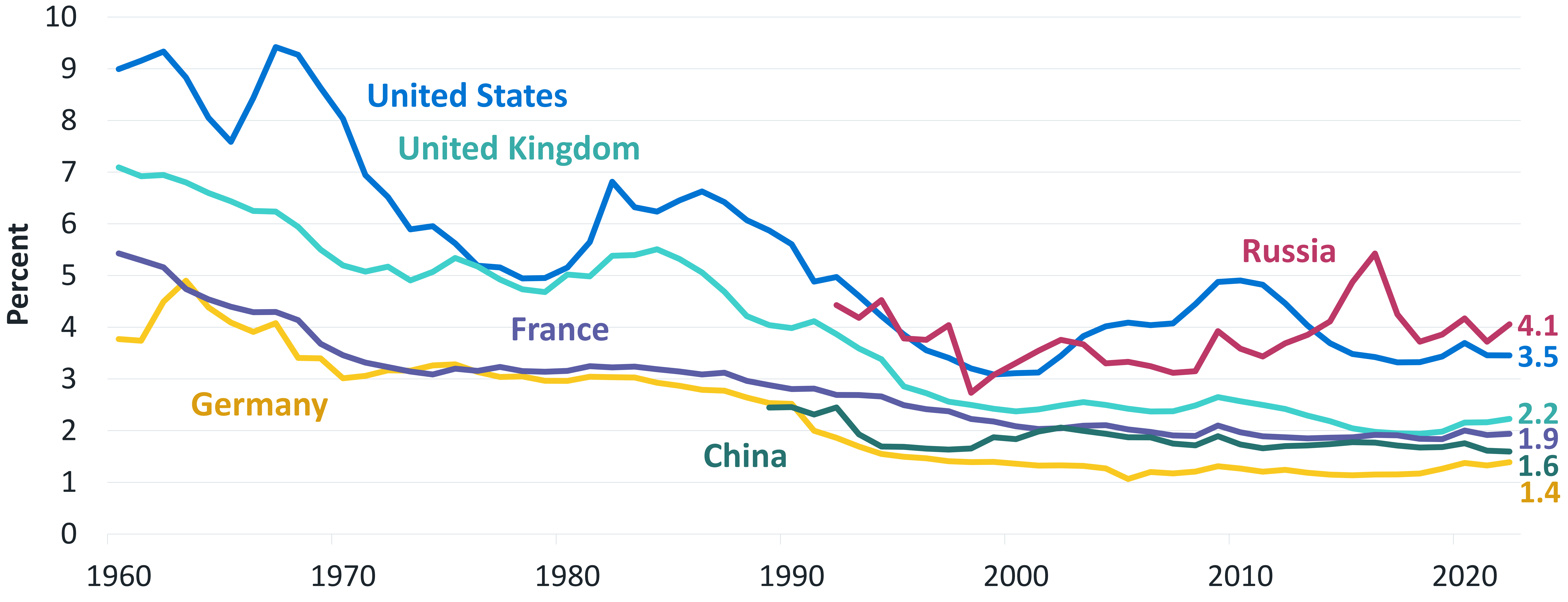

Birmingham
London
Timbuktu

Geopolitical fractures

> **Europe has to step up its industrial base.**
>
> —Ursula von der Leyen,
> Munich Security Conference,
> February 2024

Geopolitical fractures

Defence spending

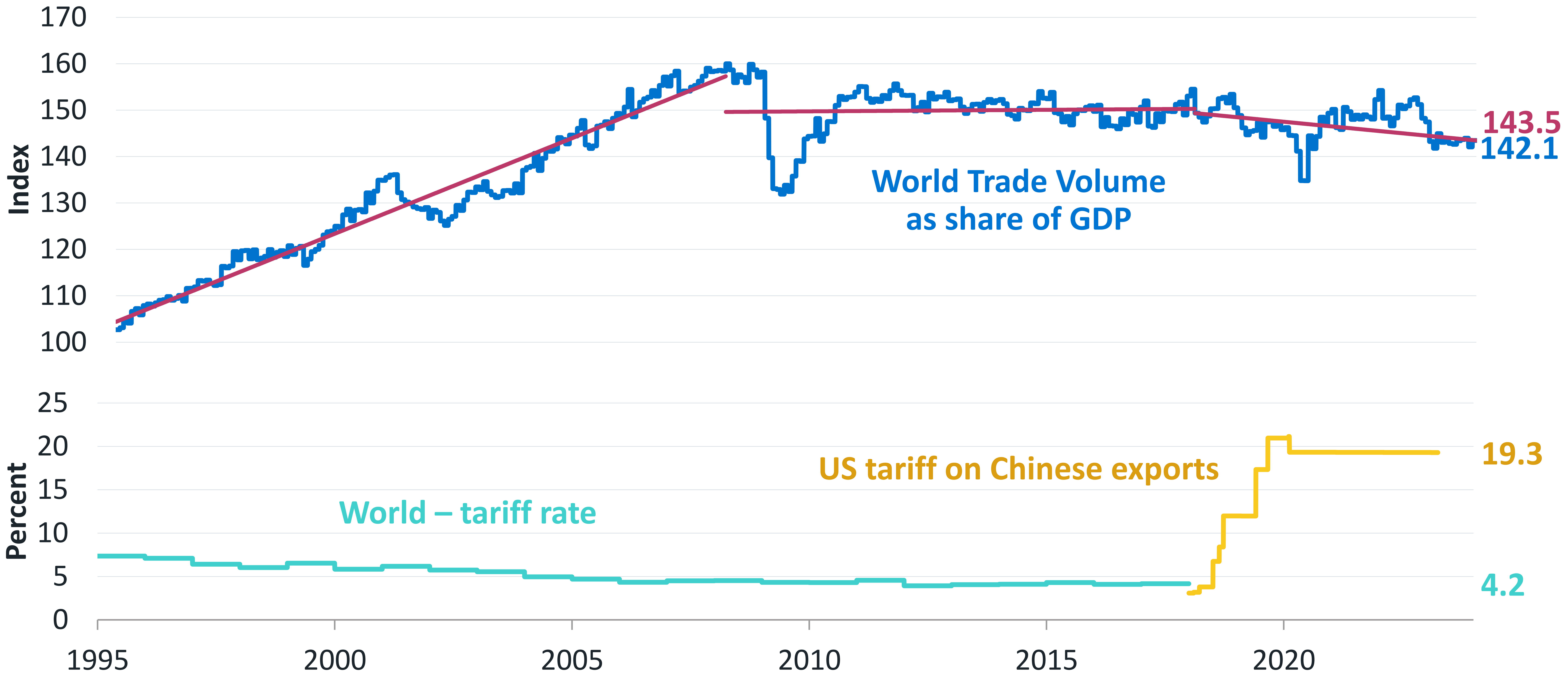


Source: Macrobond, 27.02.24

> “Trade wars are good and easy to win… I am a Tariff Man. When people or countries come in to raid the great wealth of our Nation, I want them to pay for the privilege of doing so.”

—Donald J. Trump
(@realDonaldTrump)
4 December 2018

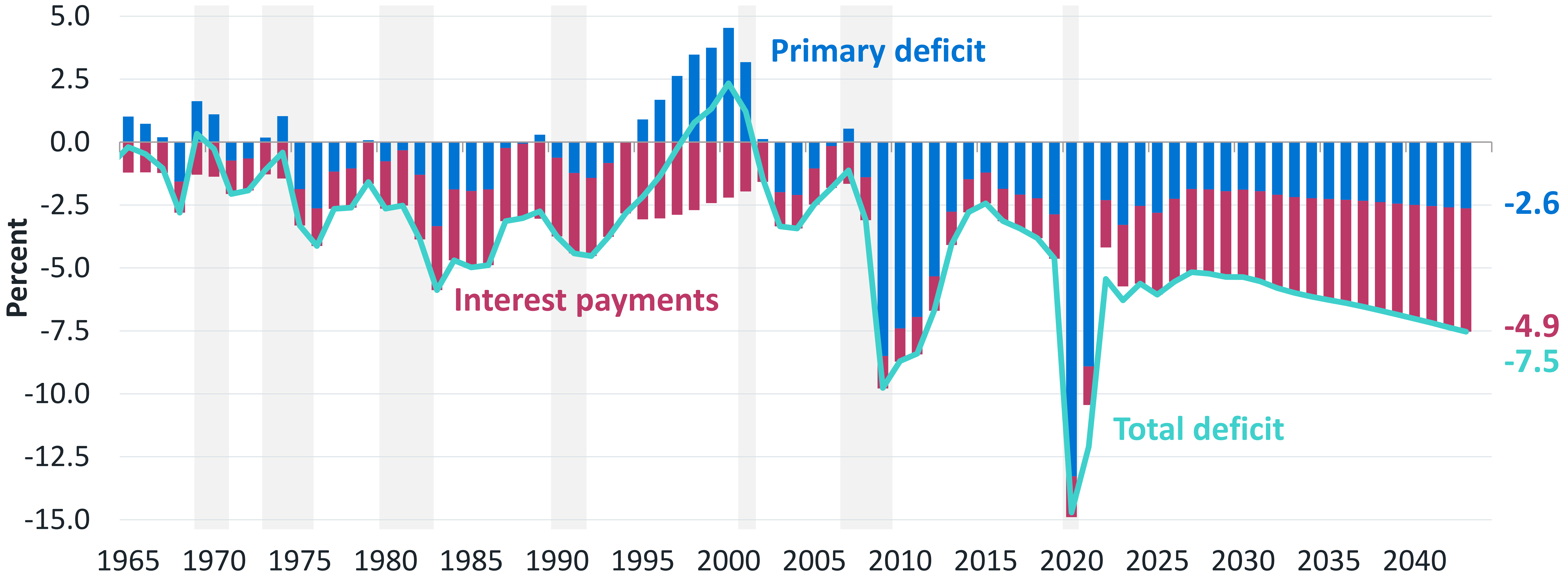
“Trade wars are good and easy to win”



Source: Macrobond, 04.03.24

Deficit spending as far as the eye can see

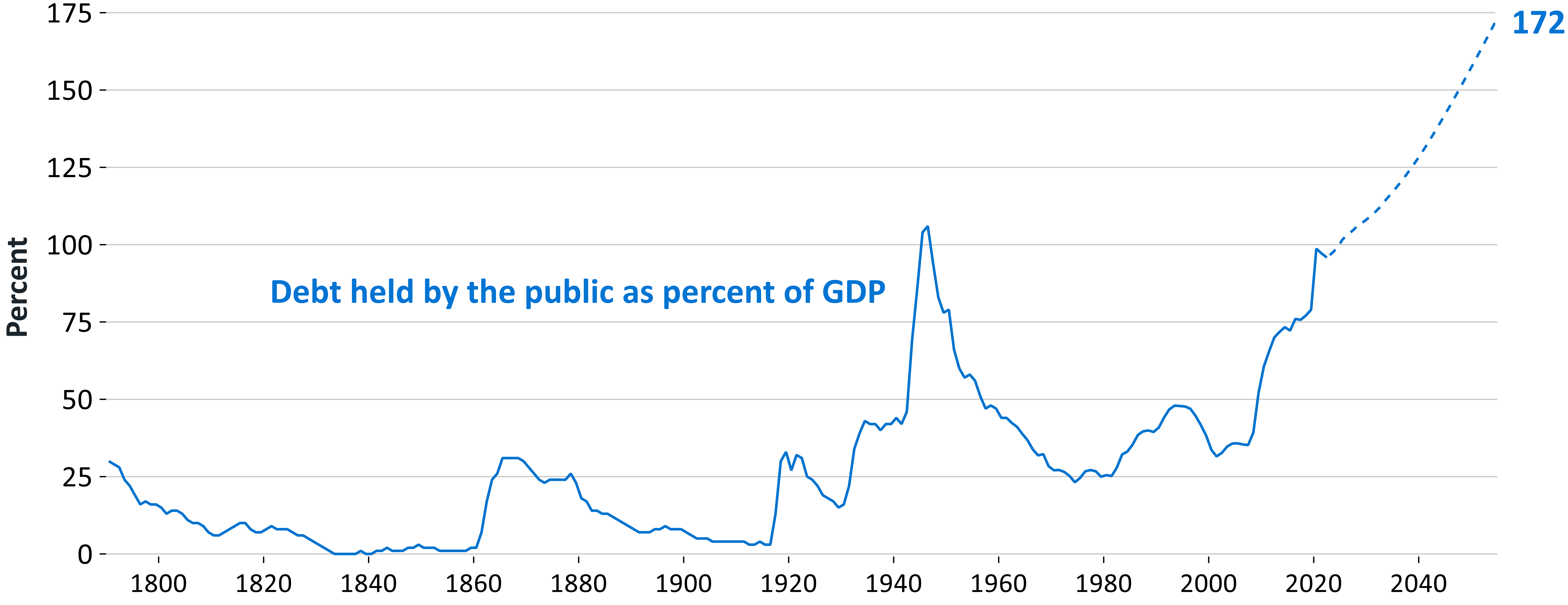
Debt, deficits and interest payments as % of GDP



Source: Macrobond, 28.02.24

A headwind: debt levels are on an upward trajectory

Extended baseline forecast by the CBO



Source: Macrobond, 28.02.24

Productivity

Ageing & dependency

Temperatures

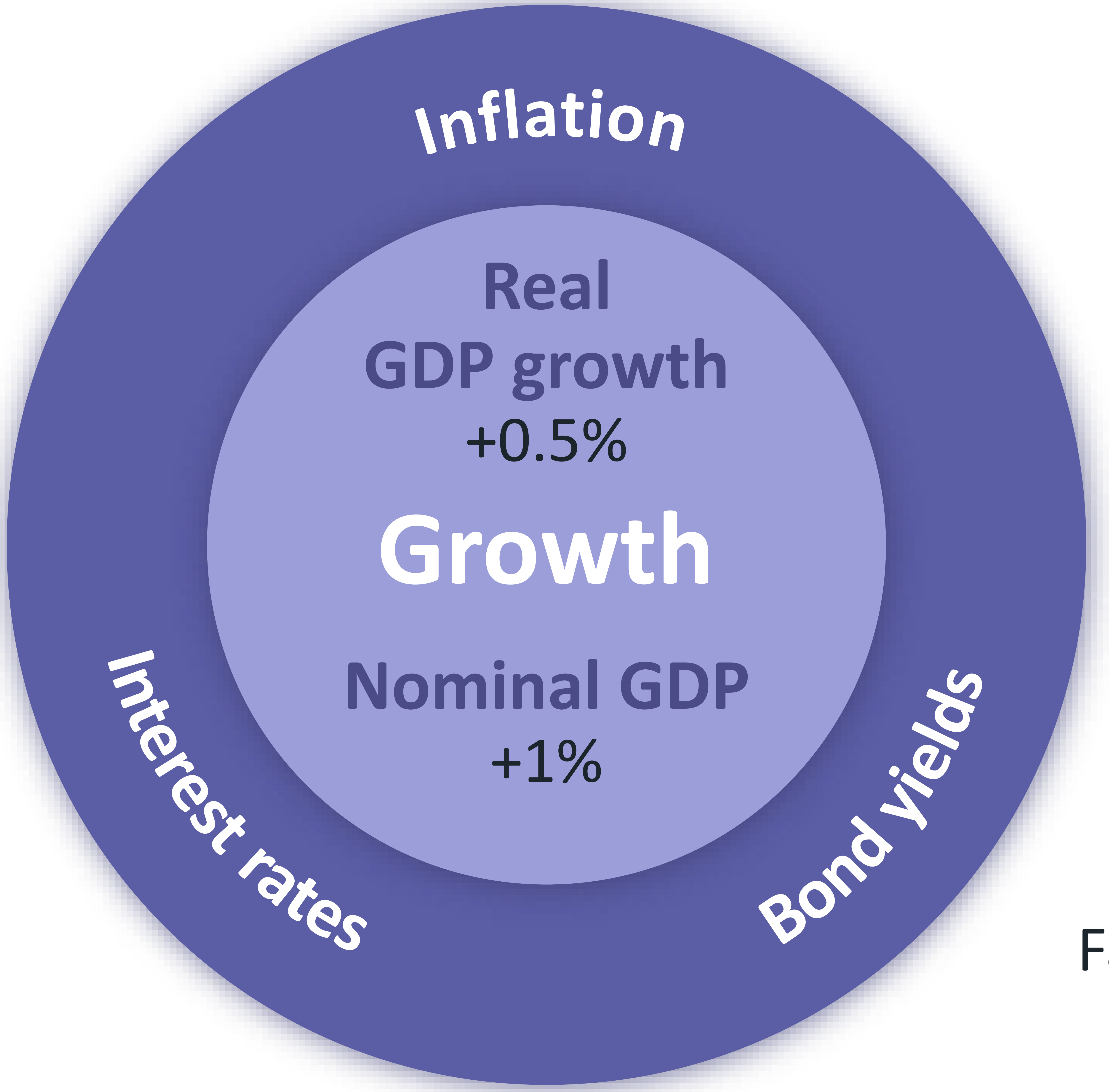
HIGHER REGIME

Deficits

Government spending

Walls: tariffs, sanctions

Higher regime outputs



Inflation
+0.5%
Increased volatility

Neutral policy rate
+1%

10-year bond yield
Fair value at 4%

Investment implications

Nominal GDP +1%

Positive for earnings

10-year bond yield at 4%

Headwind for longer-duration assets

Policy rate 2.5% → 3.5%

Weaker balance sheets to underperform

Positive risk assets
equities, corporate
bonds, alternatives

FUTURE

Protect against volatility
with increased risk budgets
and time horizons

Diversification and
rebalancing

> **Critical junctures offer opportunities, not guarantees. The choices that we make determine the outcome.**
>
> —Daron Acemoglu, Economist

Food security in an insecure world

Jeneiv Shah
Analyst/Portfolio Manager

What is food security?

