



J. SAFRA SARASIN
— SUSTAINABLE ASSET MANAGEMENT —



Economic Outlook and Investment Strategy: The Great Reopening

April 2021

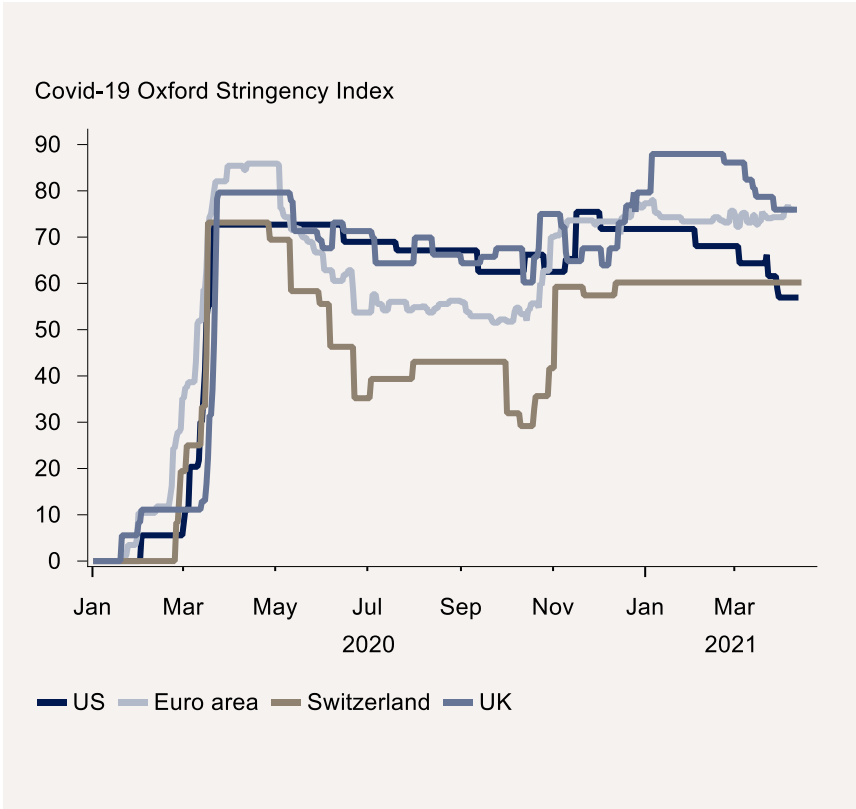
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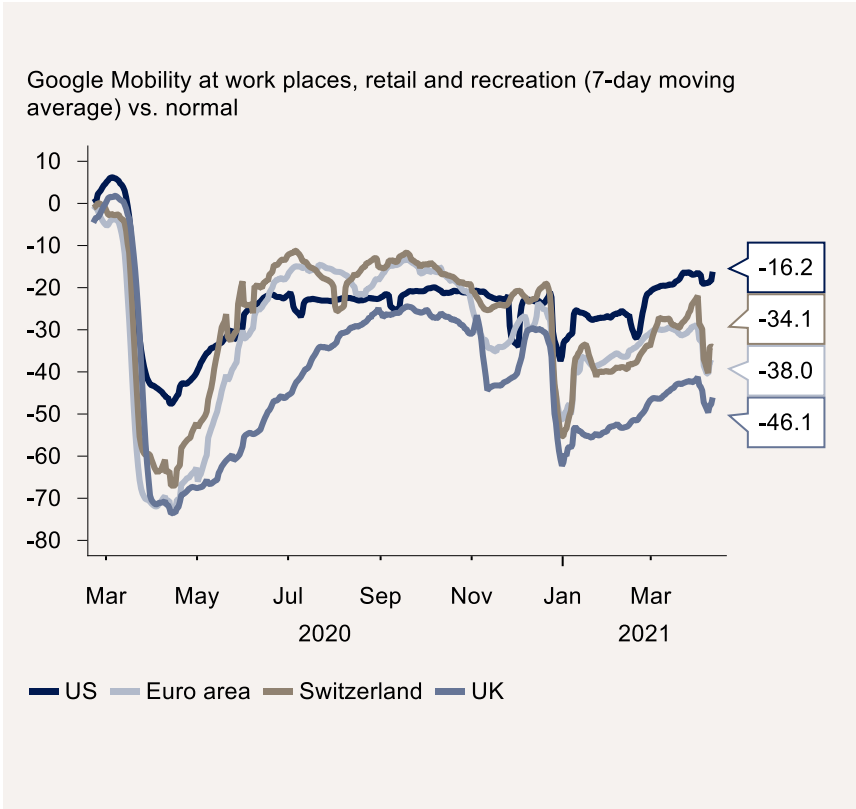
European restrictions to be lifted only gradually

