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Six minute strategy

Known unknowns

July 2022

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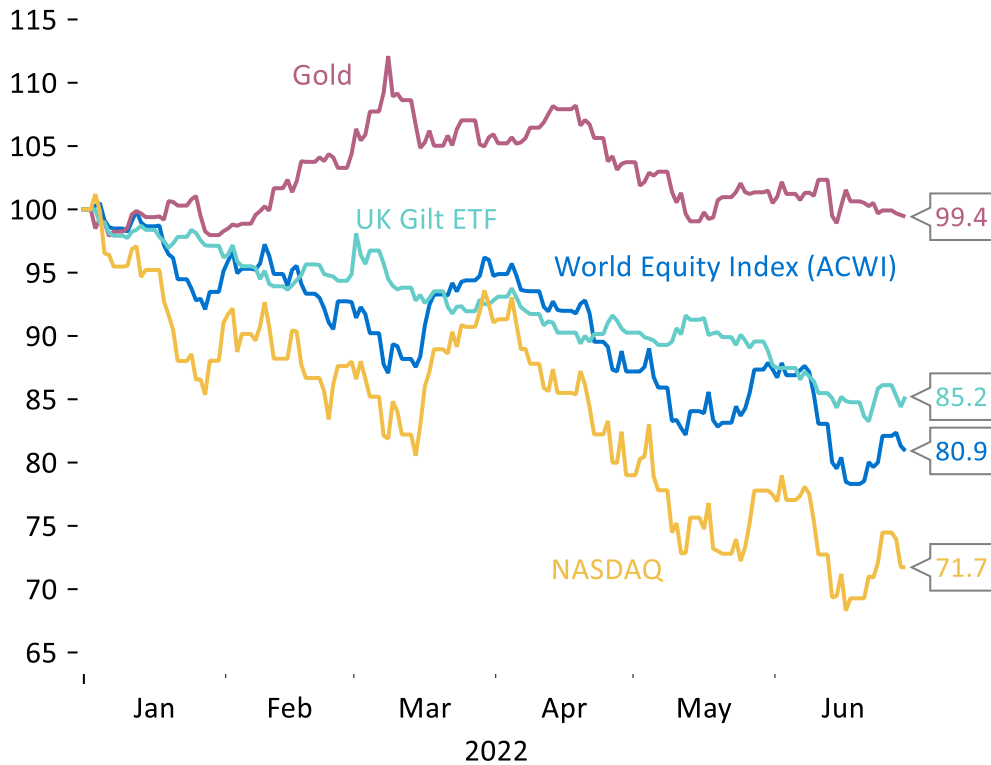