World Bank definition

Challenge for the food system

Trilemma

Higher medium-term inflation

Ongoing depletion of natural capital

Continuing shifts in eating habits

Food system in transition

Inflation in food system

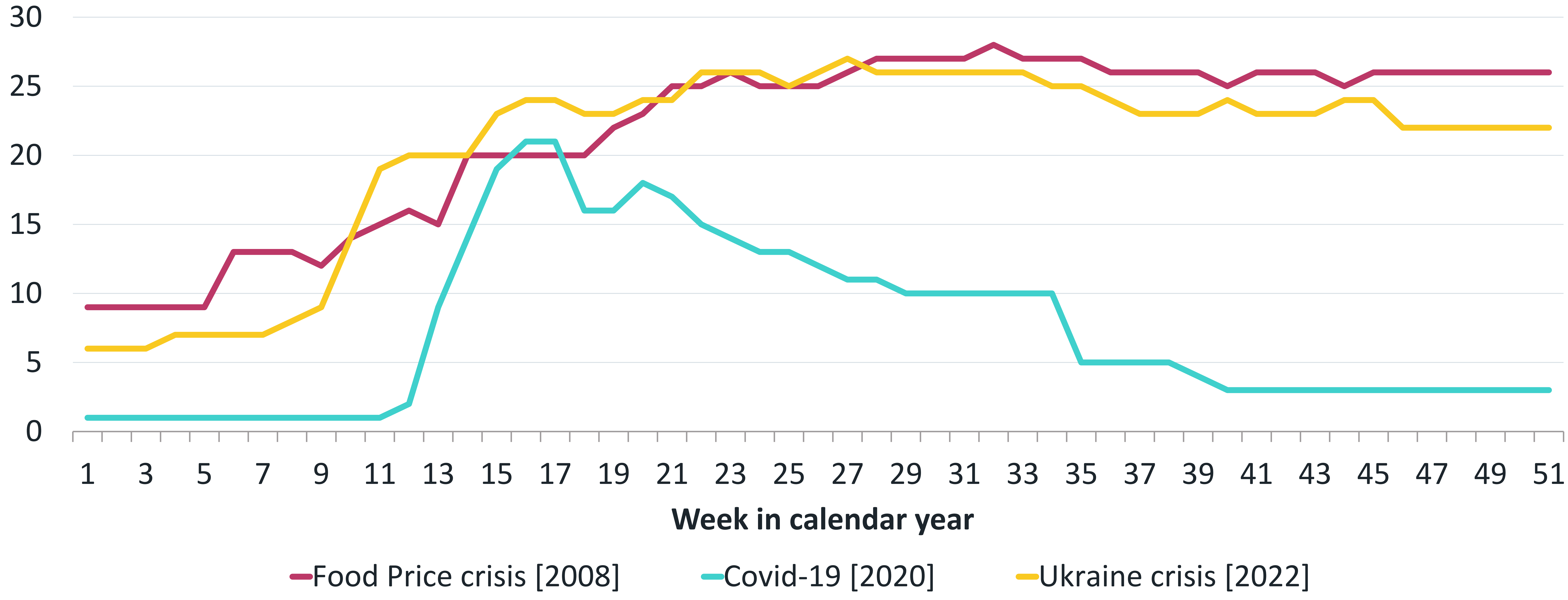
Reasons inflation may be persistent

International cocoa price, $ per tonne

Source: Bloomberg, 06/03/2024

Example of protectionism

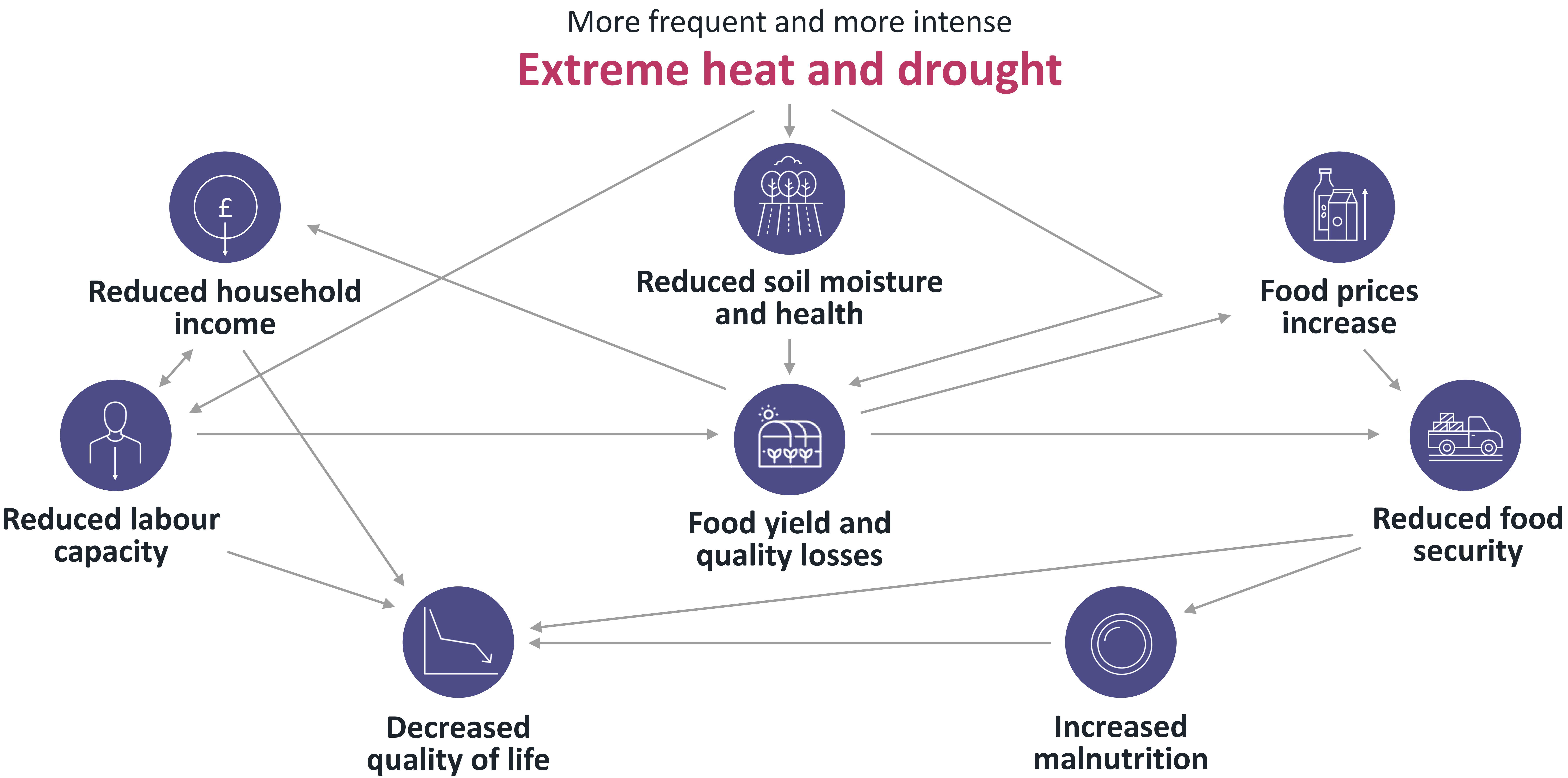
Number of countries implementing food export restrictions



Source: Food Security Monitor, IFPRI, May 2023

Climate change and biodiversity

Example of impact and dependency from drought risks



Source: IPCC 6th Report on Climate Change, 2023

Shift in developed market eating habits

Shift in emerging market eating habits

Higher animal protein demand

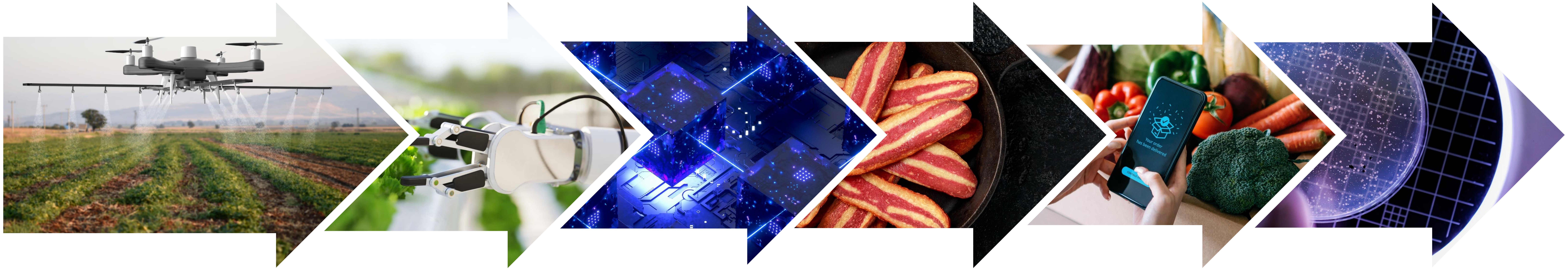
Shift to modern format grocery retail

Local brands and premiumisation

New technology

The food chain offers some of the largest potential for productivity gains

Land & watershed	Farm inputs	Commodities	Transport infrastructure & storage	Processing	Retailing	Lips & hips



Precision-agri	Farm tech	Blockchain	Food tech	E-tailing	Diet tech

Future growth

Thematic investment opportunities

	Innovation	Opportunity
Production of food	Precision application of crop chemicals	Deere, Case New Holland
	Biological inputs	Biotalys
	Drought resistant seed technology	Bioceres
Consumption of food	Microbial ingredients	DSM Firmenich, Novonesis
	Utilising food waste streams	FairShare, The Felix Project
	Alternative proteins	Redefine Meats, Blue Nalu

Decoding creativity, AI unveiled

Josh Sambrook-Smith
Equity Analyst

Fake or Fortune?

Behind the curtain...

AI /imagine an image

“A friendly toy robot hiding
behind a curtain, hand on curtain,
hyper realistic, warm colours”

What is AI?

AI must be trained

Data must be analysed

What is Generative AI?

What is Generative AI?

Multi modal models

AI /imagine a video

“Several giant woolly mammoths approach, treading through a snowy meadow, their fur blows in the wind, snowy trees and mountains in the distance, sun high sky”

How about something *really* original...

AI /imagine a video

"A bicycle race on the ocean,
with different animals as athletes,
with drone camera view"

What are the implications?

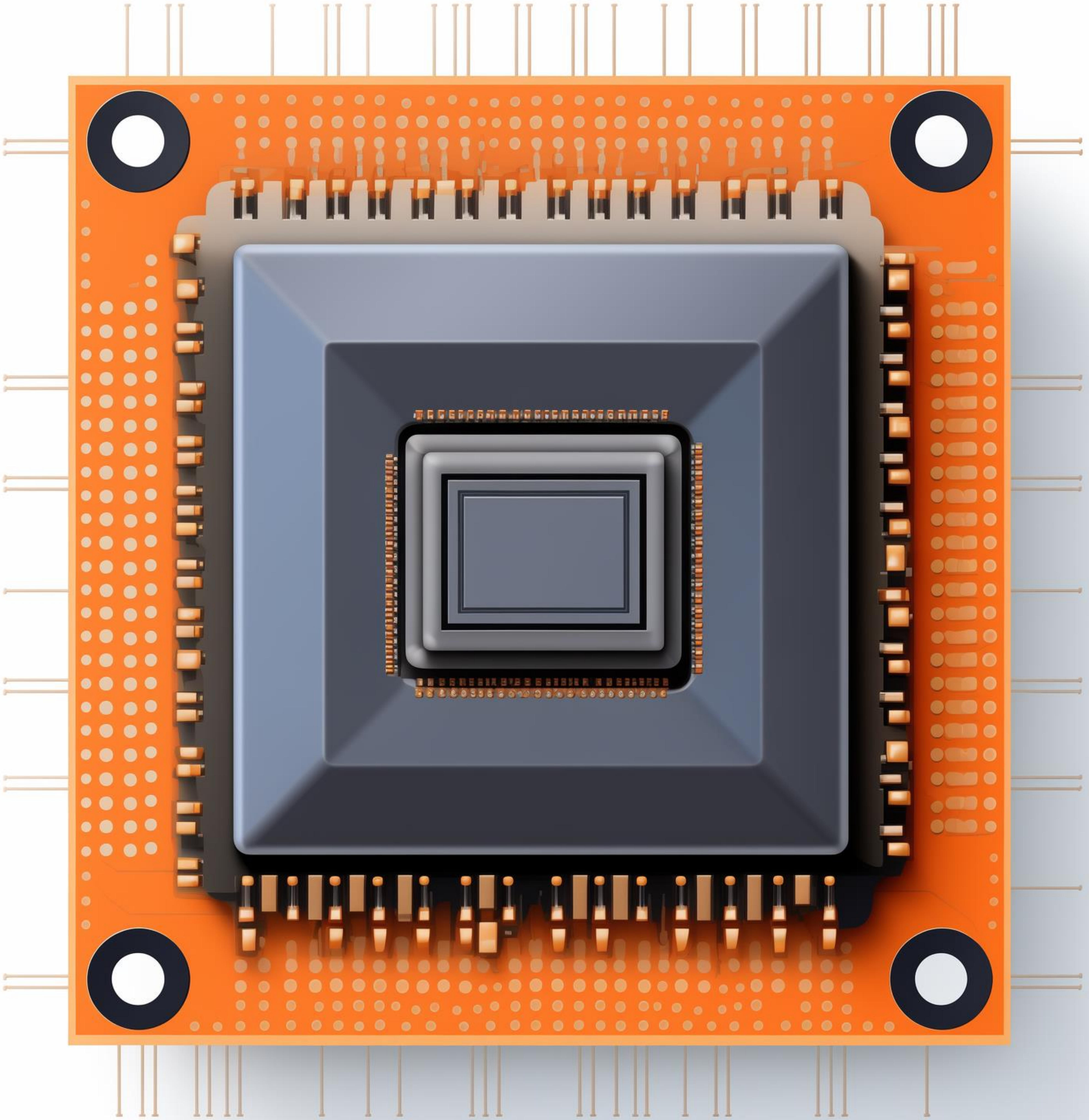
What are the implications?

Who benefits?

ASML

TSMC

Nvidia



Broadcom

Arista

SMCI

Who benefits?

Google

Amazon

Microsoft

Who benefits?

Google	UPS	Paypal	Raytheon	Siemens
Amazon	Uber	TSMC	Northrop	Mastercard
JP Morgan	Boeing	Capital One	Prudential	Amgen
RELX	DHL	Wolters K	GM	Healthineers
Dassault	Lockheed	Unilever	Square	LVMH
IQVIA	Rolls Royce	Nestle	Experian	Home Depot

Is anyone making money yet?!

Companies are celebrating!

…but not all companies win

Risks

AI will be policed

People co-existing with AI

Summing up

Generative AI has started an investment cycle.

Clear winners but wider economic effects are unclear.

The technology is powerful but imperfect.


bloopers

The Meat Robot?

A Table of Technology CEOs

The Wedding Photo


thank
you

Quiz: Deceptive dilemmas, fake or fortune?

Katherine Hussein, Isabel Brookes, Ben Gilbert,
Henry Merrick & Charlotte Bostock
Investment Managers

MORE THAN 40mn

PEOPLE HAVE TAKEN A DNA TEST

2.9BN PEOPLE HAVE NEVER USED THE INTERNET

SAUDI ARABIA IS A NET IMPORTER OF SAND

WOULD I LIE TO YOU?

WOULD I LIE TO YOU?

TESTER QUESTION

WOULD I LIE TO YOU?

1

Melanie Roberts was Gabby Logan’s guest on WILTY

2

Ben Gilbert appeared on Blue Peter

2

Ben Gilbert appeared on Blue Peter

TRUE

1 CLIMATE CHANGE

WOULD I LIE TO YOU?

1

Company focused on launching sulphur into the Earth's stratosphere

2

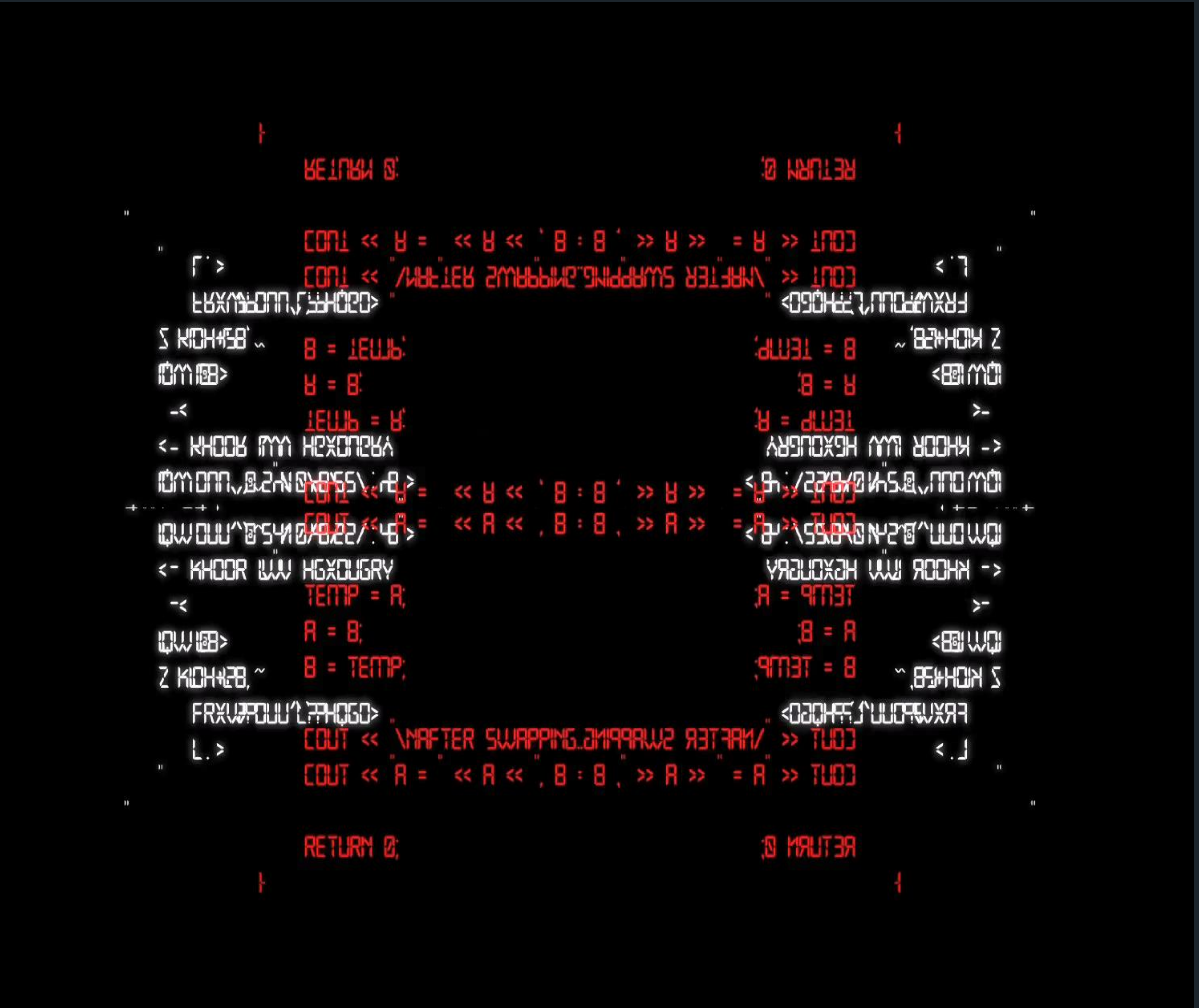
Company focused on reducing cows belching

2

Company focused on reducing cows belching

TRUE

2 DIGITALISATION



WOULD I LIE TO YOU?

1

ChatGPT took six months to reach 100 million users

2

$400 invested in Apple in 2001 would now be worth over $200,000

2

$400 invested in Apple in 2001 would now be worth over $200,000

TRUE

3 AUTOMATION

WOULD I LIE TO YOU?

1

OTIS moves a quarter of the world's population every day

2

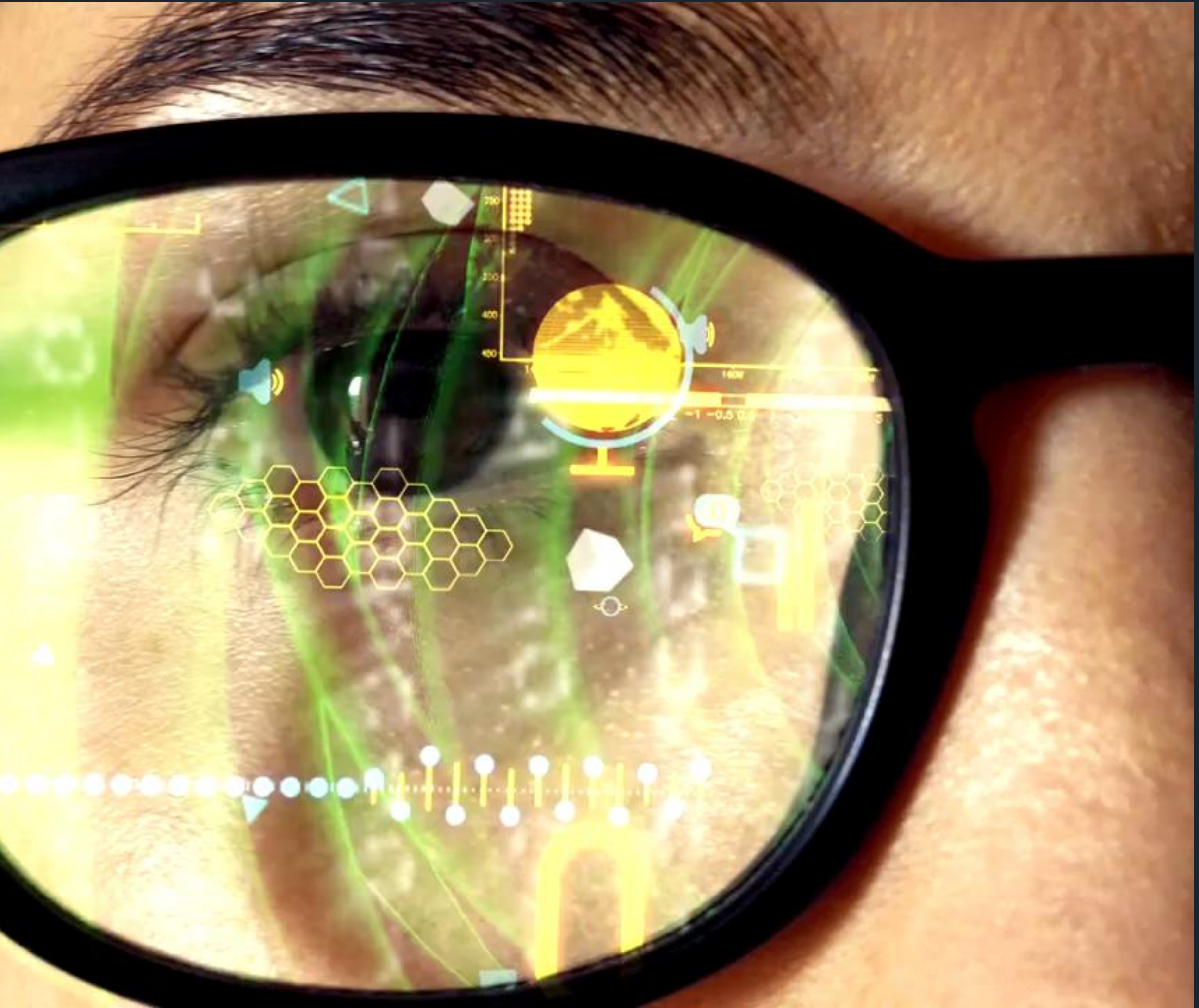
Europe is forecast to be the largest EV market by 2026

1

OTIS moves a quarter of the world’s population every day

TRUE

4 EVOLVING CONSUMPTION



WOULD I LIE TO YOU?

1

You can buy smart glasses that can take videos and phone calls

2

Costco have increased the price of $1.50 hot dog & soda deal to $2.25

1

You can buy smart glasses that can take videos and phone calls

TRUE

5 AGEING

WOULD I LIE TO YOU?

1

Currently studying at Harvard Medical School

2

Started his career as a biology teacher

1

Currently studying at Harvard Medical School

TRUE

WOULD I LIE TO YOU?