COVID-19

Economic restrictions still at elevated levels



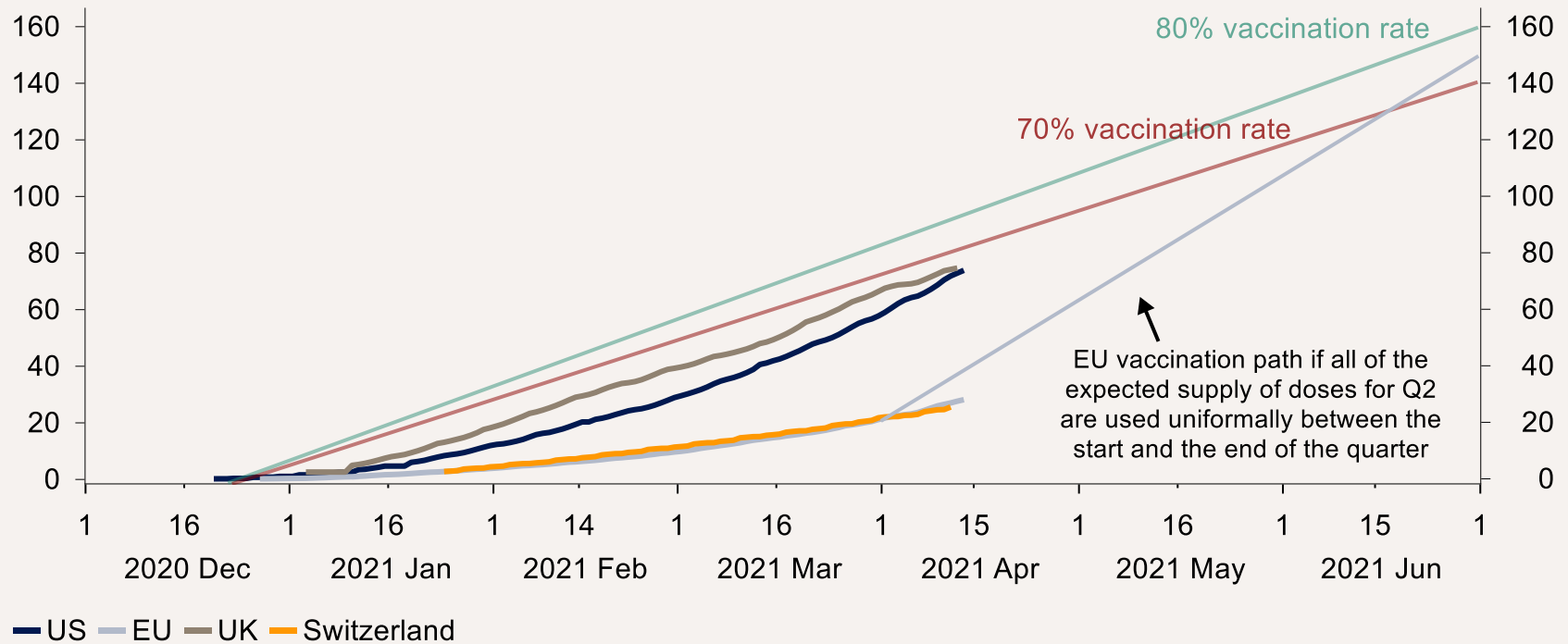
Mobility to move up as restrictions are lifted