Global asset markets continue their synchronised downturn



The sell-everything market

Global Asset Performance 2022 to date

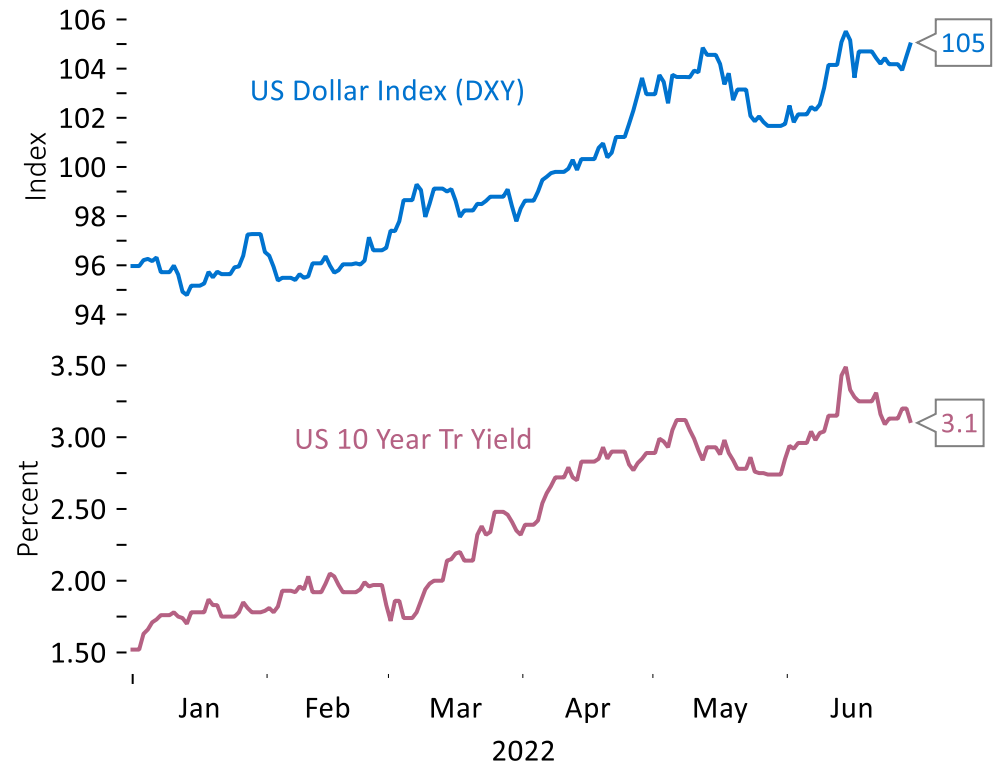


Source: Macrobond, 30.06.22



The Dollar & US treasury yields start to consolidate

US Dollar index & Treasury yields