The market outlook and implications for portfolios

Guy Monson
Senior Partner & Chief Market Strategist

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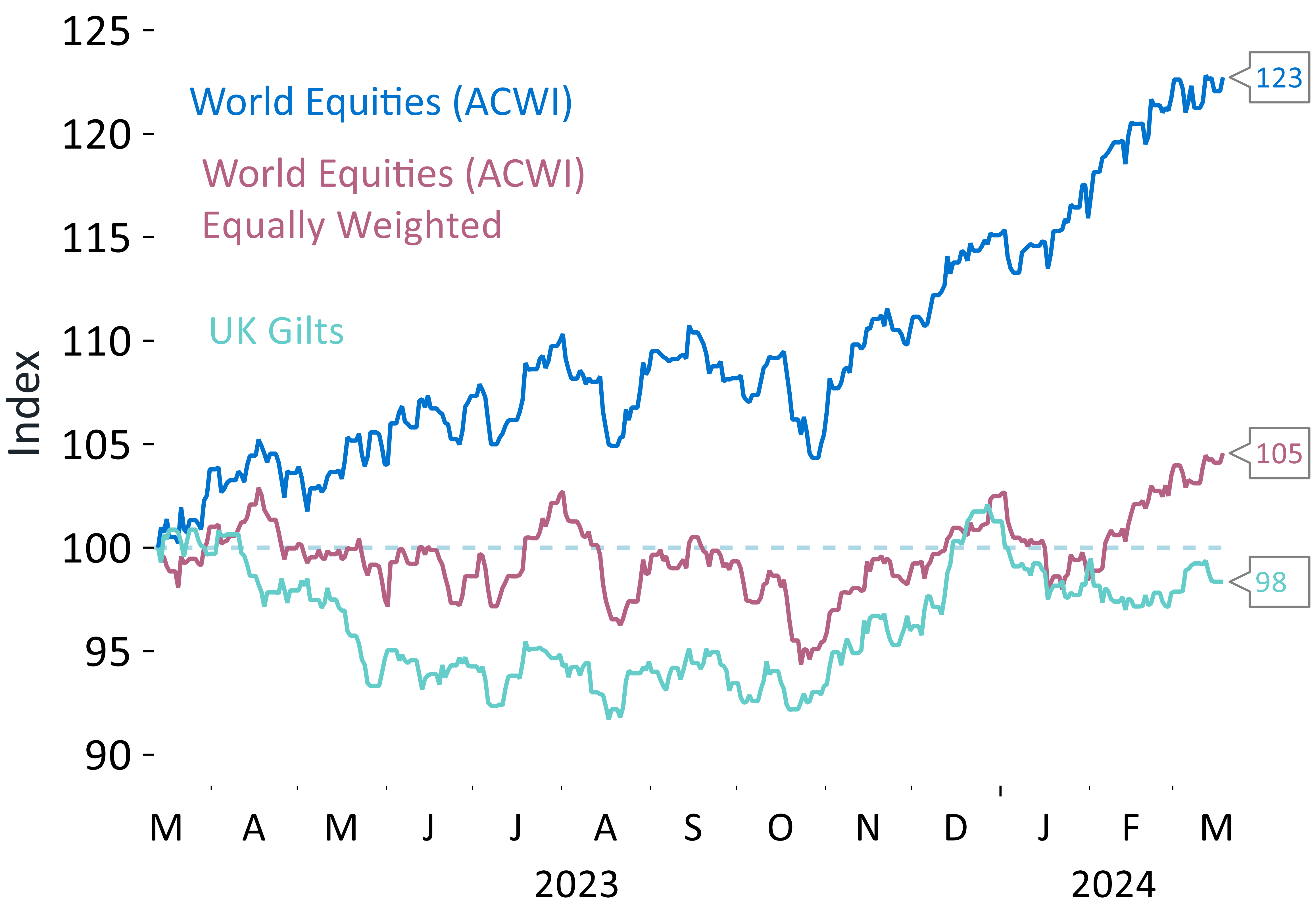
Markets 2023

Global asset performance 1 year

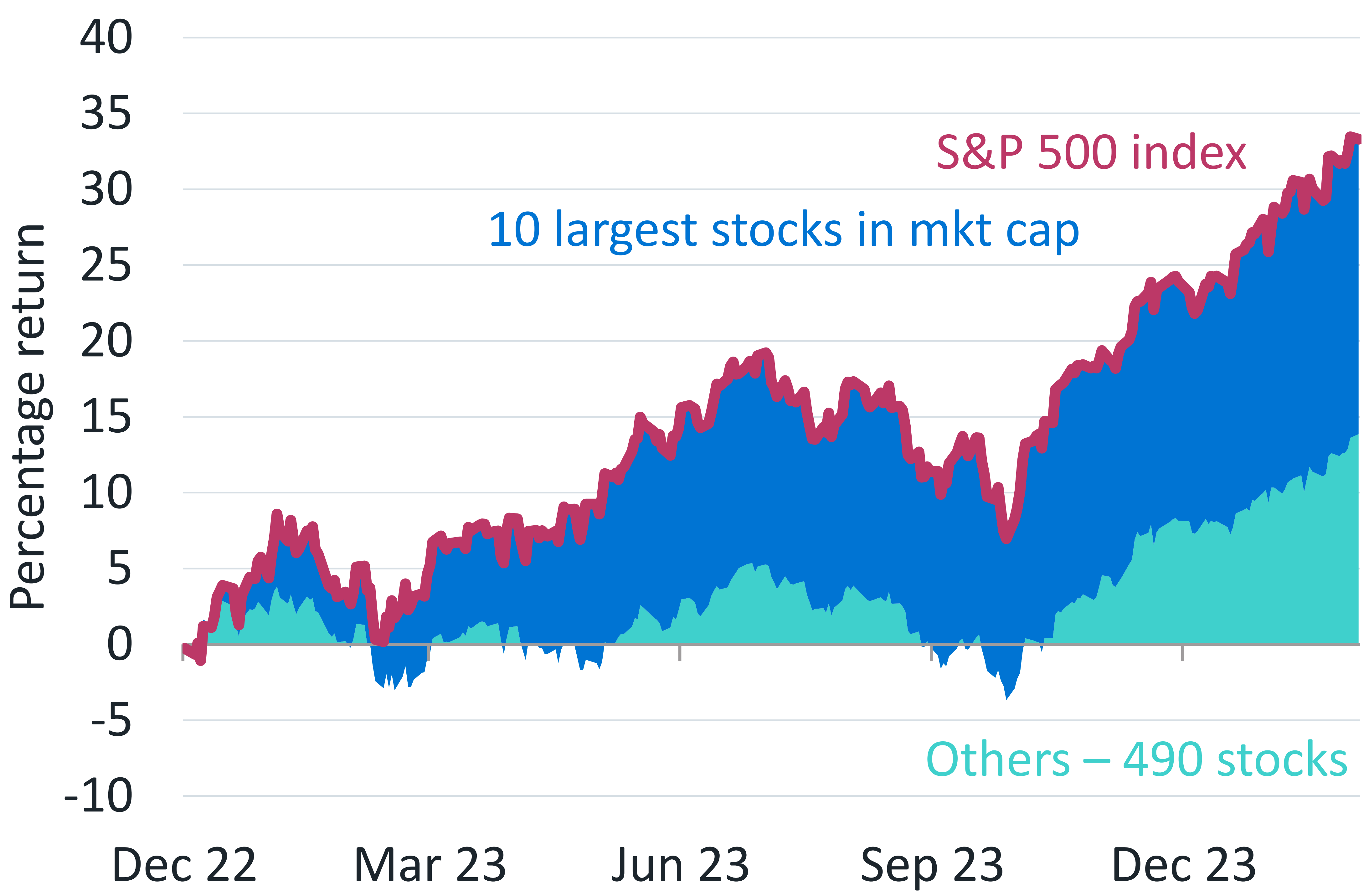
Unprecedented concentration of equity returns in US ‘Mega-Cap’

World equity & UK gilt performance one year to date (GBP)



Source: Macrobond, 19.03.24

Largest stocks are driving the current S&P rally



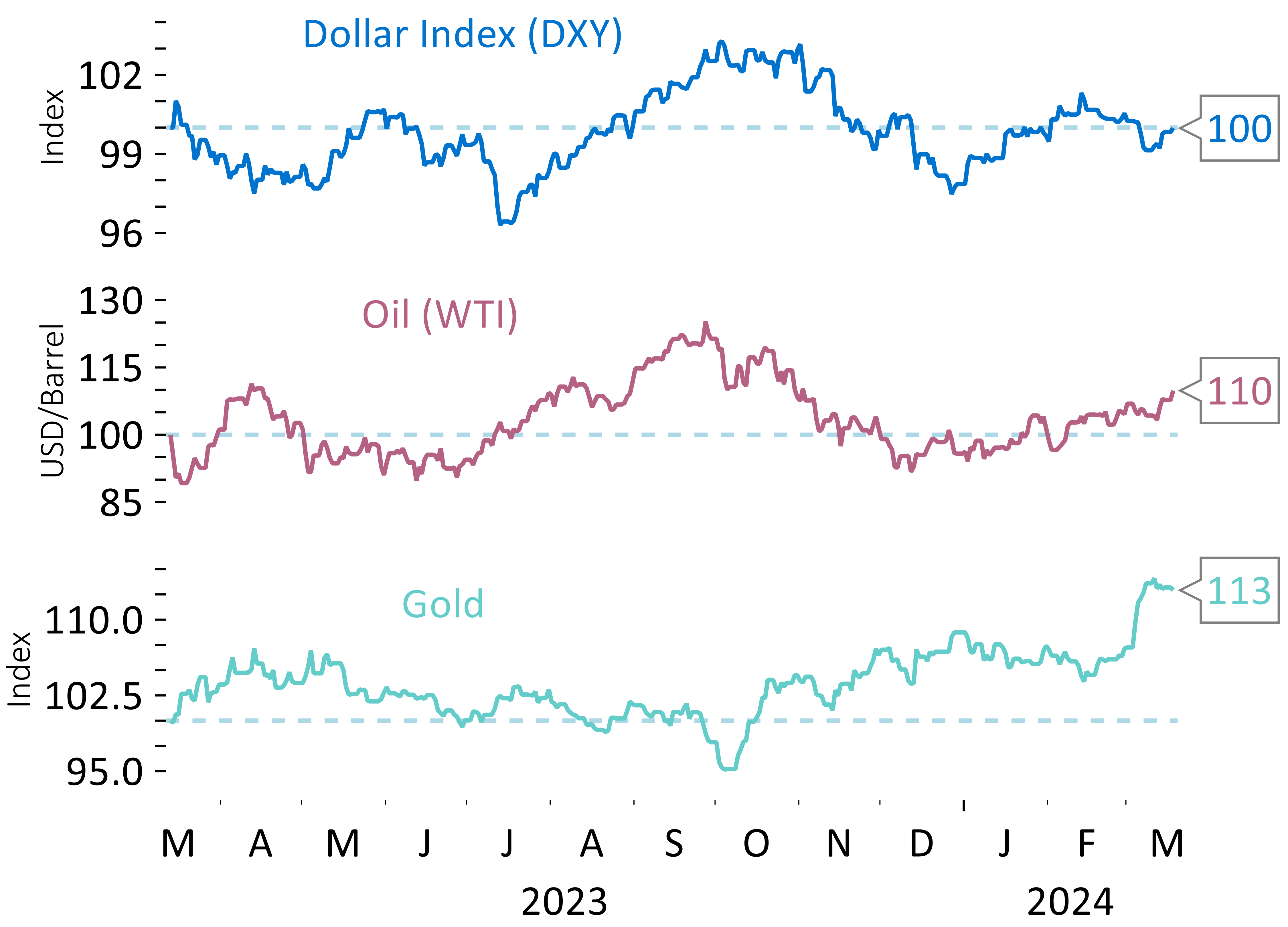
Source: Macrobond, 05.03.24

S&P500 10 largest stocks: Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, Meta, Exxon, Berkshire and UnitedHealth

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

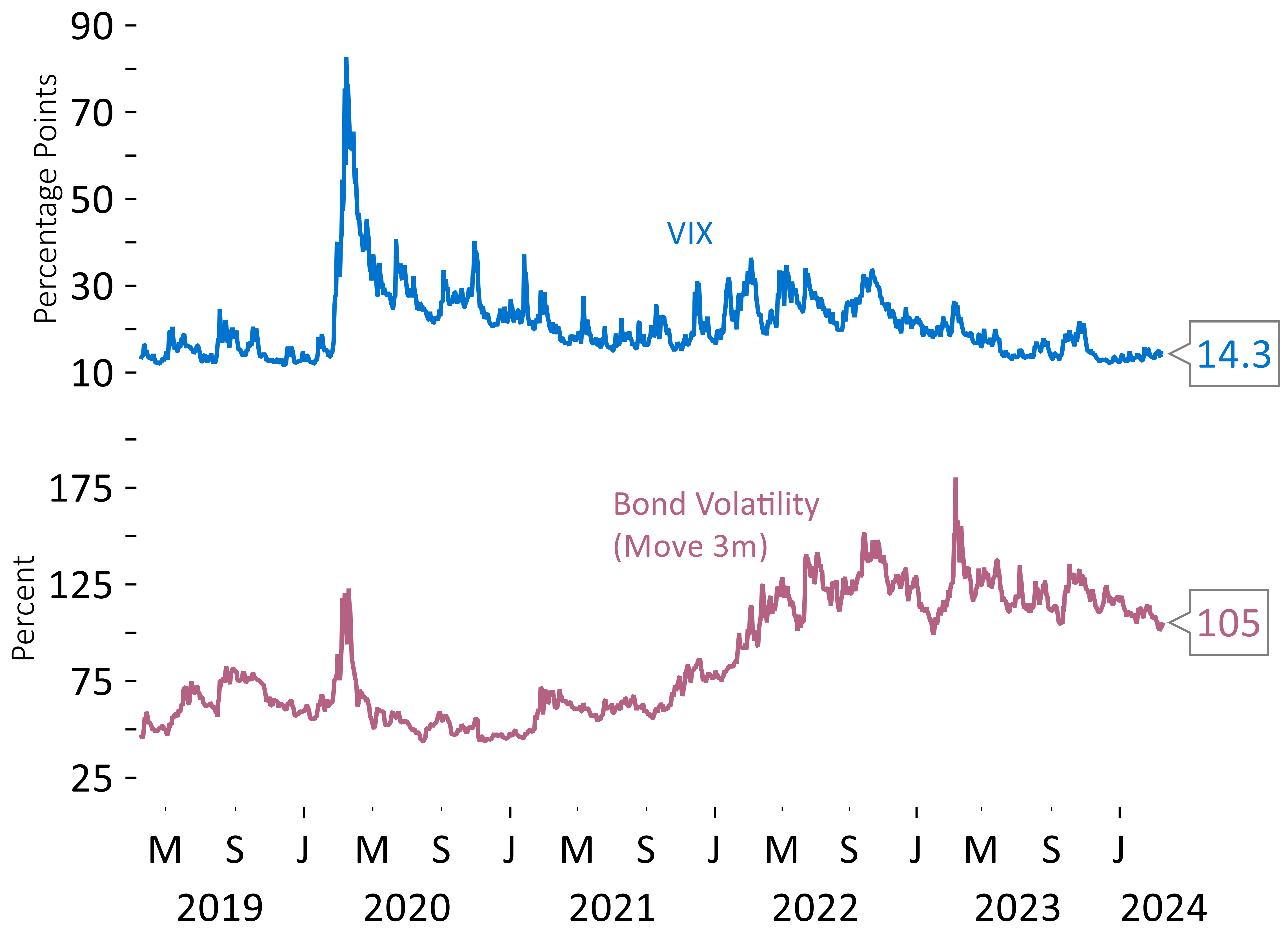
Other assets showed only modest returns & low volatility

Asset class performance one year to date



Source: Macrobond, 19.03.24 WTI – West Texas Intermediate

S&P500 (VIX) & Bond Market Volatility



Source: Macrobond, 19.03.24 VIX – Measure of US equity market volatility

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

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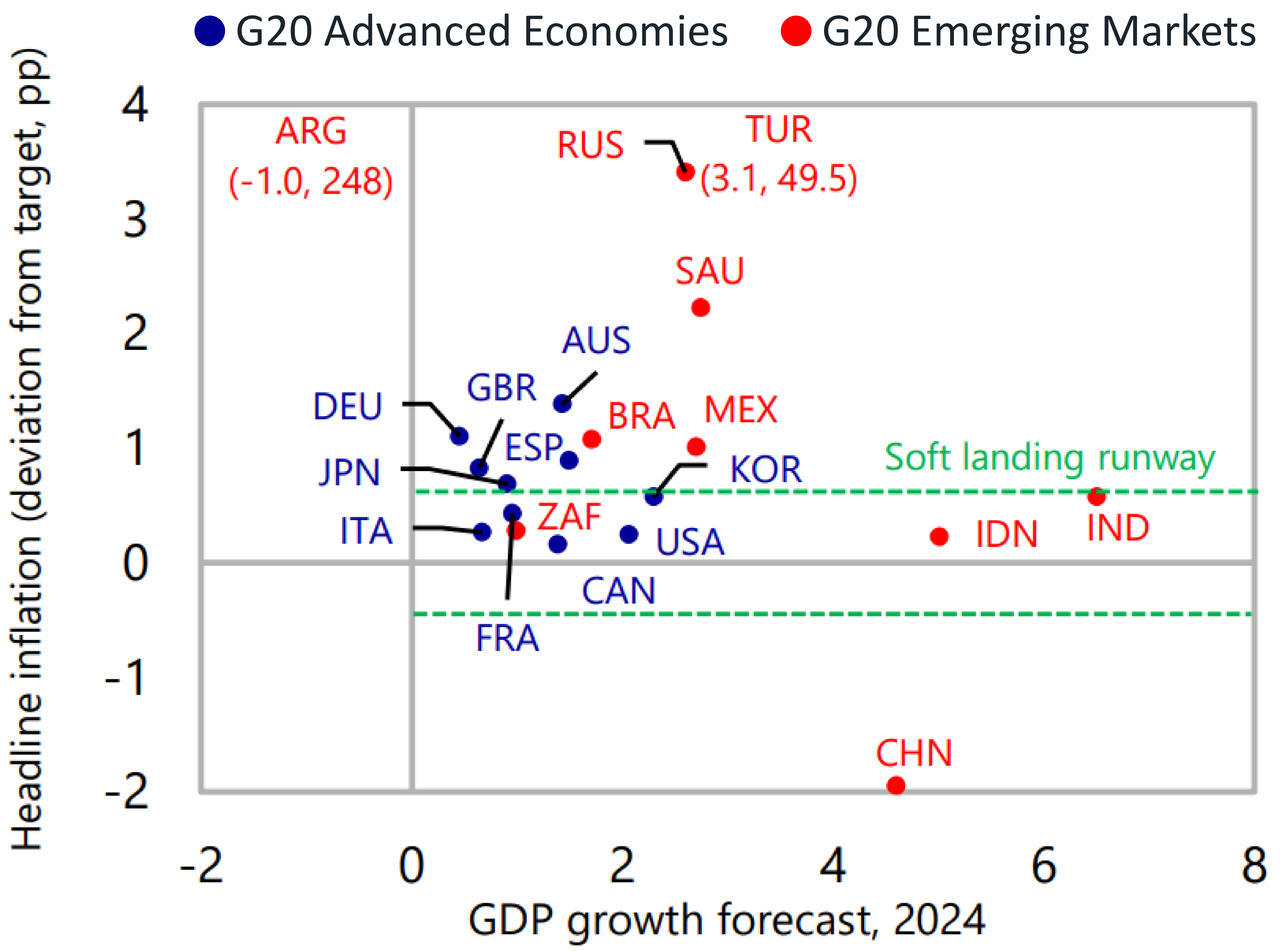
Inflation

