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SARASIN & PARTNERS

ECONOMIC AND FUND REVIEW

Markets breathed a sigh of relief in November, as positive results from three vaccine trials, pointed towards economies reopening. This overshadowed the worsening picture of rising daily new cases, with much of Europe and the US tightening restrictions. Joe Biden's victory over Donald Trump in the US election was also well received. But with republicans likely to maintain control of the senate, Biden's powers to raise taxes will be limited, as will the potential for a large fiscal stimulus package. Against this backdrop world equity markets reached new highs, with the sectors hardest hit by coronavirus, rebounding strongly. Oil was also up markedly on the reassessment of growth rates, while safe haven assets such bonds and gold retreated.

Sarasin Responsible Global Equity GBP Hedged fund was the key driver of performance this month, underpinned by a strong recovery in consumer discretionary (think retail and leisure) and financial companies. These sectors were boosted by the prospect of economies reopening and normal activities resuming. Aside from the vaccine news, Zebra Technologies (whose products and technology allow the digital tracking of goods and inventory) also contributed to performance - reporting positive third quarter results, underpinned by continued demand for automating workflows. By contrast, the more defensive companies in SRGE and those boosted by lockdowns, weighed on performance. This meant Home Depot and Amazon were towards the bottom of the leader board, along with digital infrastructure specialist Equinix.

Vontobel's Sustainable Emerging Markets Leaders fund also performed well this month. Emerging Markets have suffered disproportionately from the pandemic and many investors pulled back from these regions at the start of the crisis. The prospect of a readily available vaccine, saw record investment back into EM economies.

Sarasin Responsible Corporate Bond performed well in the month, outperforming its benchmark, thanks to a higher exposure to banks and insurers.

While the vaccine news and passage of the US election boosted risker assets, it dented the performance of safe assets such as government bonds. This saw Vanguard UK Government Bond detract from performance in November.

OUTLOOK

While the news of effective coronavirus vaccines is positive, the time it will take to deploy the vaccines and for economies and societies to reopen, should not be underestimated. And with many countries still grappling with rising cases and returning to lockdowns, economic conditions will not return to how they were before for some time. In the immediate term, international trade flows and supply chains have been permanently disrupted in places; balance sheets will be damaged, requiring gradual repair or rights issues; dividends will be under threat and share buybacks reduced.

In the longer term, technology disruption will accelerate; consumer attitudes will be very cautious; collectively, governments will be less able to stimulate recovery than after the financial crisis; weaker economic growth will leave some companies struggling to grow sales and profits; investors will be more aware, and cautious, of social and environmental 'negative externalities' and poor corporate governance; affected shares will trade on lower valuations. For all these reasons, it is a time to remain vigilant and not to be complacent. Our focus will remain on investments that can generate secure and growing cashflows over the long term.

In the immediate term, any positive economic momentum and supportive fiscal spending will provide an impulse to corporate earnings. Monetary spending (e.g. QE) and interest rates at the zero bound will allow refinancing opportunities for companies to invest at more affordable levels. In addition, there are numerous opportunities driven by the shift to a more digital world, in new automation, climate change mitigation and adaptation, demographic trends and by shifts in consumption patterns in both the emerging and the developed markets. These themes can surpass the broad measures of GDP growth and the challenges triggered by the coronavirus.

IMPORTANT INFORMATION

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