Source: Macrobond, 30.06.22

1. War in Ukraine has exacerbated inflationary pressures and is impacting global consumer confidence ...

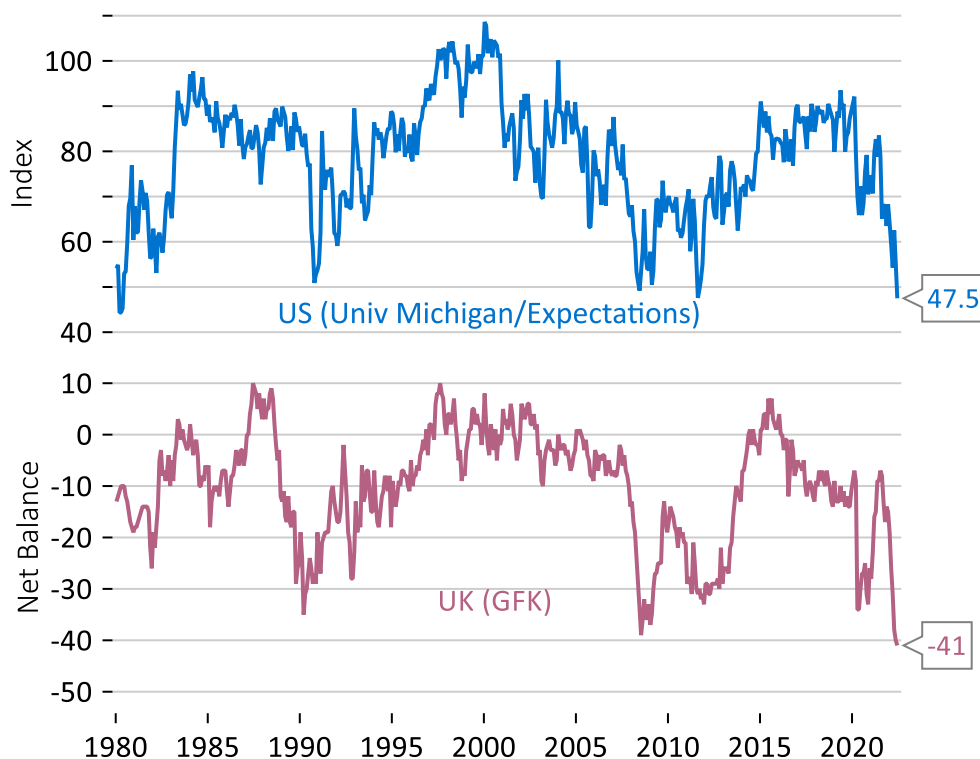


Consumer confidence declines to near 40 year lows



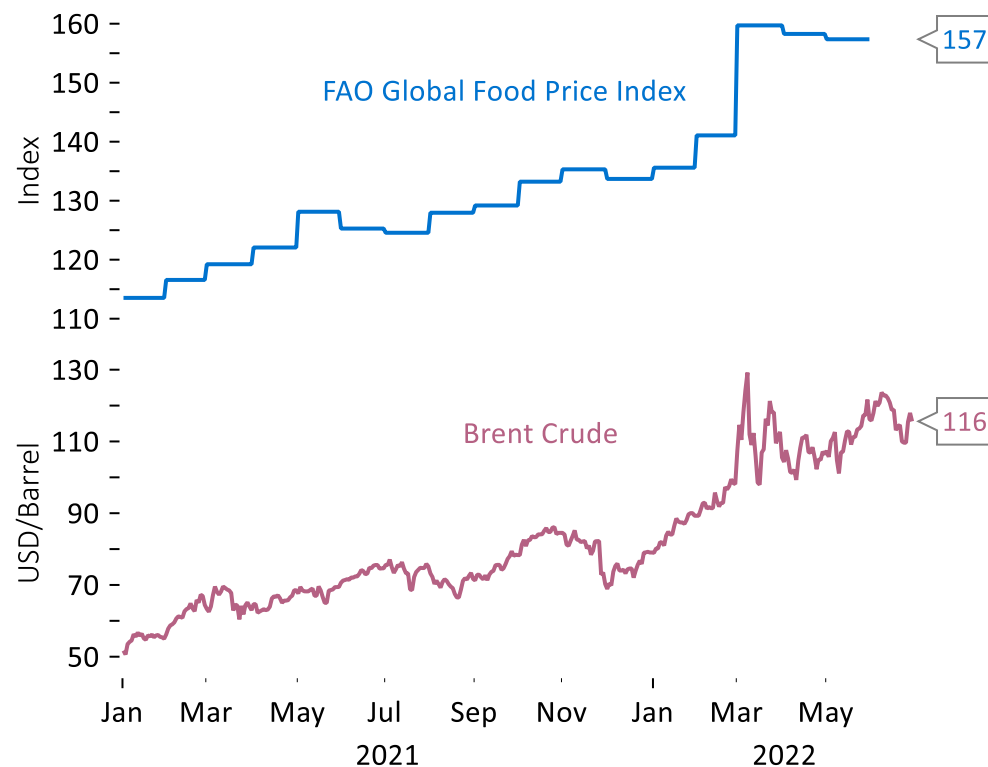