Coming safely into land…

Global economy is likely to achieve a remarkable & synchronized soft-landing



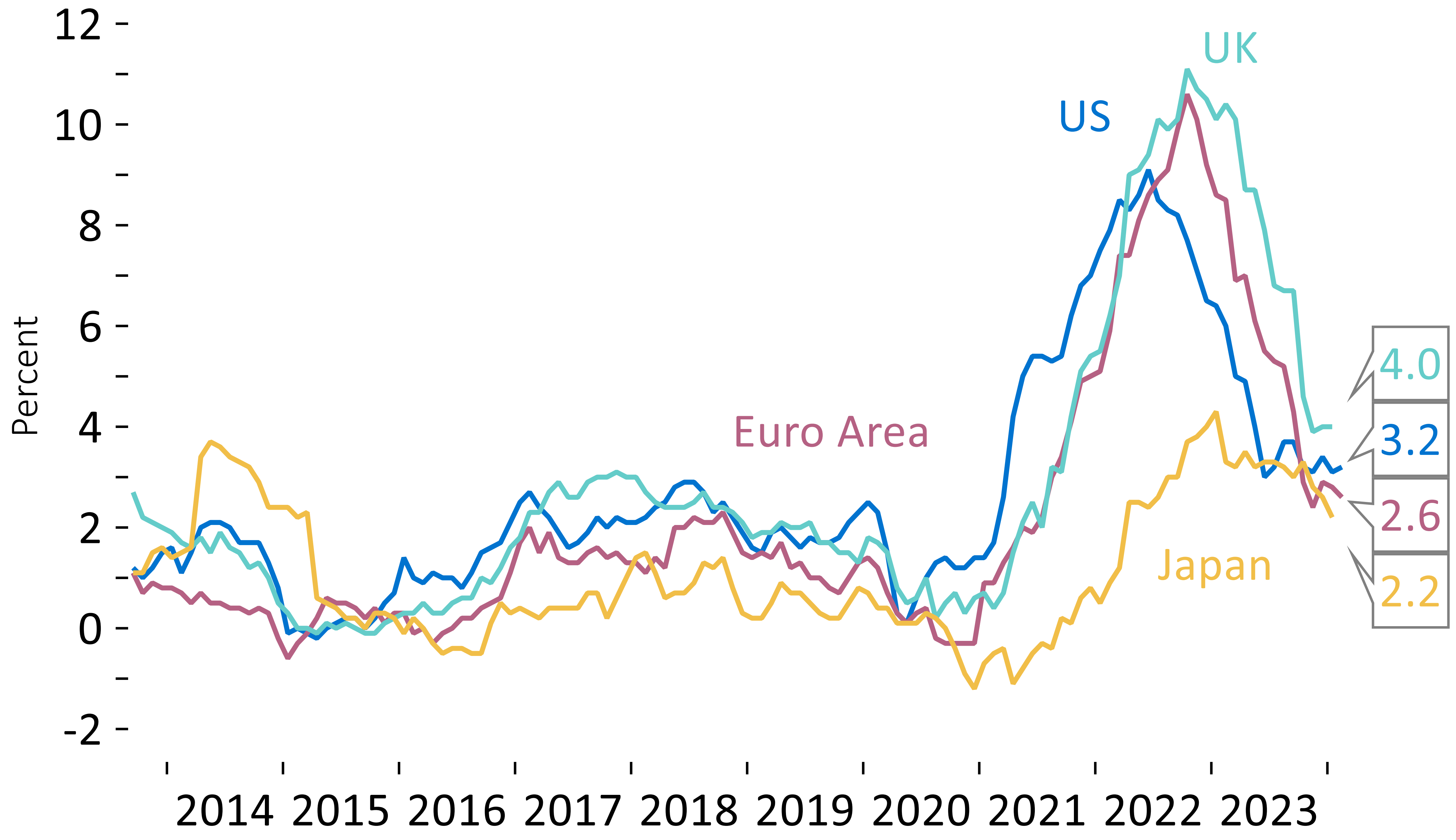
A **soft landing** occurs when inflation descends to target without triggering recession

Source: IMF/G20 February 2024

UK & global inflation trending down

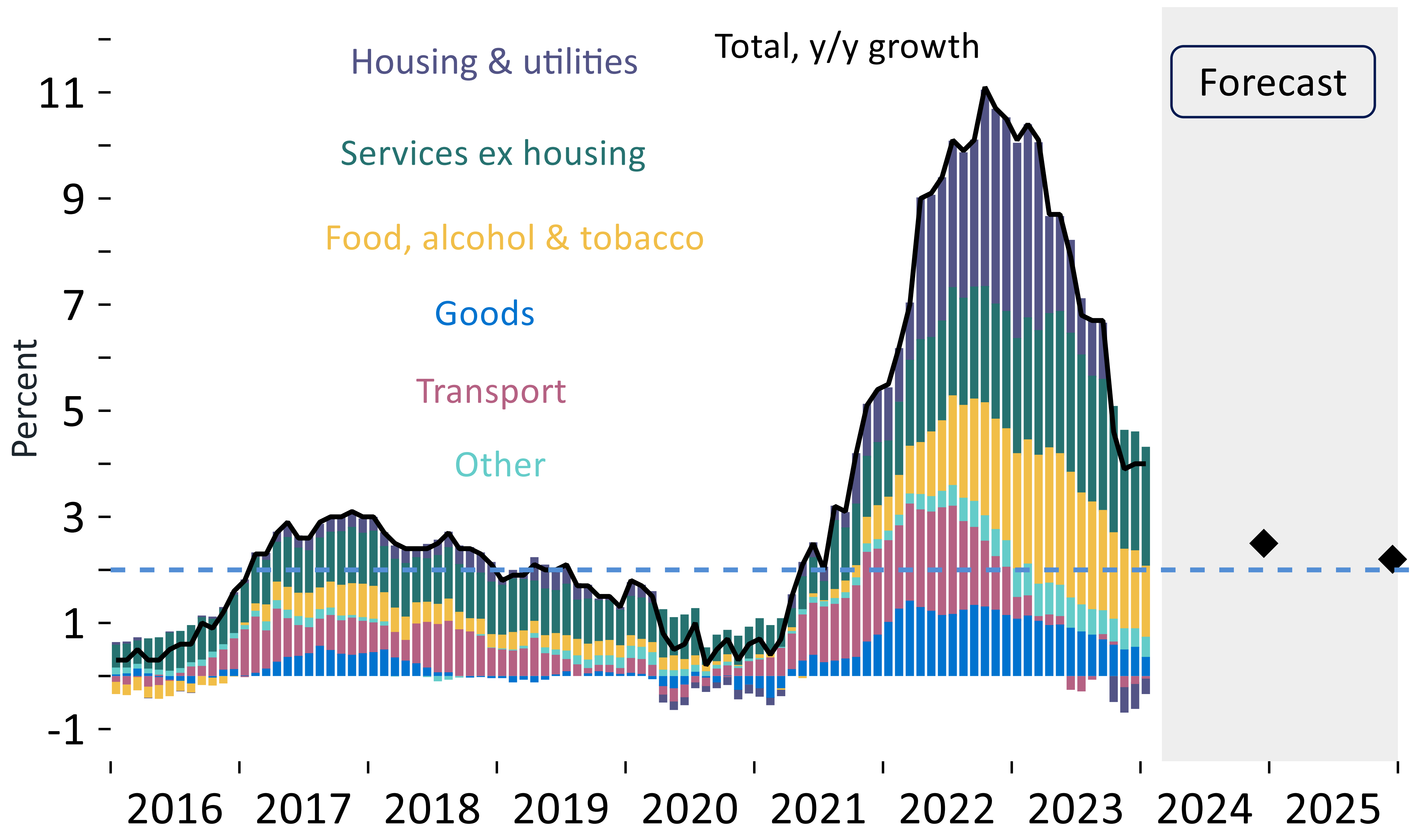
Inflation rates have converged across countries just above central bank targets

Headline Inflation (CPI)



Source: Macrobond, 19.03.24

Contributions to UK Consumer Price Index



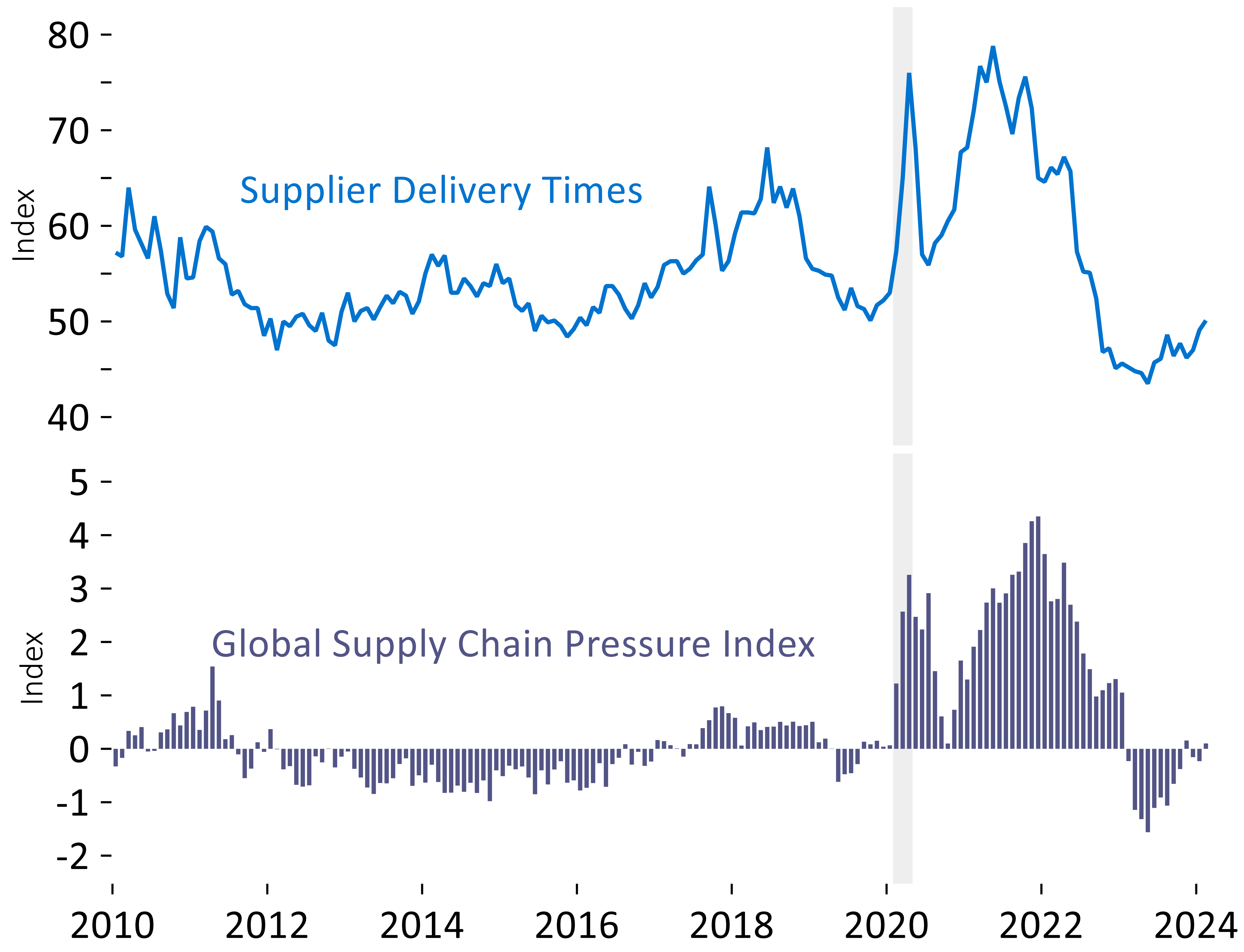
Source: Macrobond, 19.03.24

◆ Sarasin Forecasts December 2023

Why have prices fallen so fast?

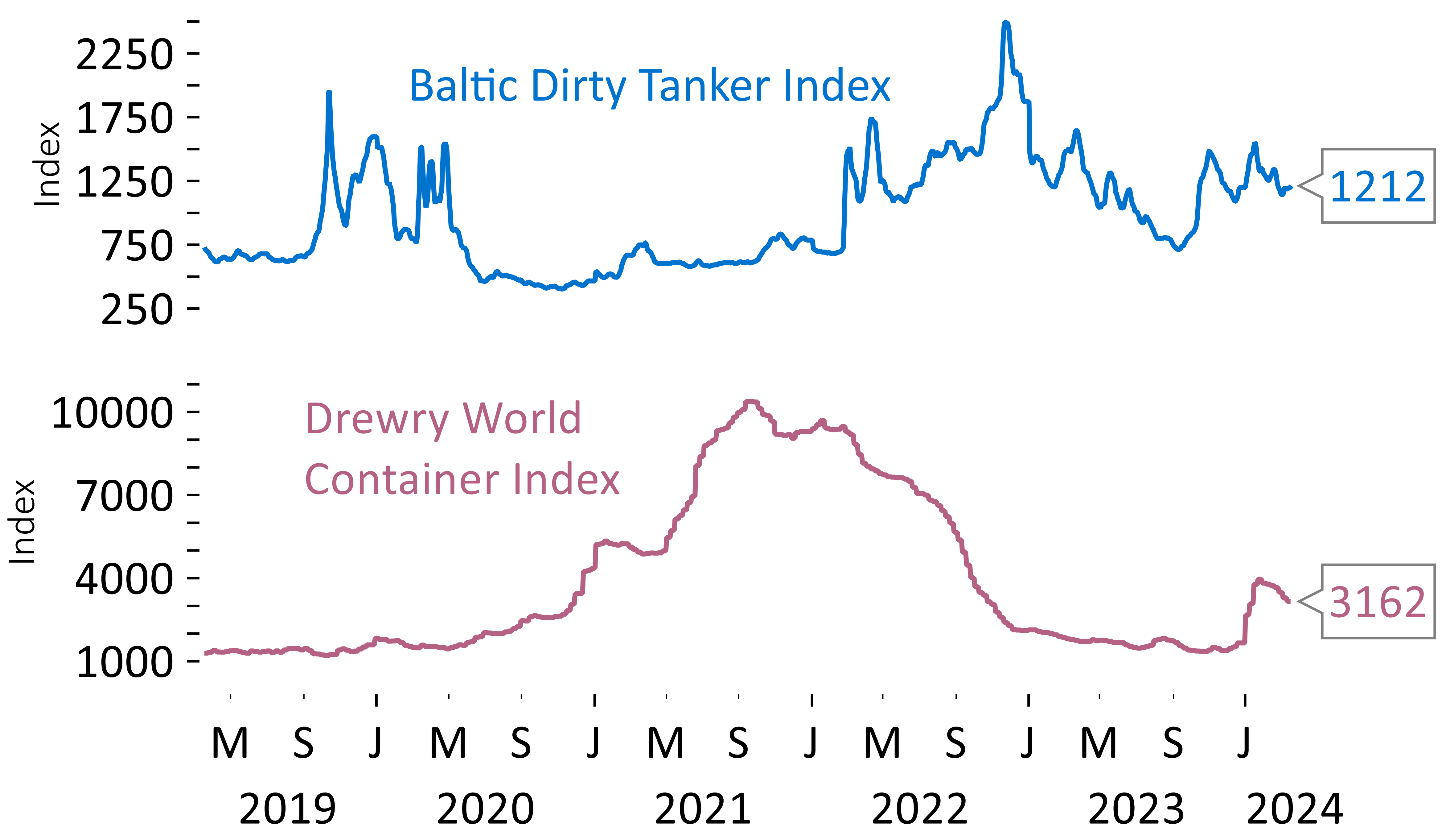
Supply chains have normalised quickly post pandemic (Red Sea impact modest)

US – ISM Manufacturing & Global Supply Chains



Source: Macrobond, 19.03.24

World Shipping Rates



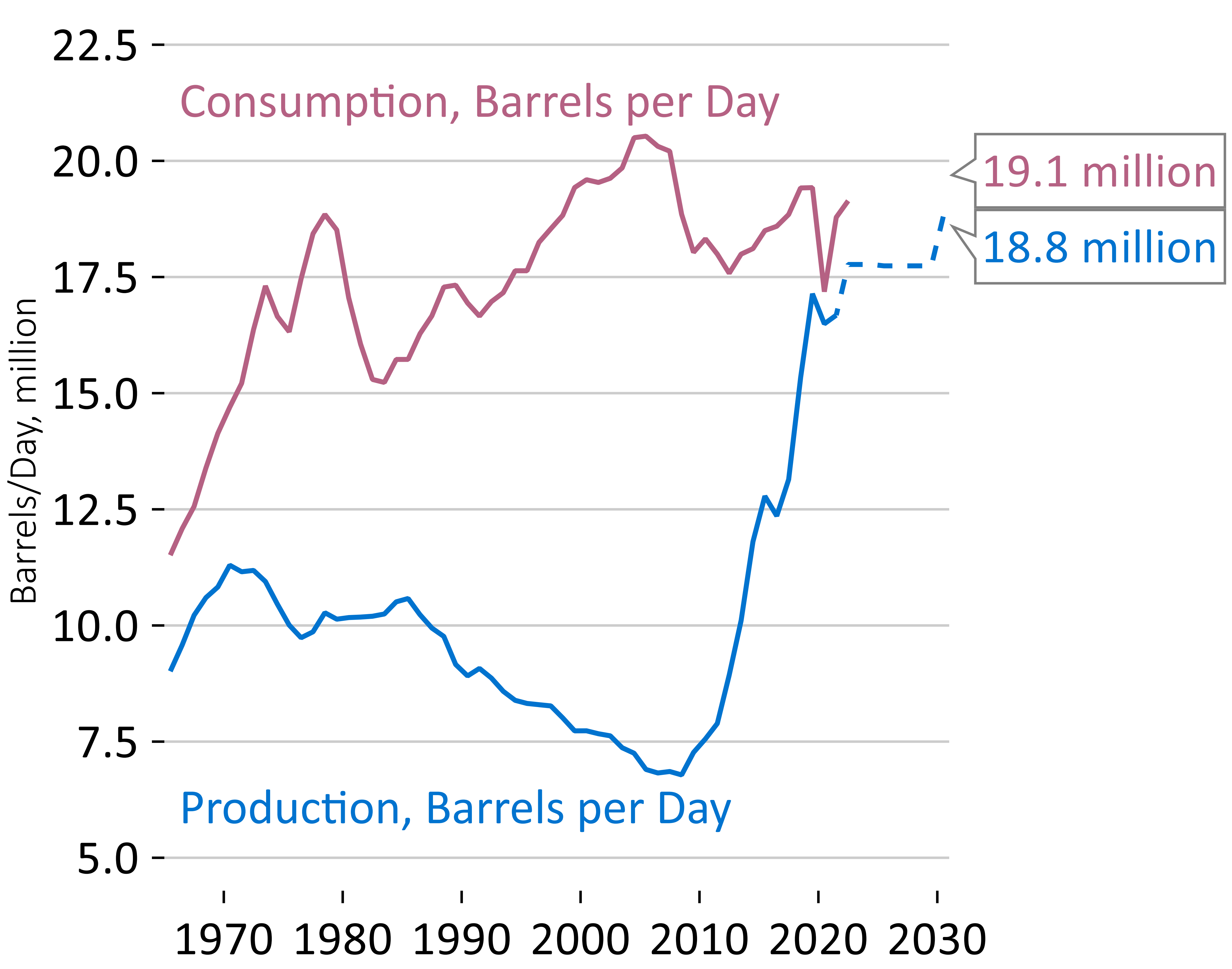
Source: Macrobond, 19.03.24

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

It will take a wider regional crisis to lift oil & gas prices

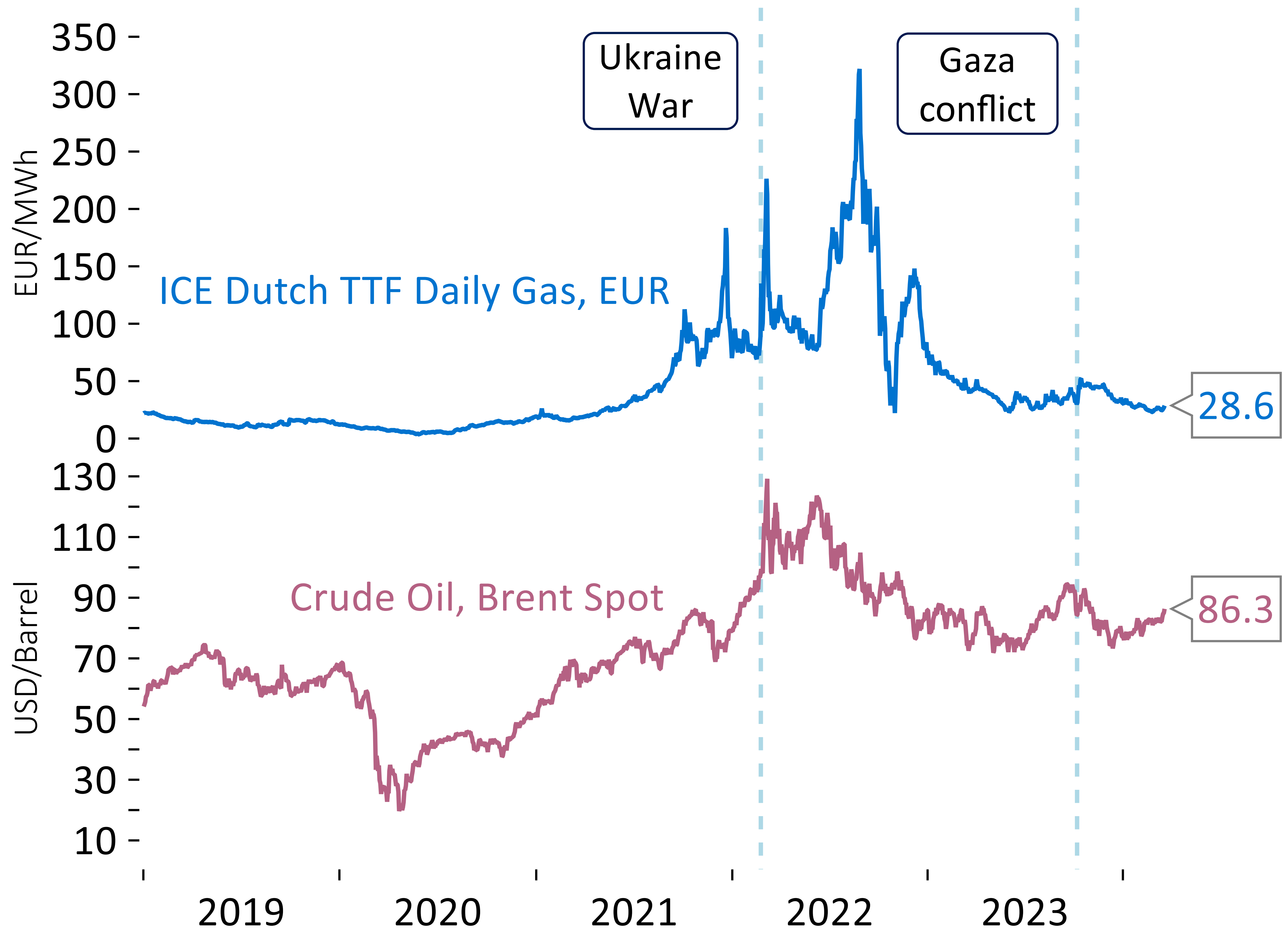
Massive rise in US domestic oil production has blunted influence of OPEC +