Source: Macrobond, Bank J. Safra Sarasin, 13.04.2021

The EU is set to accelerate its vaccination campaign

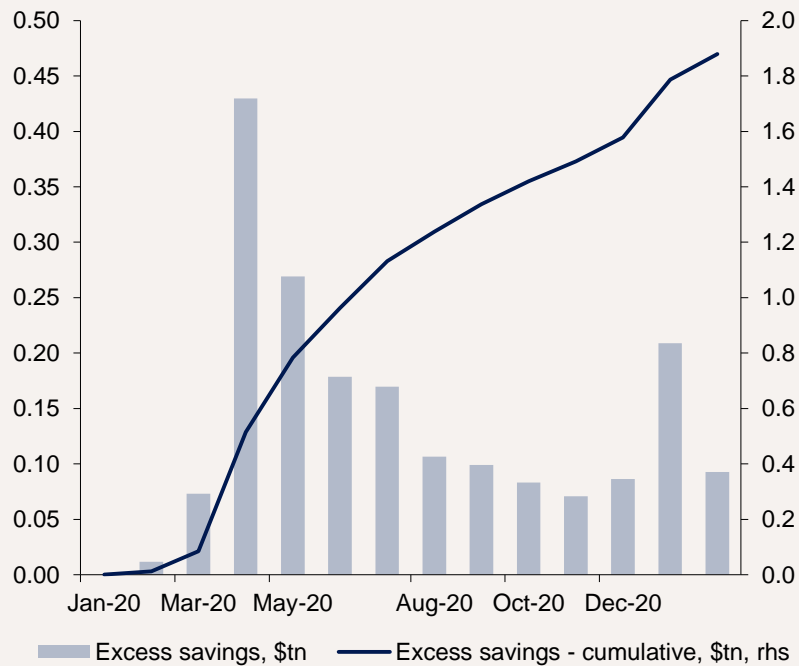
COVID-19 Vaccination Doses Administered per 100 Adults (18+)