Bond yields declined sharply last week – inversion close in US

US and UK Consumer Confidence



Source: Macrobond, 30.06.22

Global Food & Energy Prices



Source: Macrobond, 30.06.22

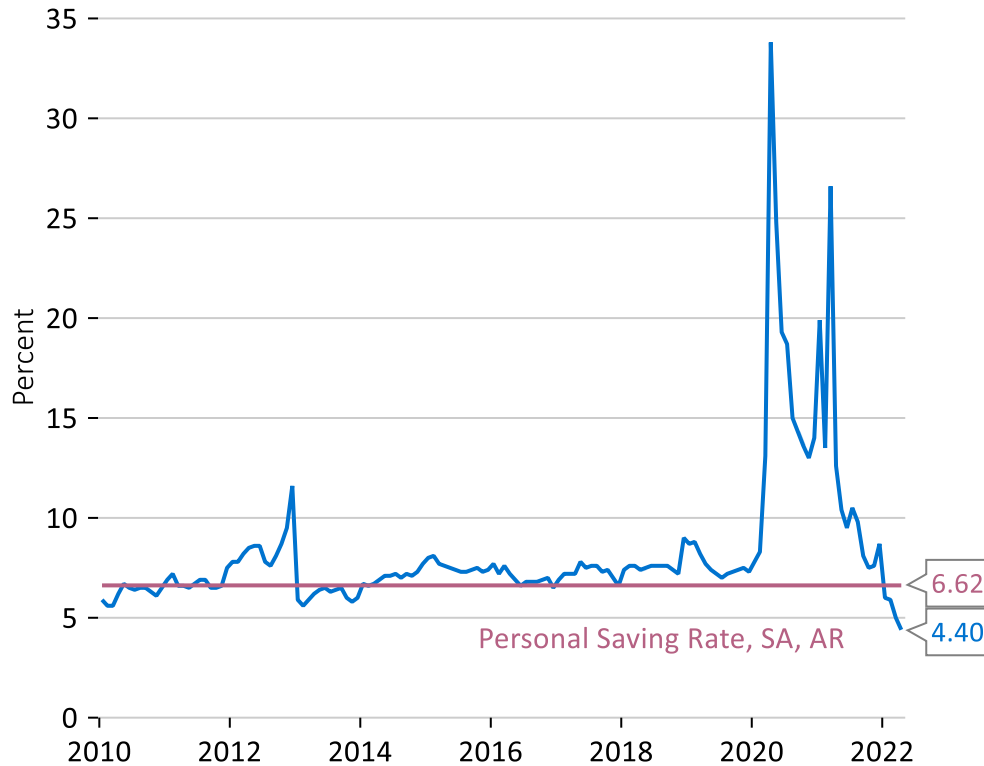
Households accumulated savings provide a sizeable cushion