US oil production & consumption



Source: Macrobond, 19.03.24

European wholesale gas and oil prices



Source: Macrobond, 19.03.24

Extended OPEC cuts now amounting to 5.3m barrels per day have had little impact on oil prices

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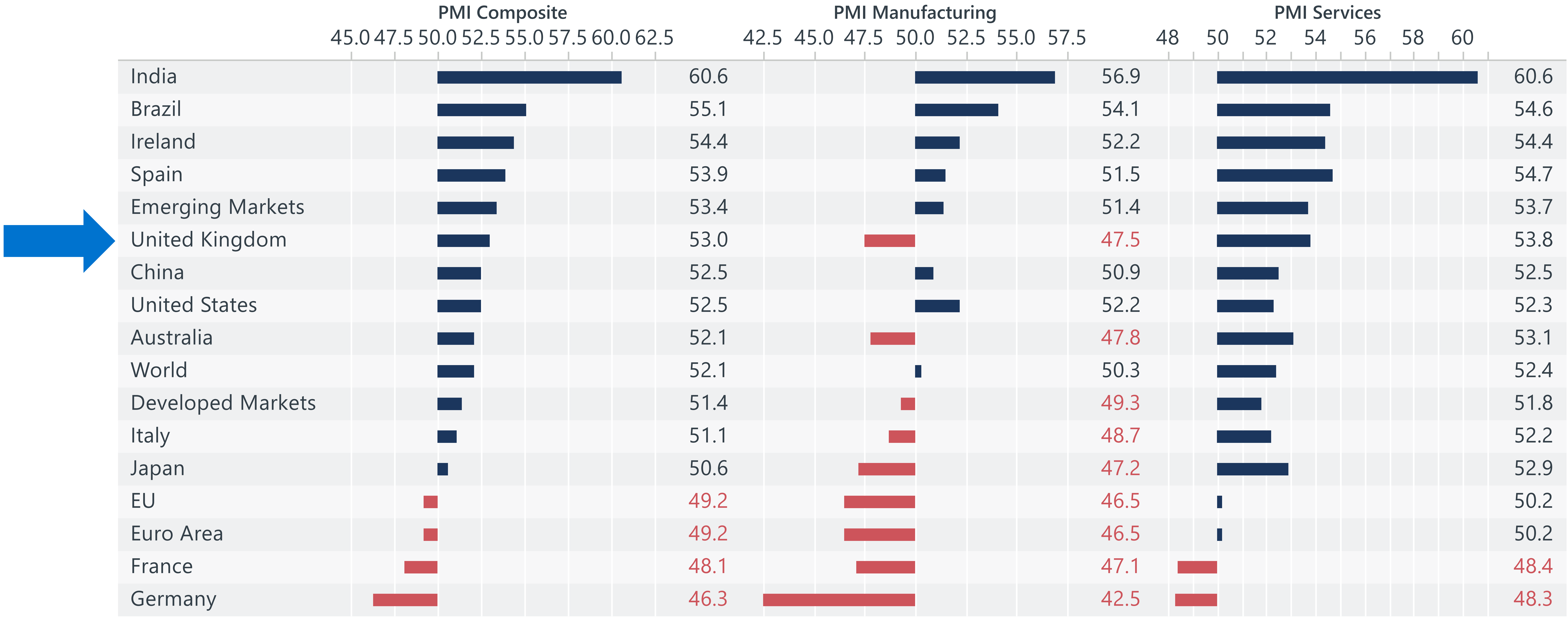
Growth

Business surveys suggest a gradual global recovery

Manufacturing notably weak across Europe – UK outlook surprisingly robust

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



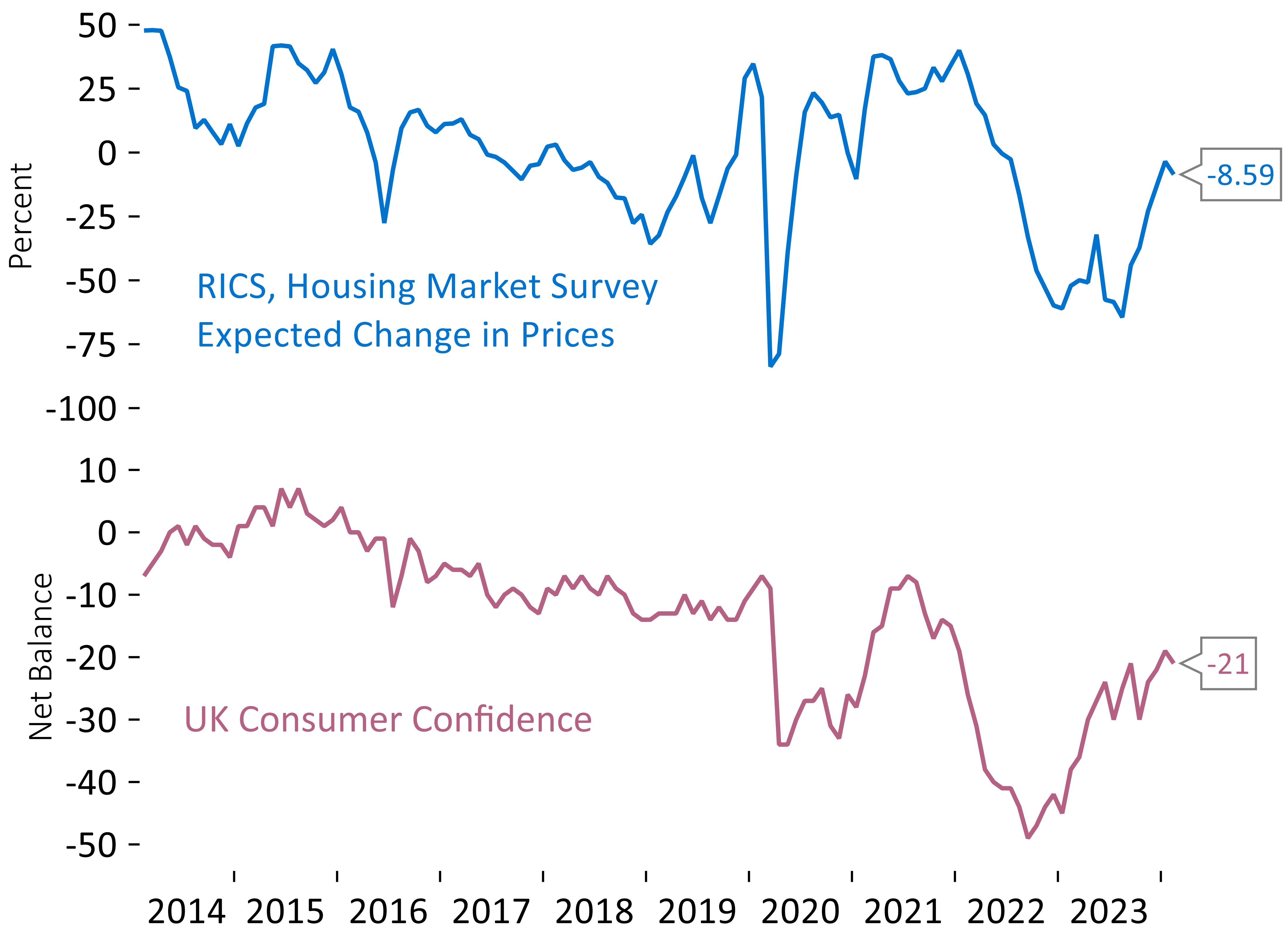
Source: Macrobond, 19.03.24

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

UK: Recovery still intact for 2024

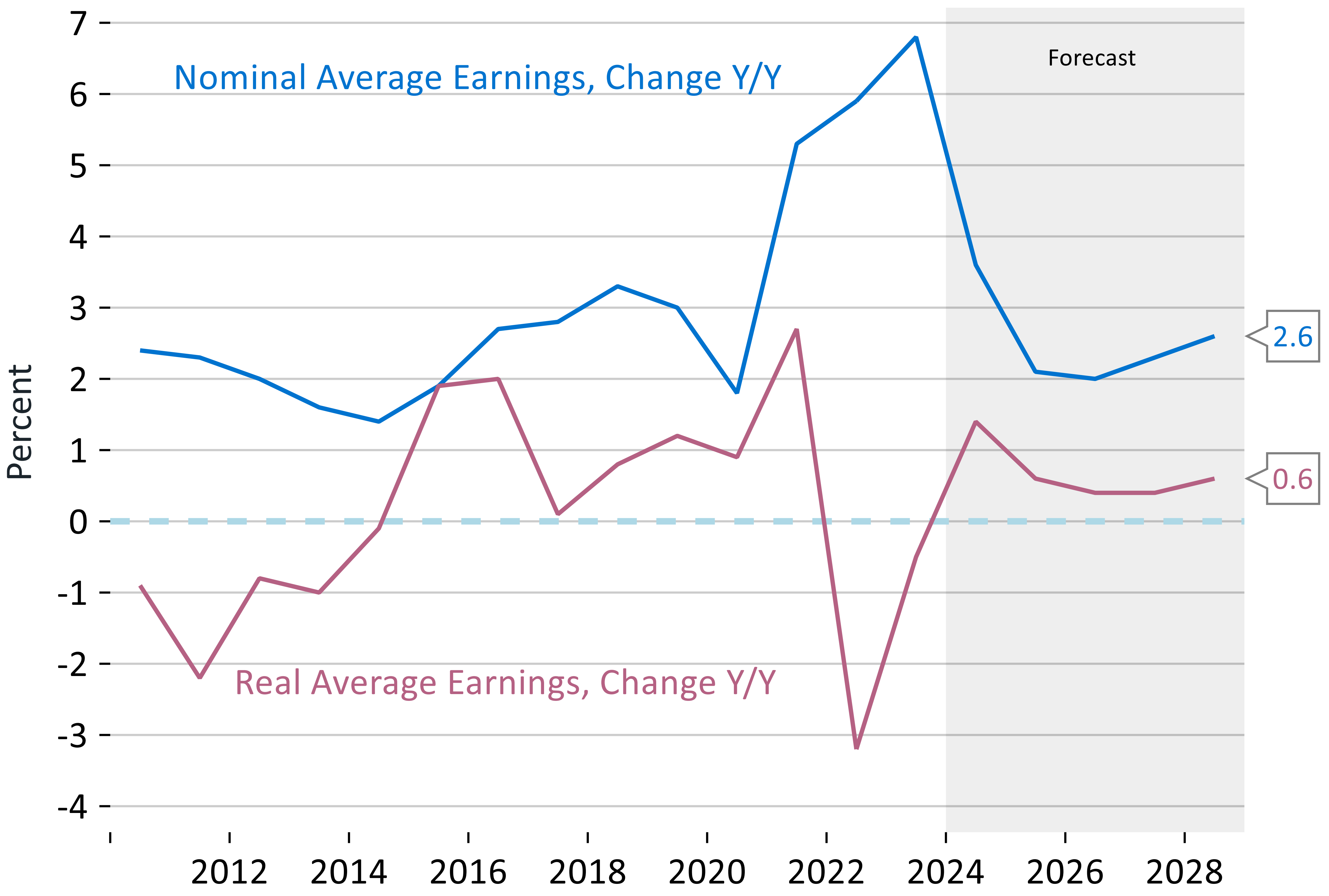
UK forward-looking indicators are more positive as real wage growth finally recovers

UK House Price Expectations & Consumer Confidence



Source: Macrobond, 19.03.24

UK Wage Growth – OBR forecasts*



Source: Macrobond, 19.03.24

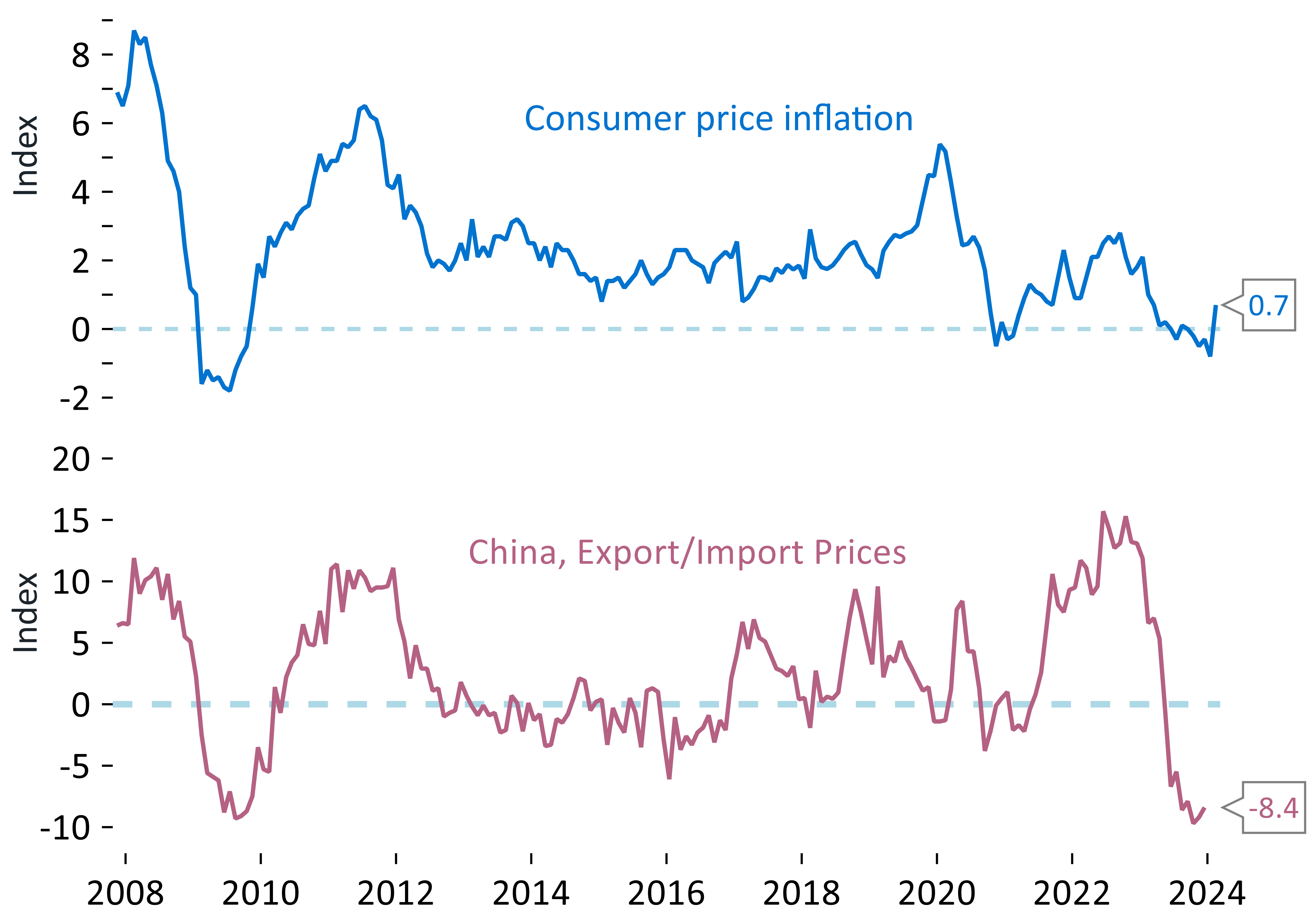
UK Minimum Wage rises 9.8% to £11.44 per hour
– HMRC March 2024

*Source: Office for Budget Responsibility Feb 2024

China: Trend GDP growth likely to slow to 4%

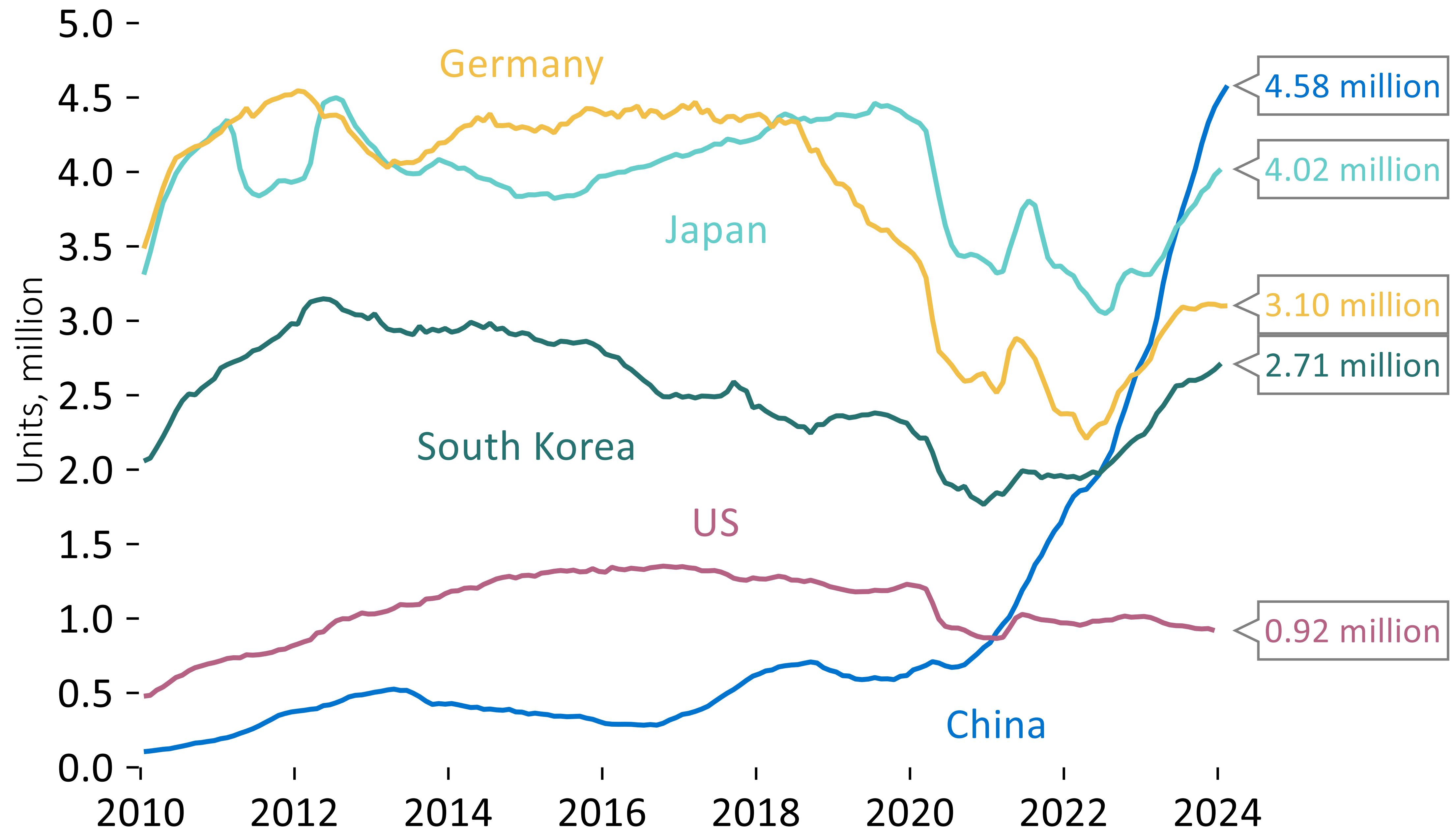
China deflation risks leave exports super-competitive

China inflation measures



Source: Macrobond, 19.03.24

Exports of Passenger Cars; Rolling 12m sum

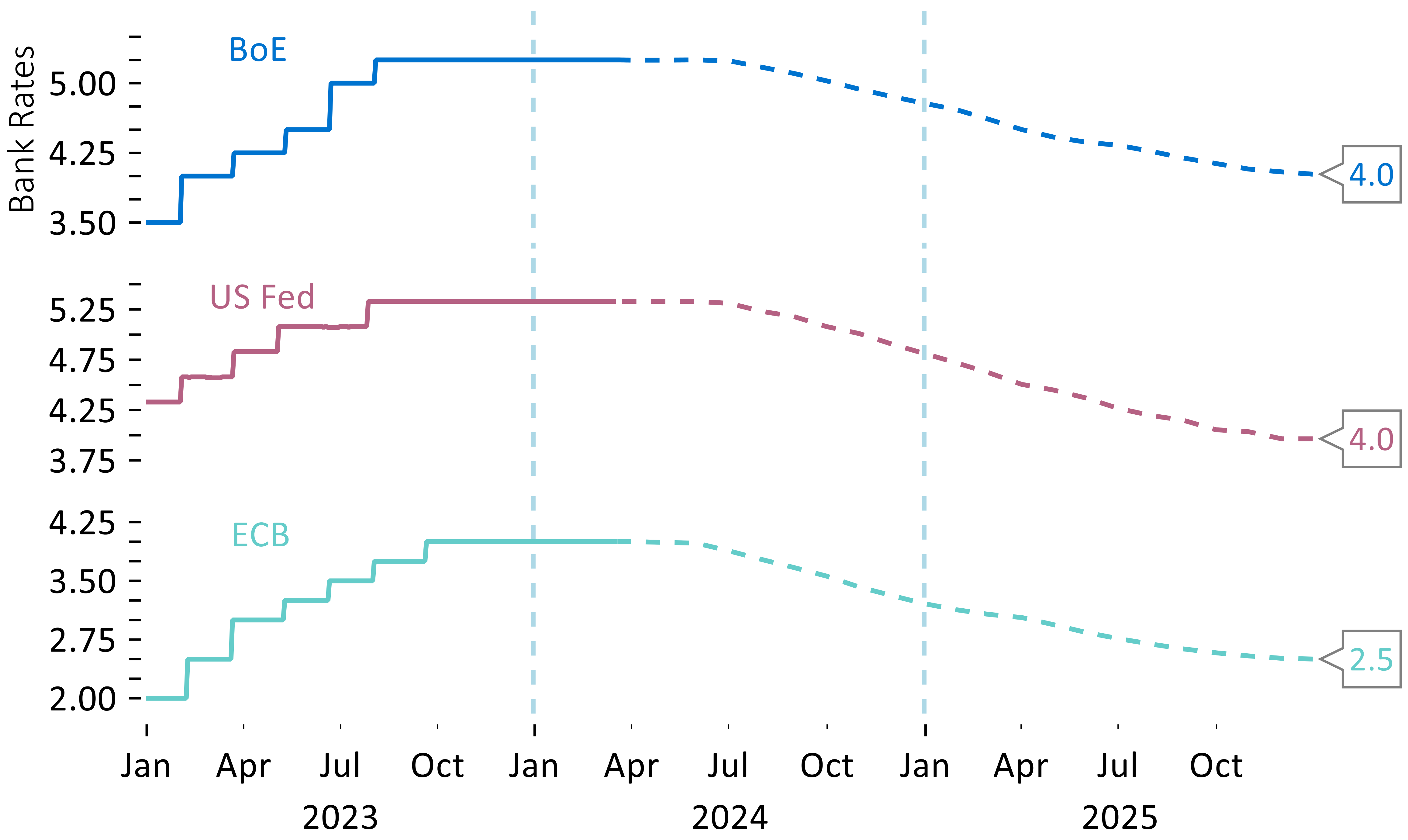


Source: Macrobond, 19.03.24

The MG4 is now the second-best selling UK electric car. The parent is SAIC motor from China – the world's 7th largest manufacturer.
Source: Carparison, 05.02.2024

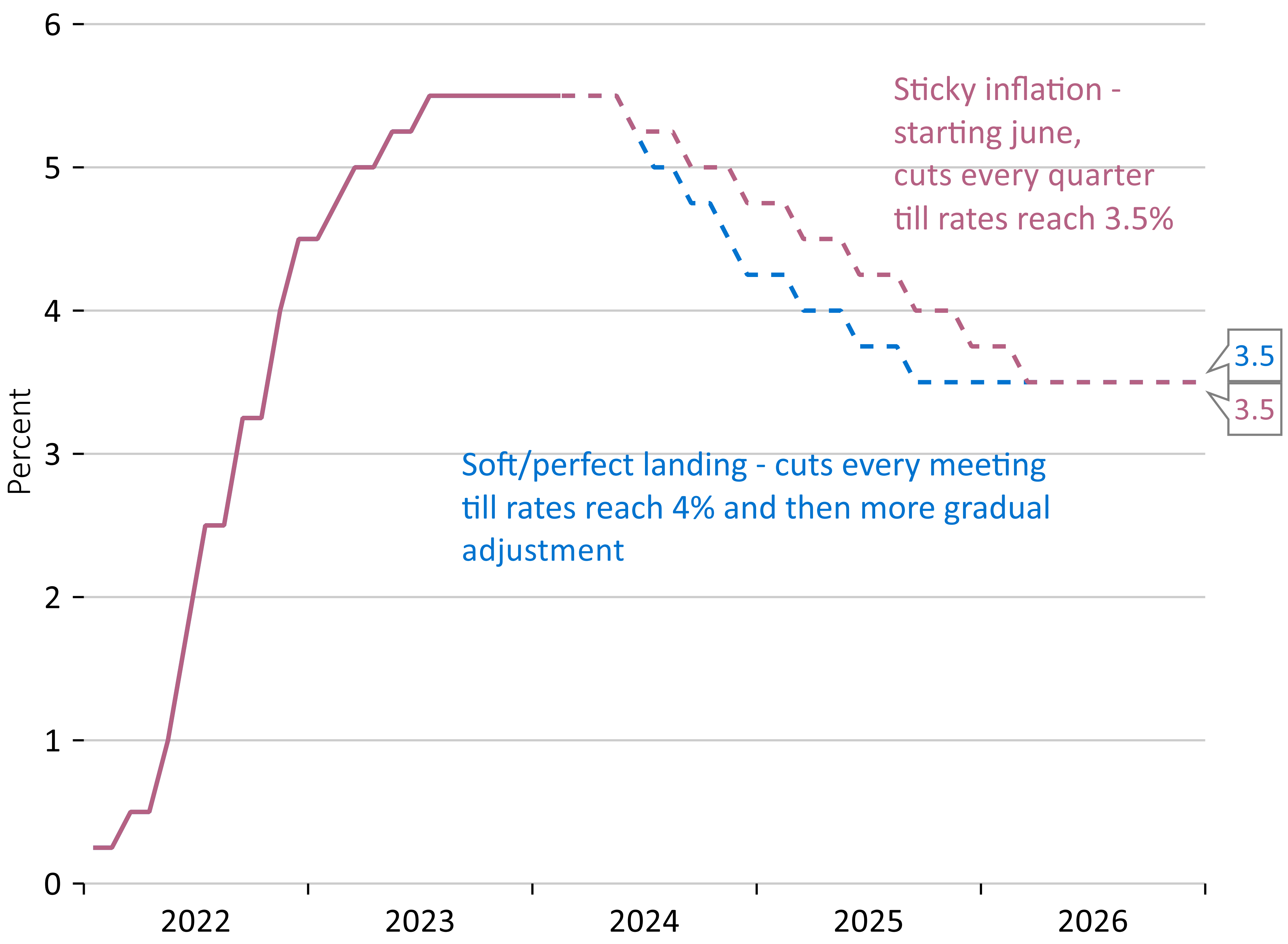
Rates: Markets anticipating several rate cuts in 2024

Central Banks’ Policy Rates and Market-implied Rate Trajectories



Source: Macrobond, 19.03.24

Path of Policy Normalisation in the US



Source: Macrobond, 19.03.24

First **UK rate cut** expected in June 2024, falling to 4.5% by end 2024. Neutral rate forecast at 3.25%.
Source: Sarasin, Feb 2024

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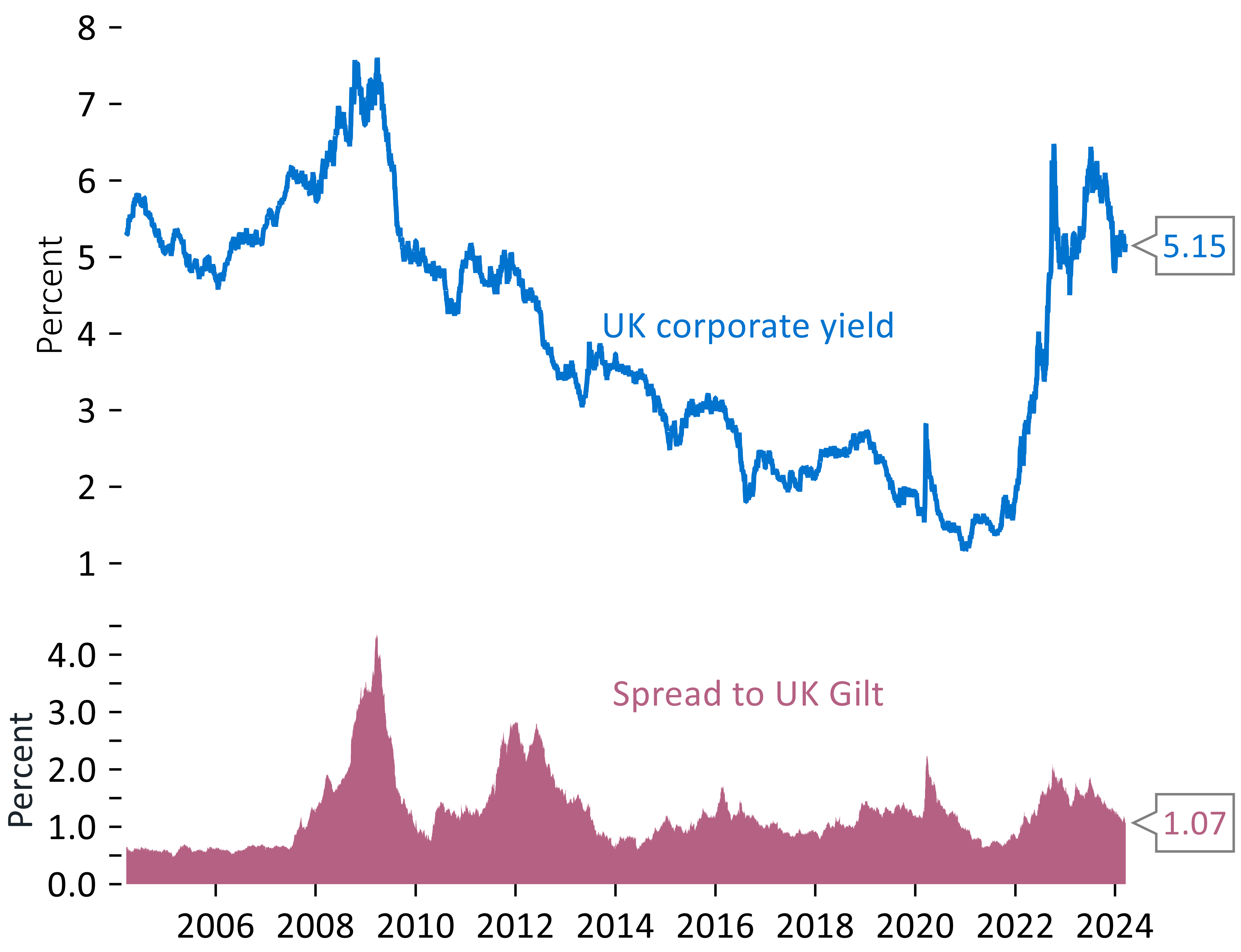
Market implications

1. Bonds: UK corporate issues attractive

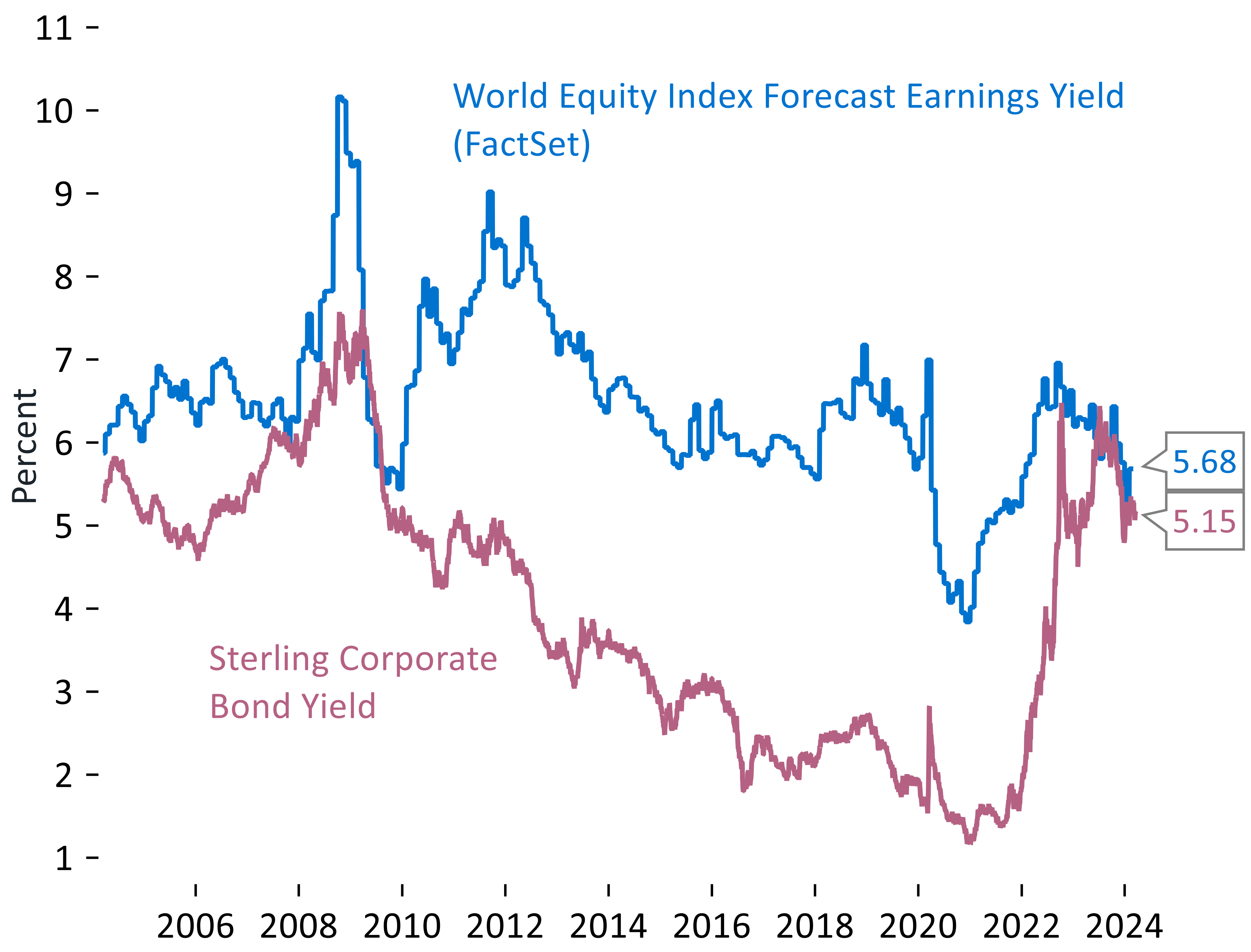
Sterling corporate bonds remain attractive – UK Pension funds steady buyers

UK Corporate Bond Yields and Spread



Source: Macrobond, 19.03.24

Bond and Equity Yields



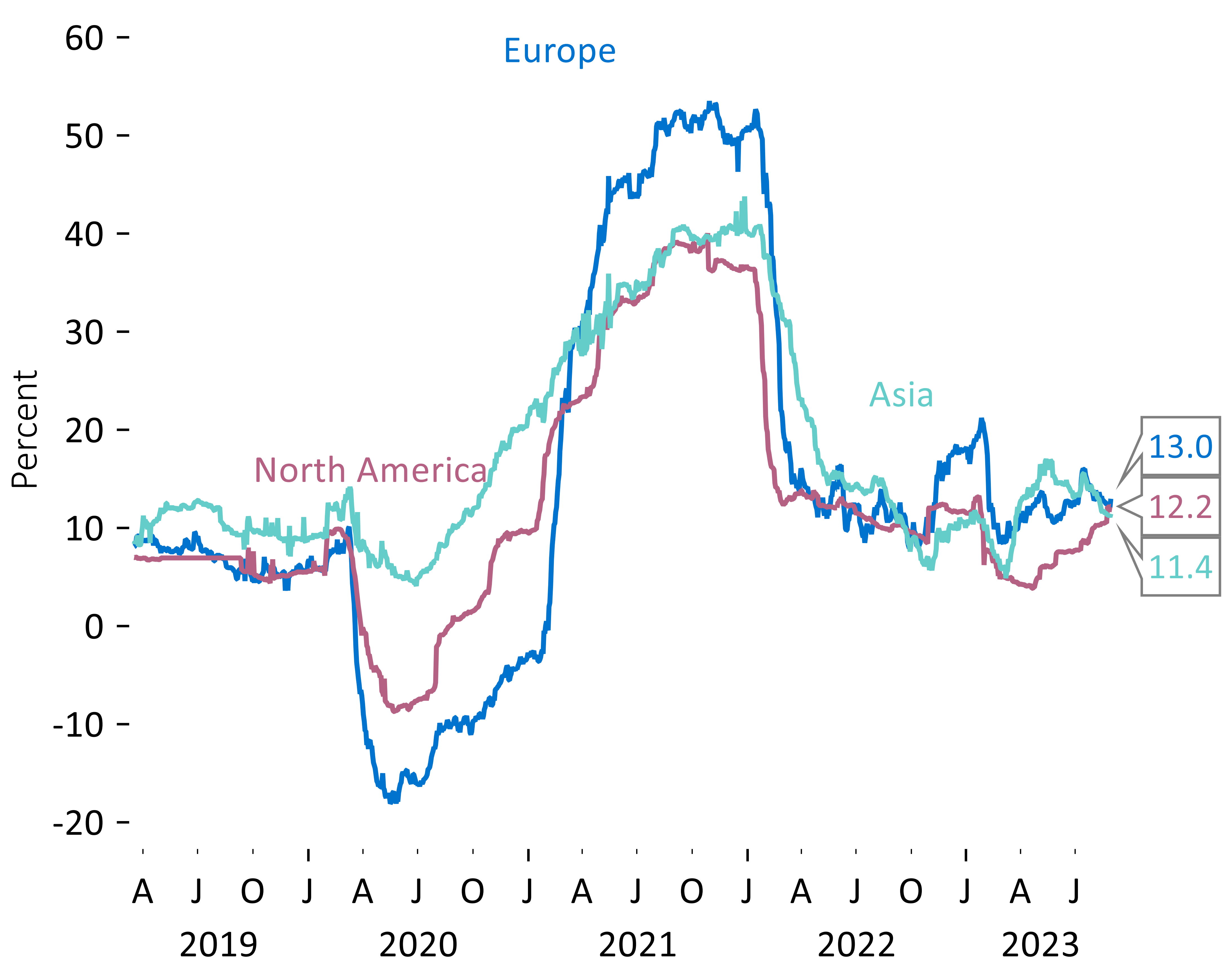
Source: Macrobond, 19.03.24

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

2. Forecast 2024 earnings & dividends remain robust

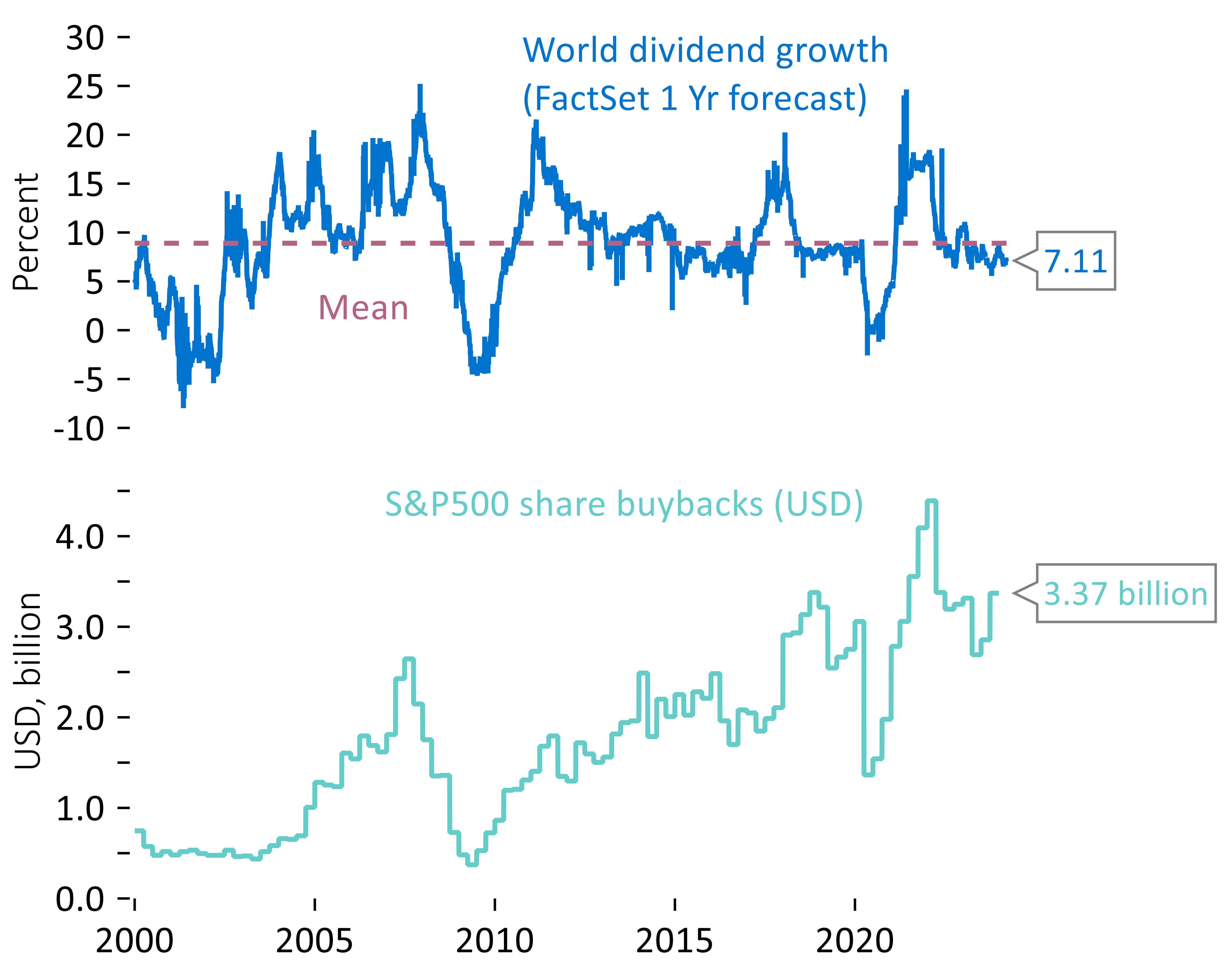
Global earnings robust, dividend growth well above inflation & share buy-backs plentiful