Roughly 3 trillion in excess savings



Surplus savings from the Pandemic still large

US Personal savings rate

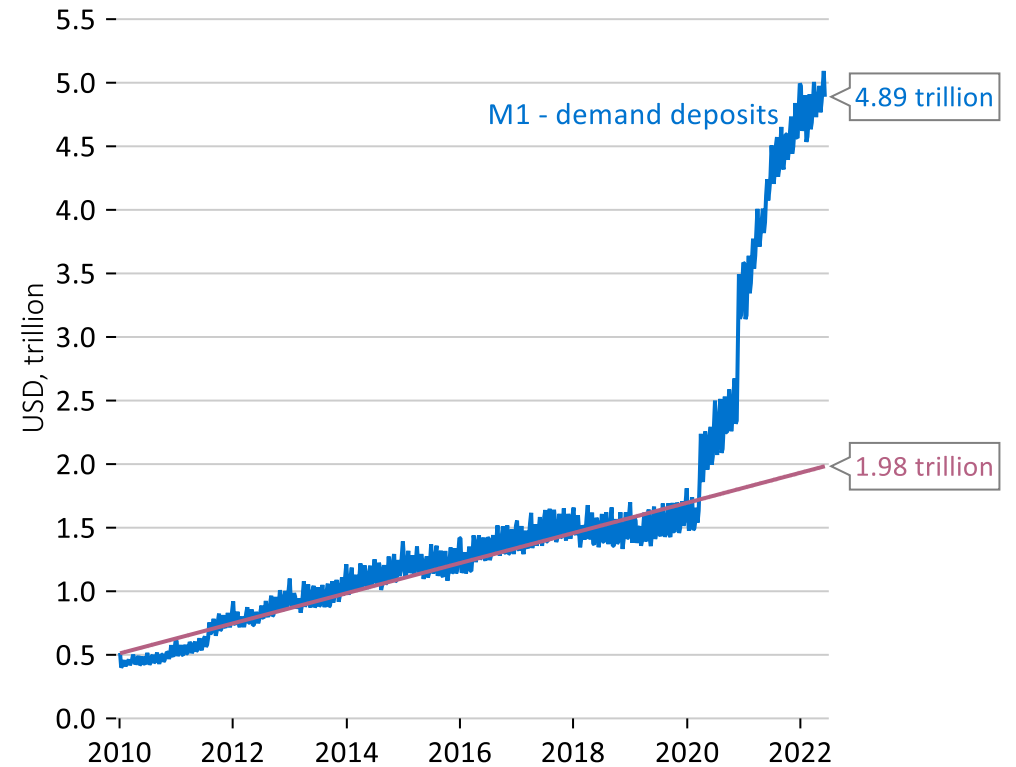


Source: Macrobond, 30.06.22



Cash balances exceptionally high

M1 - demand deposits



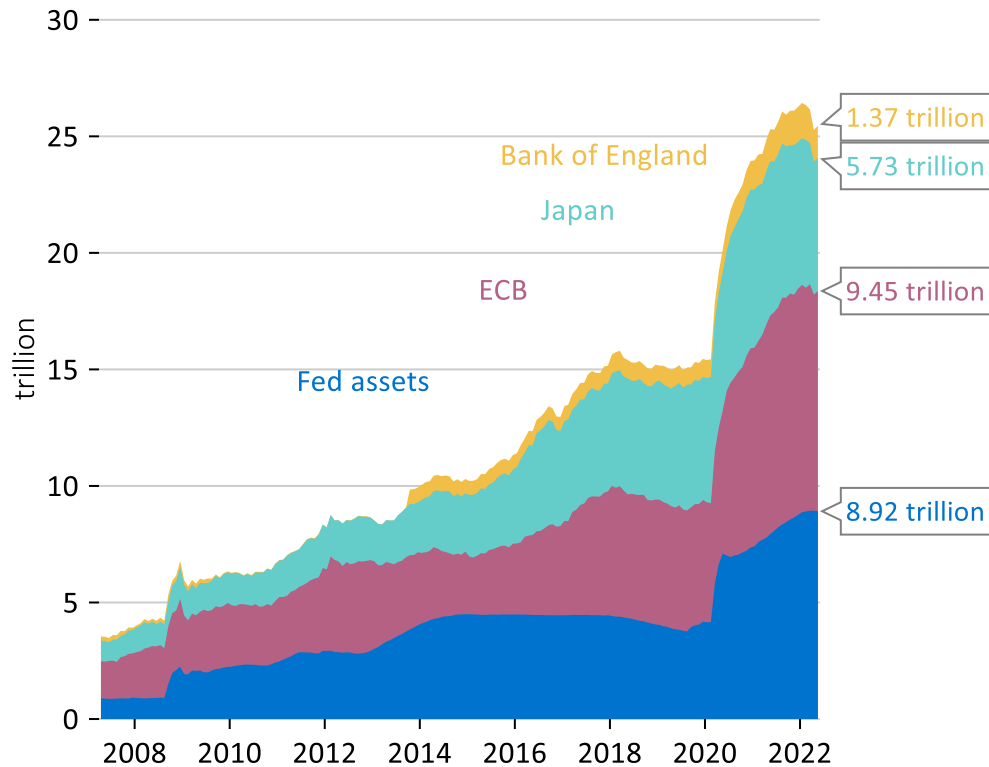
Source: Macrobond, 30.06.22

2. The impact of synchronised reductions in central bank assets ('QT') is hard to model with little historic precedent



Central bank asset purchases (converted to USD)

Central bank balance sheet (USD, monthly)