Regional EPS Growth Rate (1 year forecast)



Source: Macrobond, 19.03.24

Global Dividend Growth & US Stock Buybacks



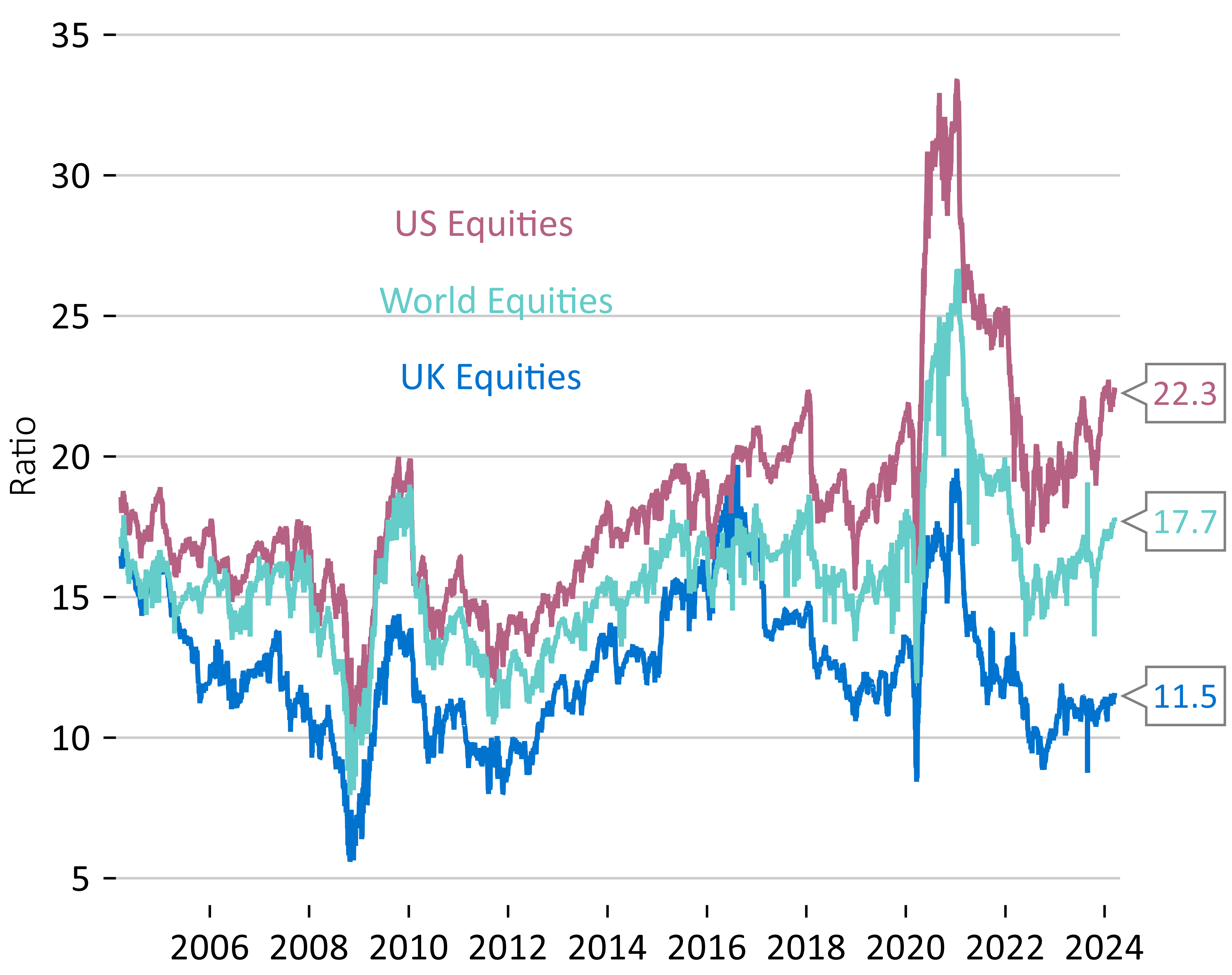
Source: Macrobond, 19.03.24

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

3. Global equity valuations offer risks but also opportunities

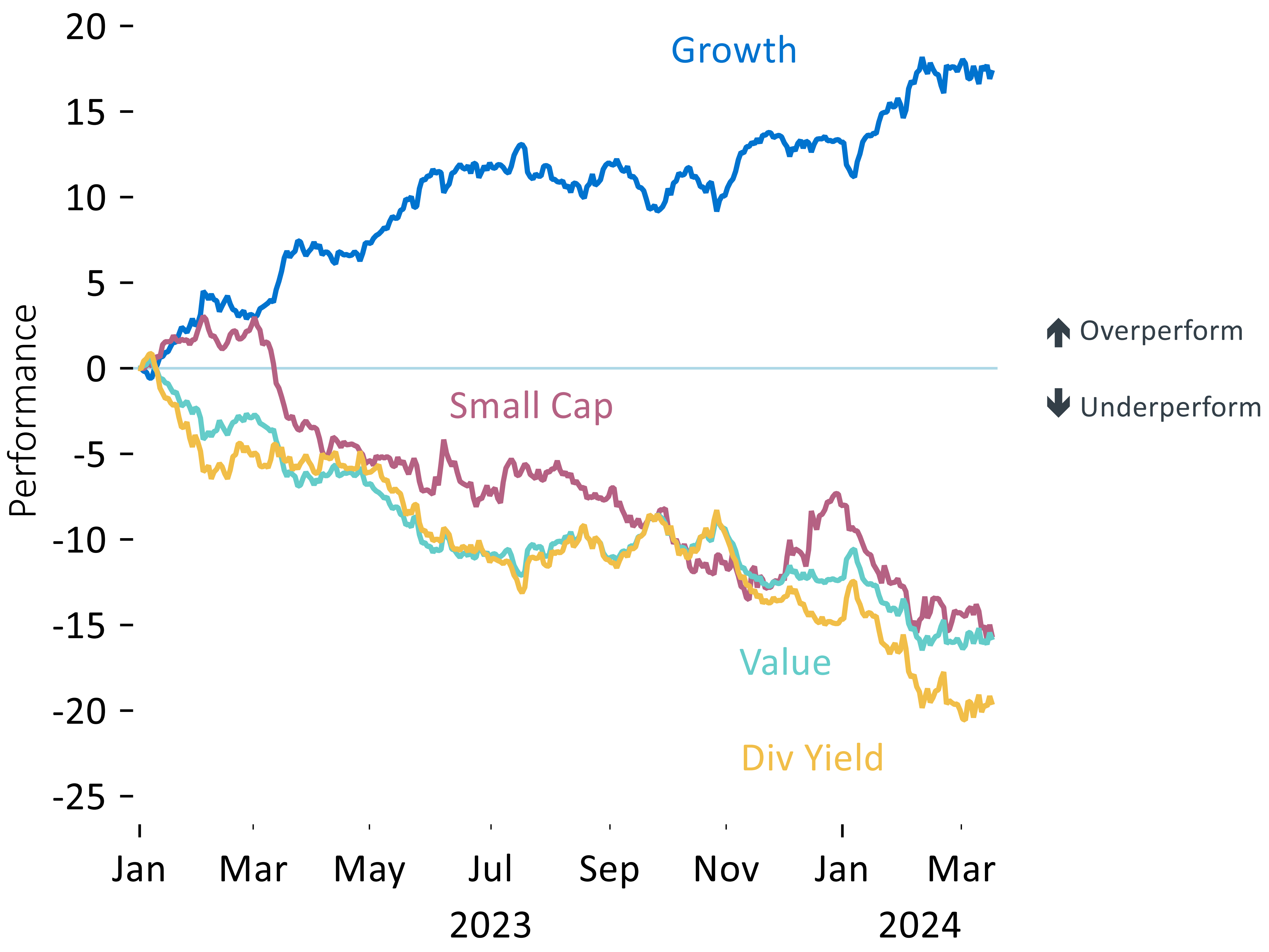
Wider diversion in market valuations and differences in style

P/E Ratio 1 Year Forward (FactSet)



Source: Macrobond, 19.03.24

Relative Factor & Style Performance Compared to MSCI World Equity

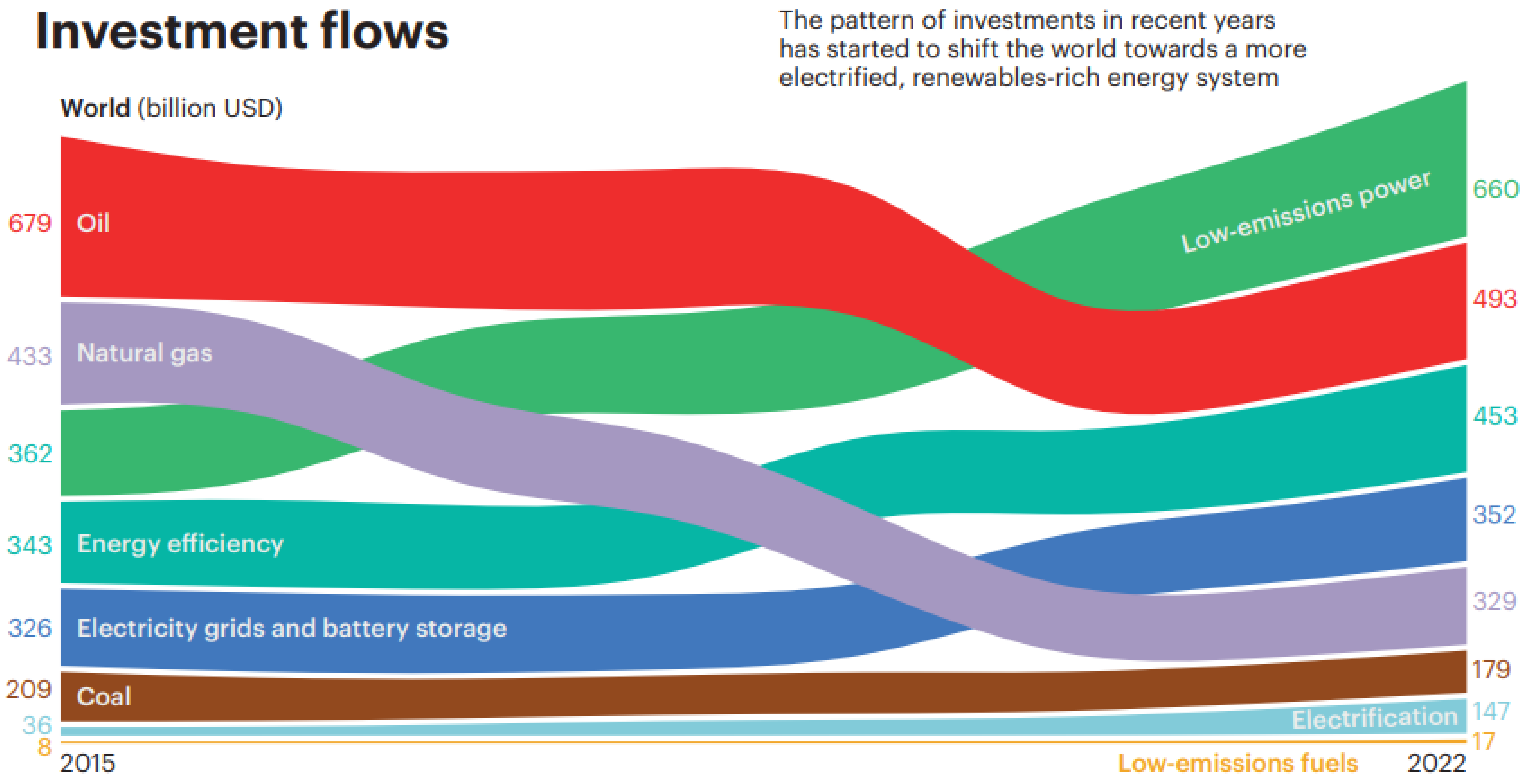


Source: Macrobond, 19.03.24

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

4. Investment in clean energy transition is accelerating

We have focused on water, buildings, infrastructure & high carbon transition



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

IMF Nov 2023

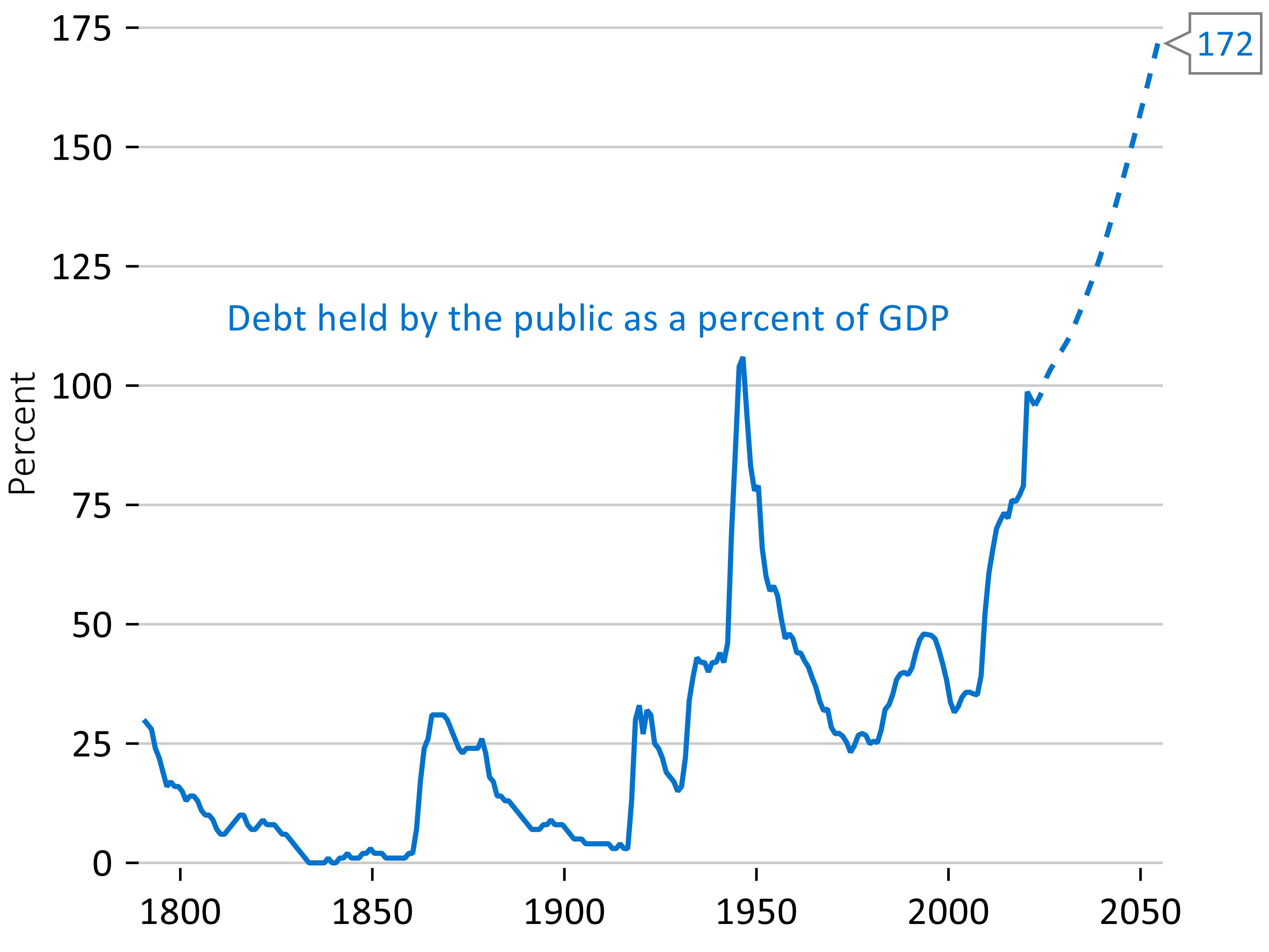
Source: IEA World Energy Outlook 2023

Market risks

Risk 1: The challenge ahead is to tackle elevated fiscal risks

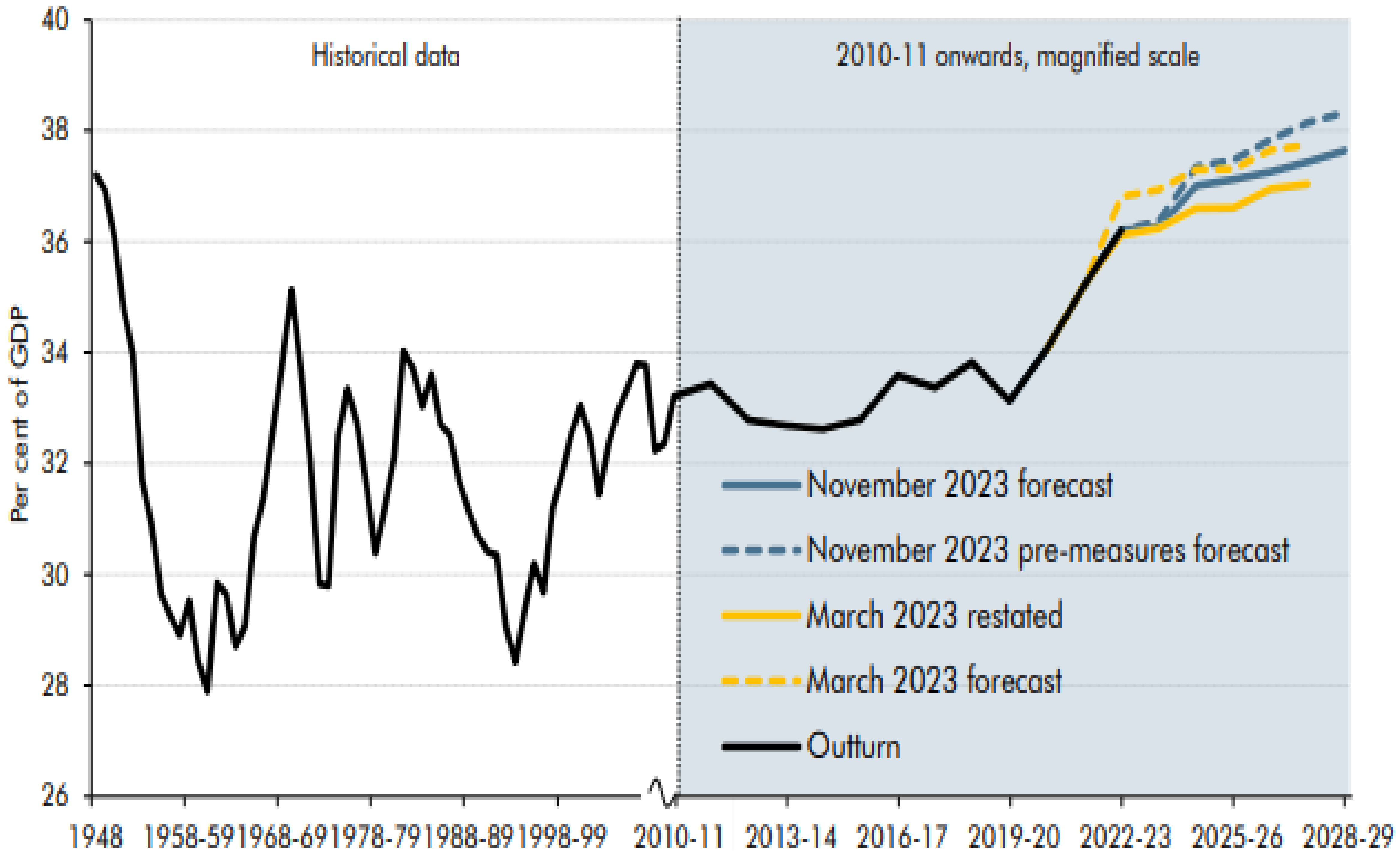
Volatility in bond markets could rise as investors confront unsustainable deficits

Extended Baseline Forecasts by the CBO (US Congressional Budget Office)



Source: Macrobond, 19.03.24

UK government taxes as a share of GDP

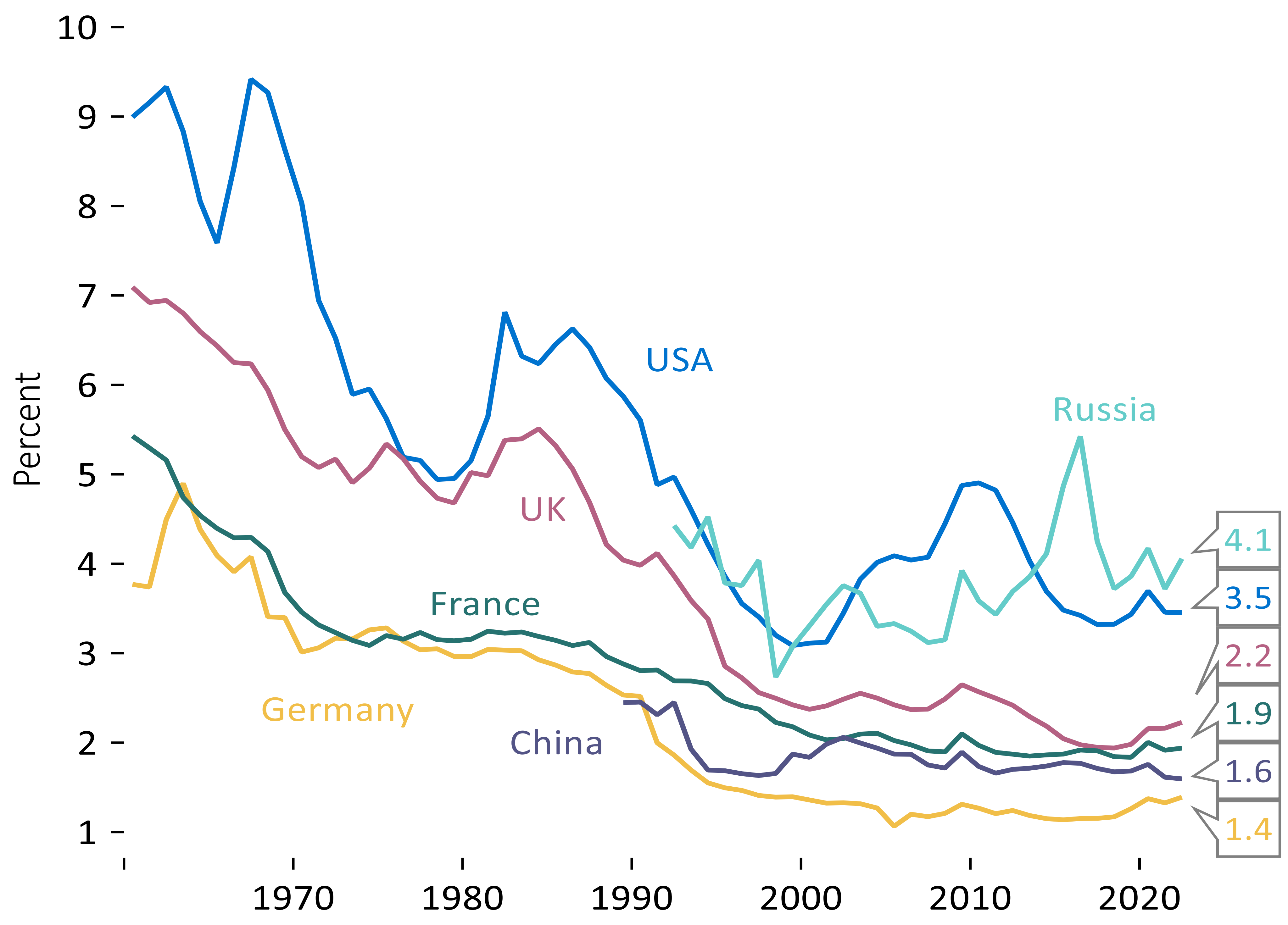


Note: For March 2023 forecast restated, the denominator is the latest nominal GDP outturn in 2022-23 grown forward using our March 2023 forecast.

Source: ONS, OBR

While military expenditures & ageing will stretch the public purse

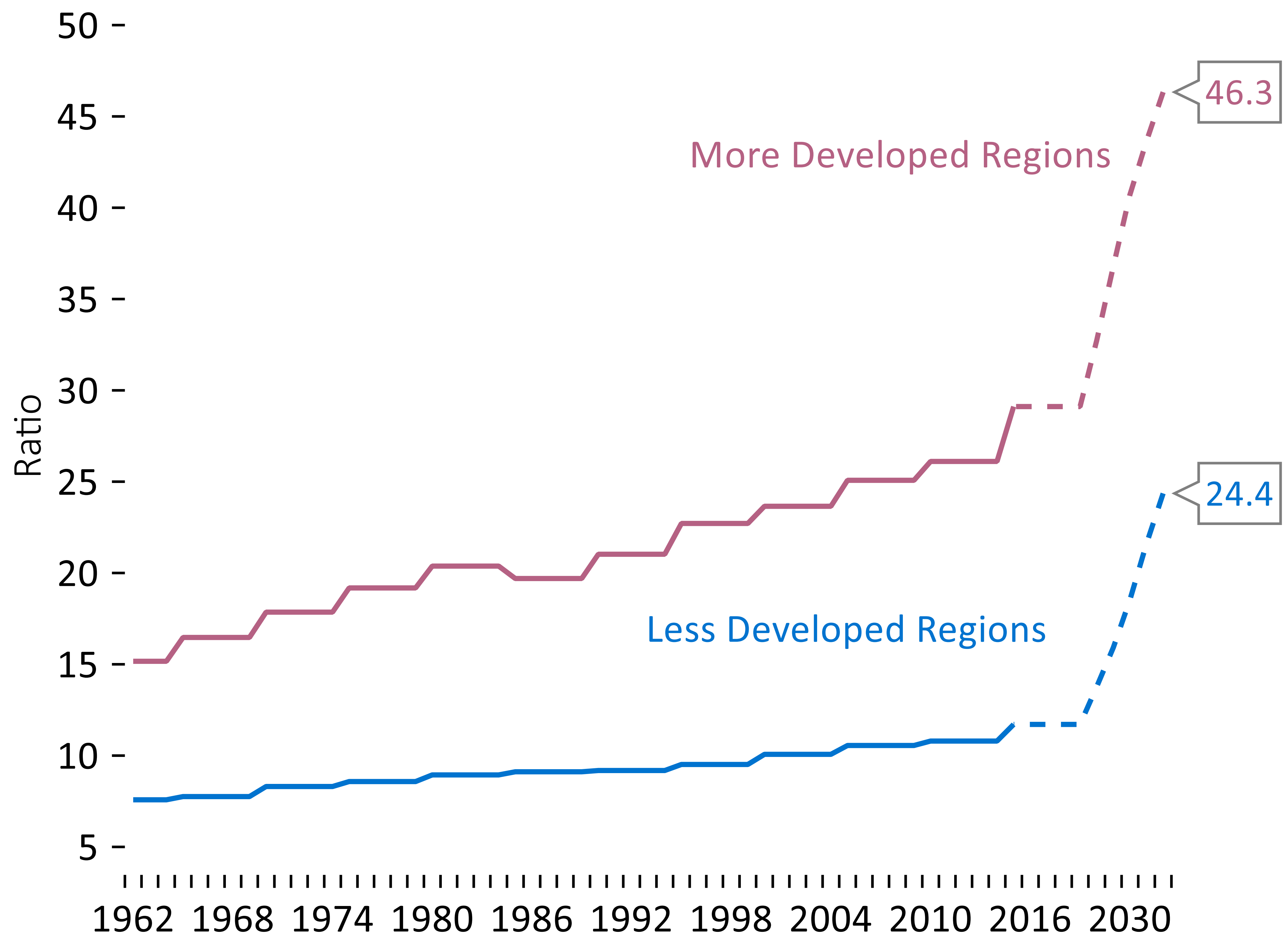
Global Defence Expenditures % of GDP



Source: Macrobond, 19.03.24

By 2024 Russia intends to spend $160 billion on military needs this figure may surpass 10 percent of GDP. NATO allies in Europe aim to spend U$380bn. 18 NATO allies expect to spend at least 2% of GDP on defence – a six fold increase since 2014
Wilson Centre September 2023/NATO Feb 2024

Old-Age Dependency Ratio (Ratio of Population Aged 65+ per 100 Population 20-64)

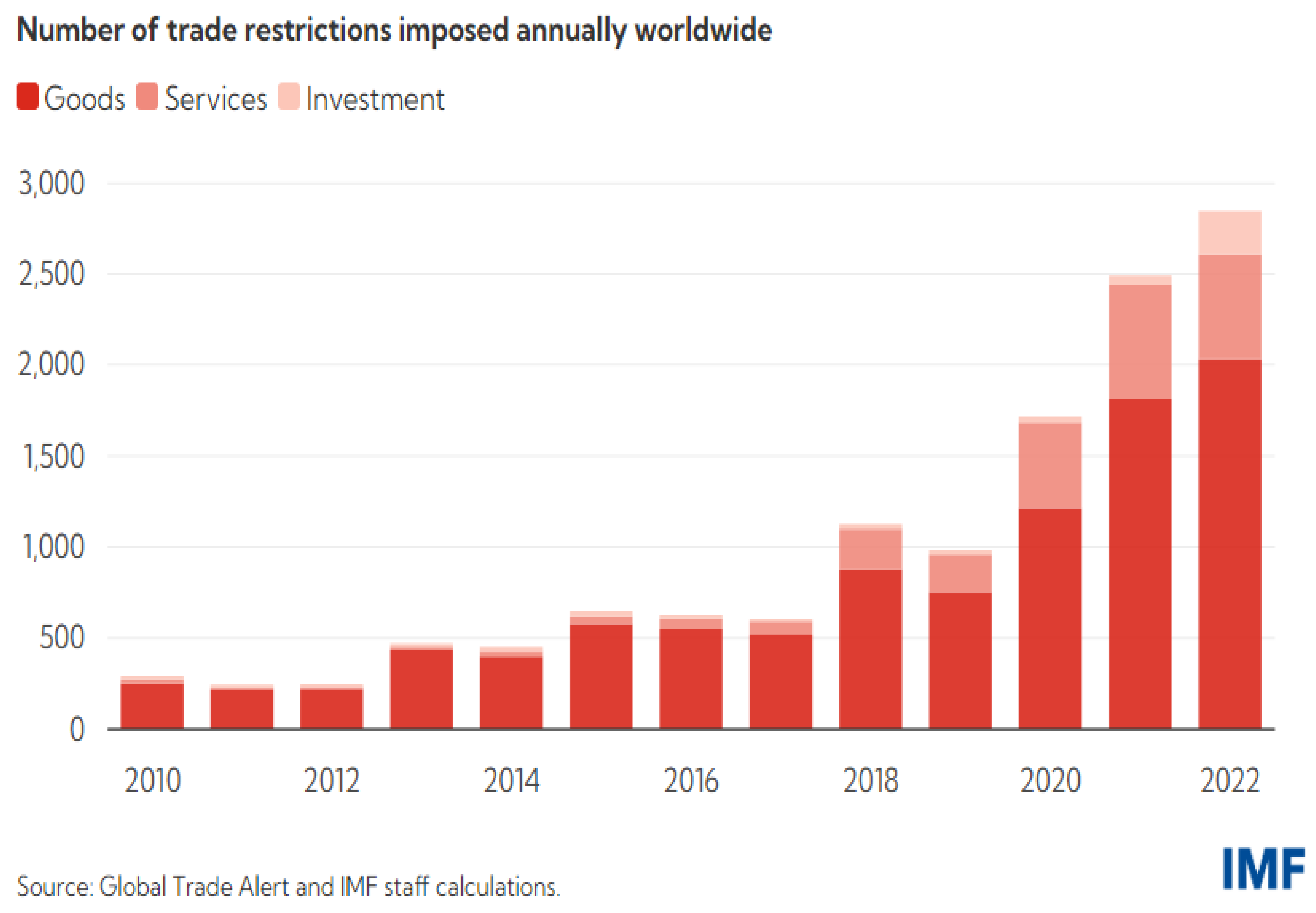


Source: Macrobond, 19.03.24

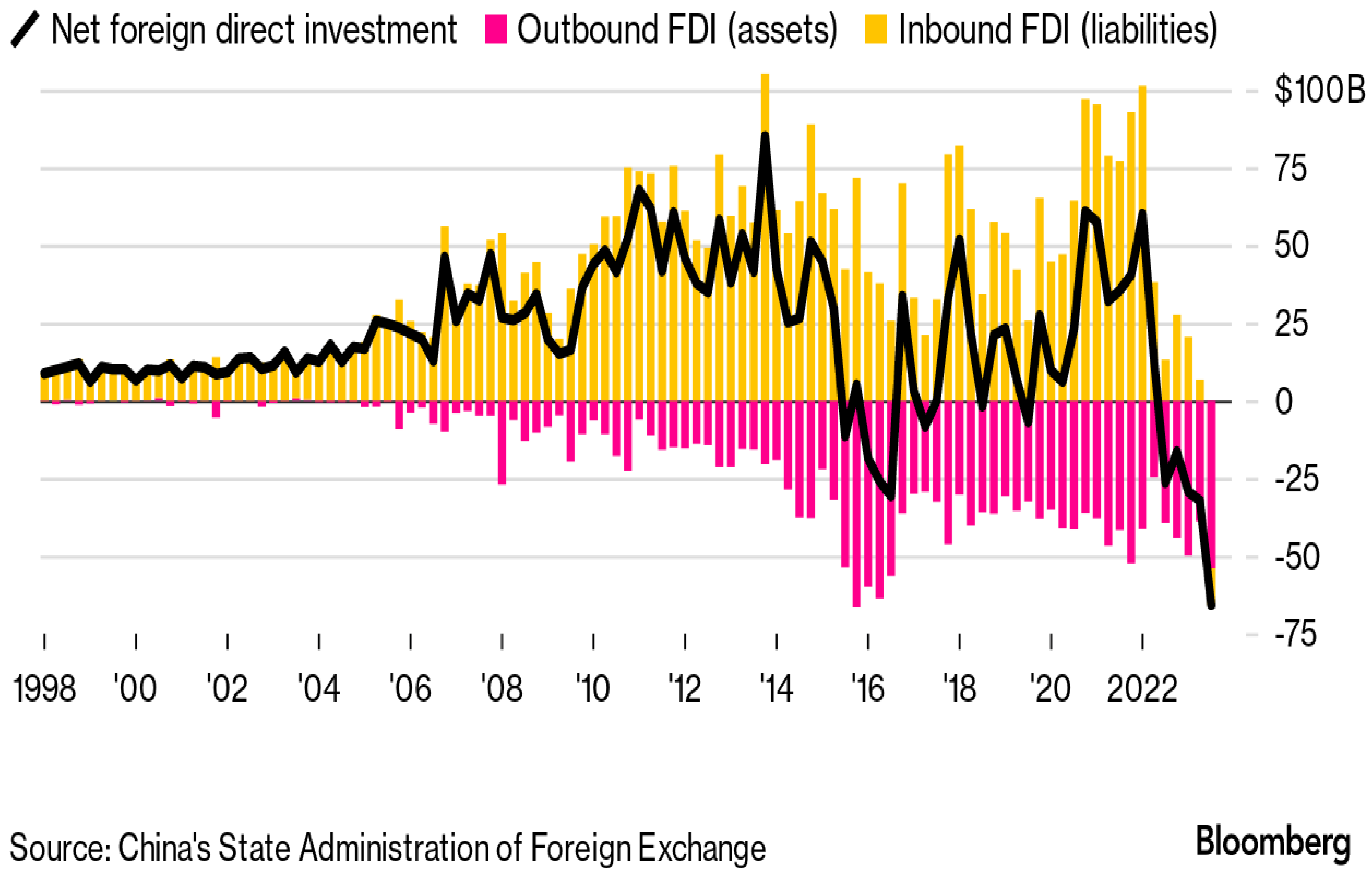
Risk 2: Trade – new barriers reversing decades-long globalisation

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

Walled off: Restrictions on trade have greatly increased in recent years



Staying Away: Investment into China turned negative for the first time since 1998



Source: IMF Jan 2023

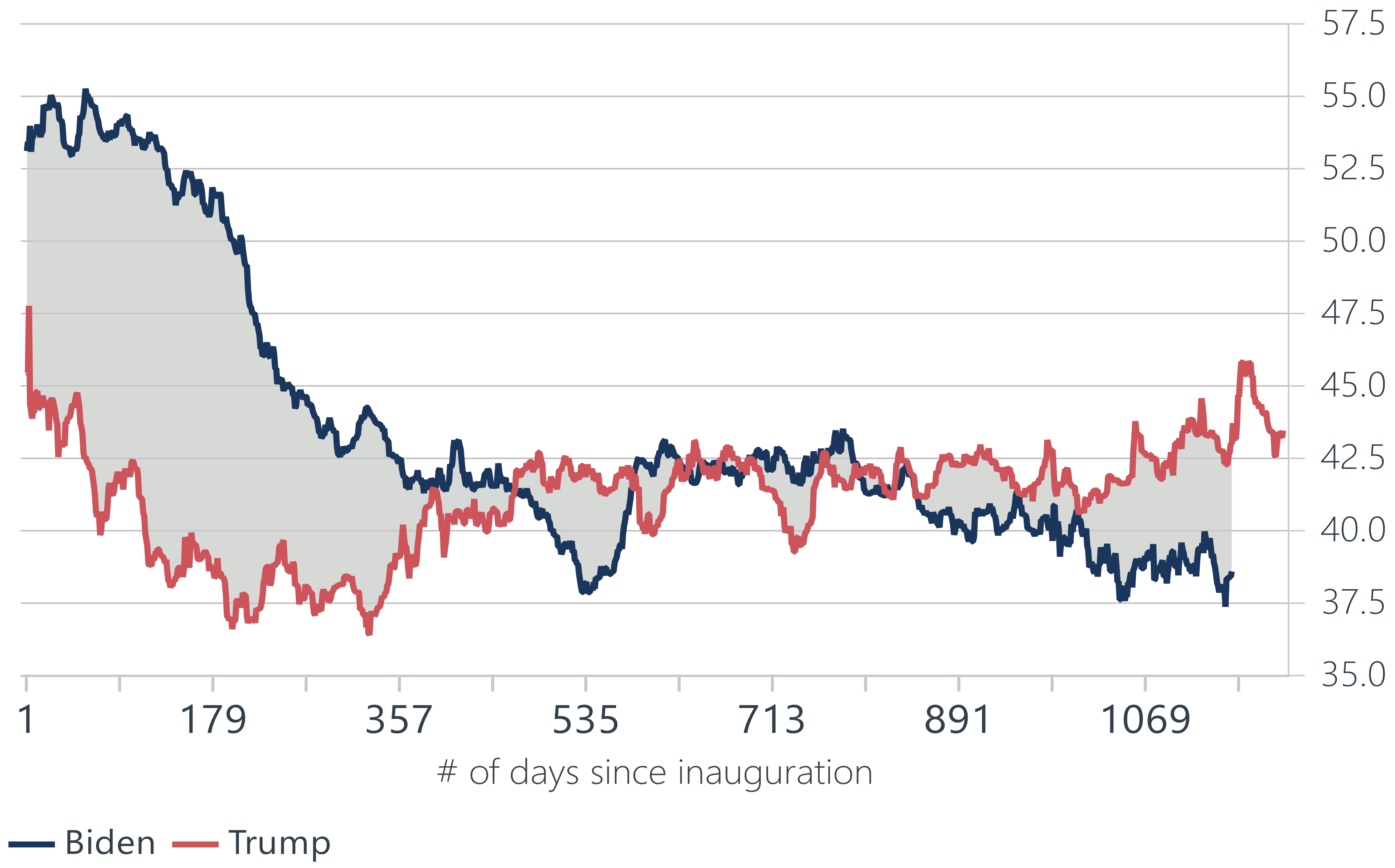
Source: Bloomberg Nov 2023

Risk 3: Geopolitics

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

Approval ratings since taking office: Biden vs. Trump

Source: FiveThirtyEight



When there is no recession in election year the incumbent president has generally won in the post-World War II period
Goldman Sachs/NBER Nov 2023

Key events 2024

1. **Hamas-Israel War** escalation in Red Sea and Lebanon but energy prices stable. Human suffering on both sides intense
2. **Ukraine** – stalemate with incremental Russian gains
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 *economic policy difference* between parties (Labour to retain current income tax, corporation tax and VAT rates)

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Summary

Policy summary

Global Strategy March 2024

Bonds	**Neutral** • **Underweight Govt:** Higher volatility to remain as government issuance rises • **Overweight Inv. Grade Credit:** Yields attractive, corporate balance sheets healthy, demand from pension funds high
Equities	**Overweight** • **Global Equity:** Earnings growth attractive, market leadership expected to widen, dividend strategies attractive • **Portfolio insurance** attractive as valuations rise
Alternatives	**Neutral** • **Neutral Correlated:** Higher interest rates mostly priced in – discounts attractive • **Underweight Uncorrelated:** Hedge funds and absolute return unlikely to outperform cash/bonds • **Overweight Gold** as hedge against a failure in the financial system
Cash (tactical)	**Double Underweight** • **Favour Sterling** on lower UK political risk and more hawkish BoE
Risks	1. **Liquidity risks** elevated as central bank balance sheets shrink & real rates turn positive 2. **Military conflict risk** as Pax Americana ends 3. **Risk of natural disasters** as climate change accelerates

Source: Sarasin & Partners, March 2024

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