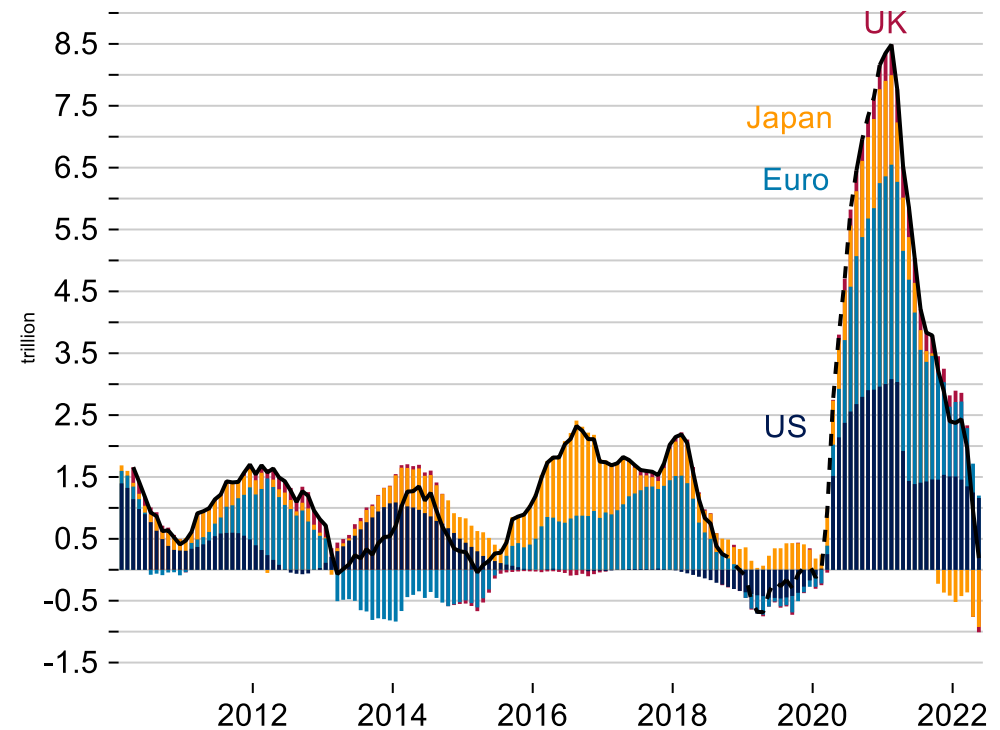


Source: Macrobond



Central bank assets – annual change

12 month change in Central Bank Assets
USD trillion



Source: Macrobond

Source: UBS Global Fiscal Tracker

3. US housing activity is already starting to correct in the face of record prices and rising mortgage rates

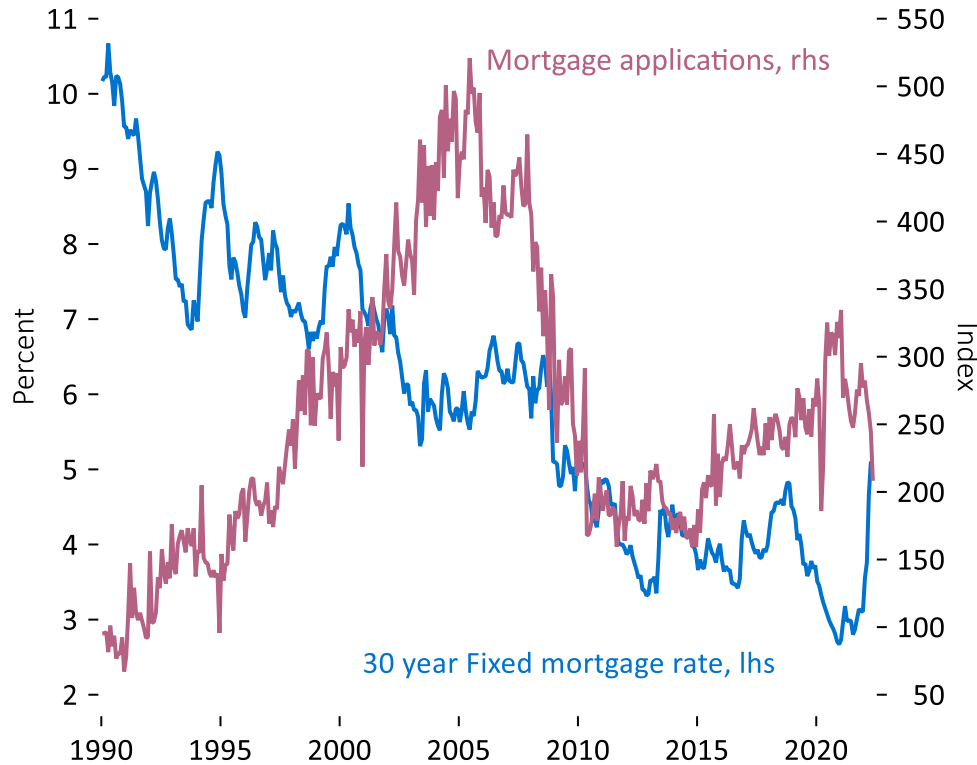


Mortgage applications slowing as rates rise



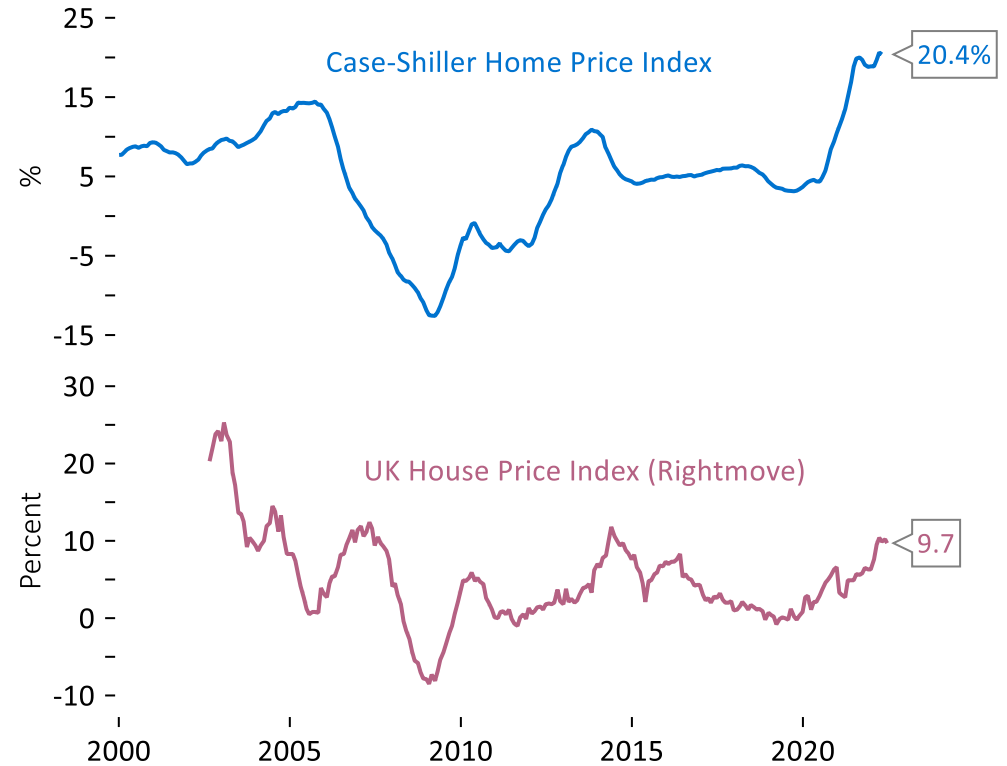
US annual house price growth at record levels

Mortgage rates vs mortgage applications



Source: Macrobond, 30.06.22

US and UK House Price Indices



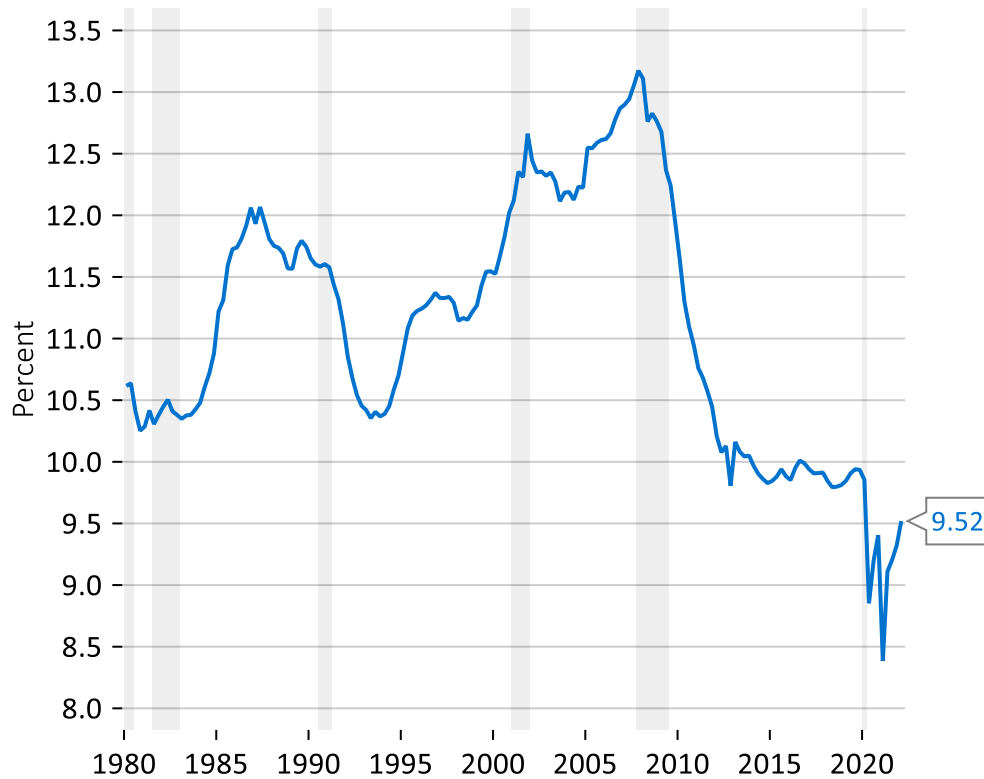
Source: Macrobond, 30.06.22

But unlike previous cycles debt service is not that high and household net worth is at record levels...



Debt service levels remain near record lows

US - Household debt service (% of income)

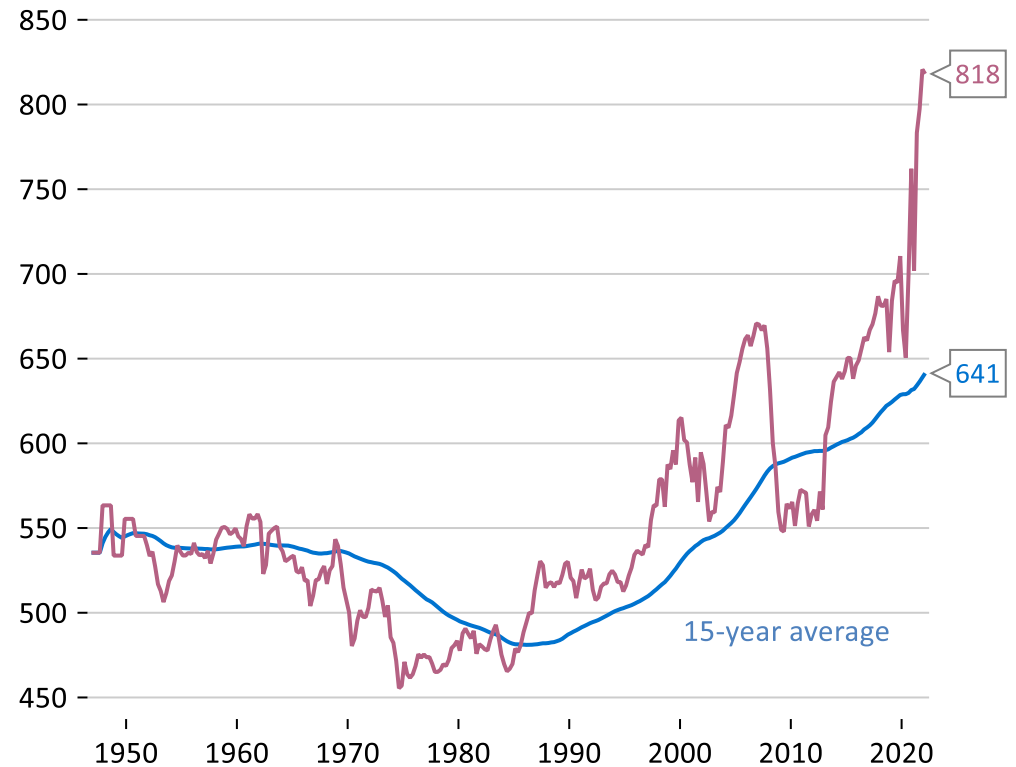


Source: Macrobond, 30.06.22



Household net worth extraordinarily high

US household - Net Worth (% of disposable personal income)



Source: Macrobond, 30.06.22

Policy tightrope – inflation & recession risks still climbing

Caution on both equity and bond markets



Global strategy update – July 2022

Bonds	<p>Underweight</p> <ul style="list-style-type: none"> • UW Government Bonds – global inflationary pressures remain elevated – QT may cause yields rise above expectations • UW Investment Grade Credit – recession risks rising – Single A yields becoming attractive
Equities	<p>Underweight Global, UK and EM</p> <ul style="list-style-type: none"> • Accelerated tightening of money policy risks further compression of equity valuations • Global growth to slow materially - risk to earnings rising • EM inflation and China growth risks remain substantial • Robust corporate balance sheets offer support to defensive & dividend strategies
Alternatives	<p>Strong Overweight</p> <ul style="list-style-type: none"> • OW Other Alternatives– private equity; infrastructure and renewables with inflation linked returns • Strong OW Uncorrelated Alternatives; reduction in gold holdings as global interest rates climb
Cash (tactical)	<p>Strong Overweight</p> <ul style="list-style-type: none"> • No currency preference; considering allocation to CHF to hedge against crash risk • <i>Consider opportunistic portfolio insurance</i>
Risks	<p>Current: Global inflation becomes entrenched triggering a dramatic tightening in financial conditions Longer-term: China/Taiwan tension, climate transition risks, tighter technology regulation Ukraine: Russia ceases European gas exports, NATO dragged into border war, further nuclear warnings</p>

Source: Sarasin & Partners, July 2022

Important information

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