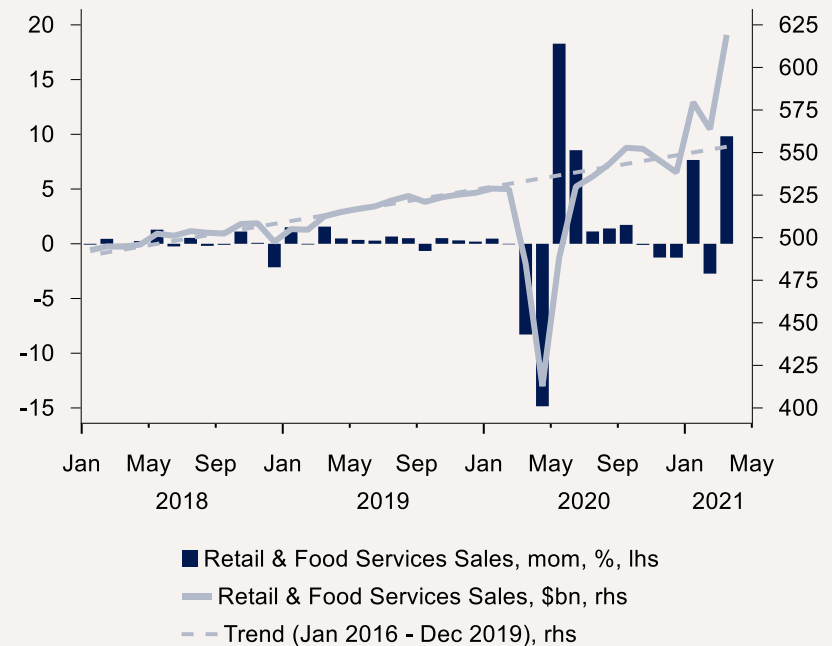
A huge boost to US income and savings

Global Macro

Lots of dry powder

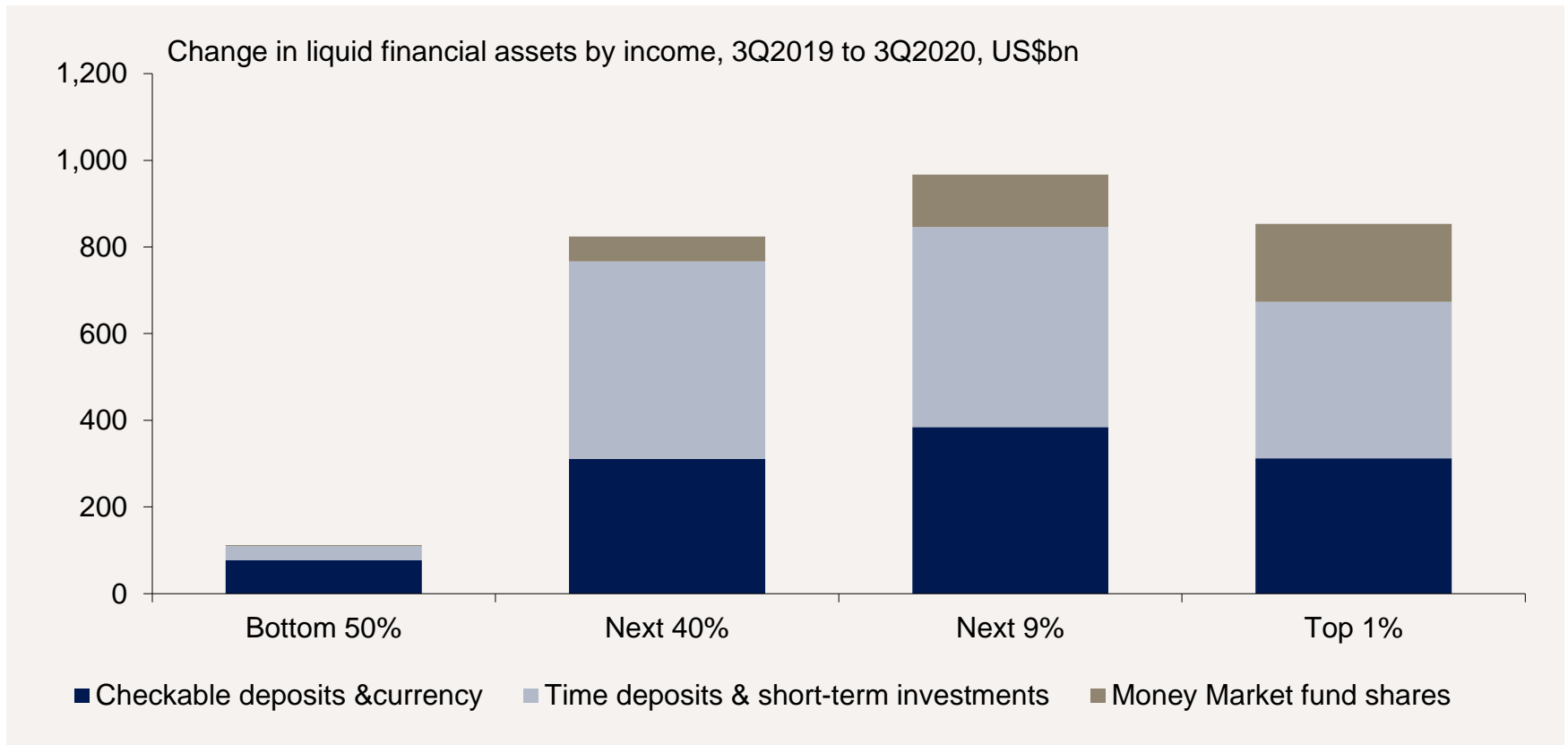


Money is being spent



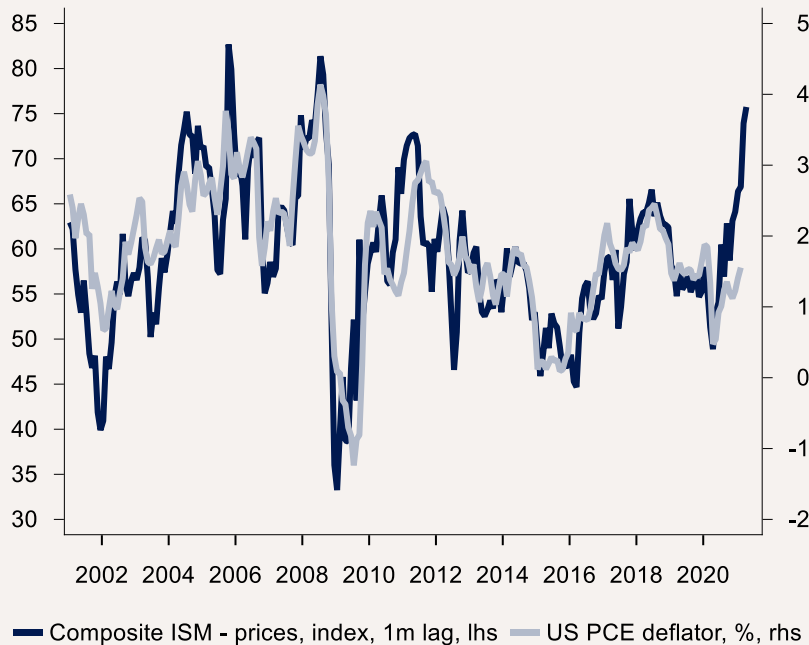
But an unequal distributions of gains

Richer households are less likely to spend any increase in income

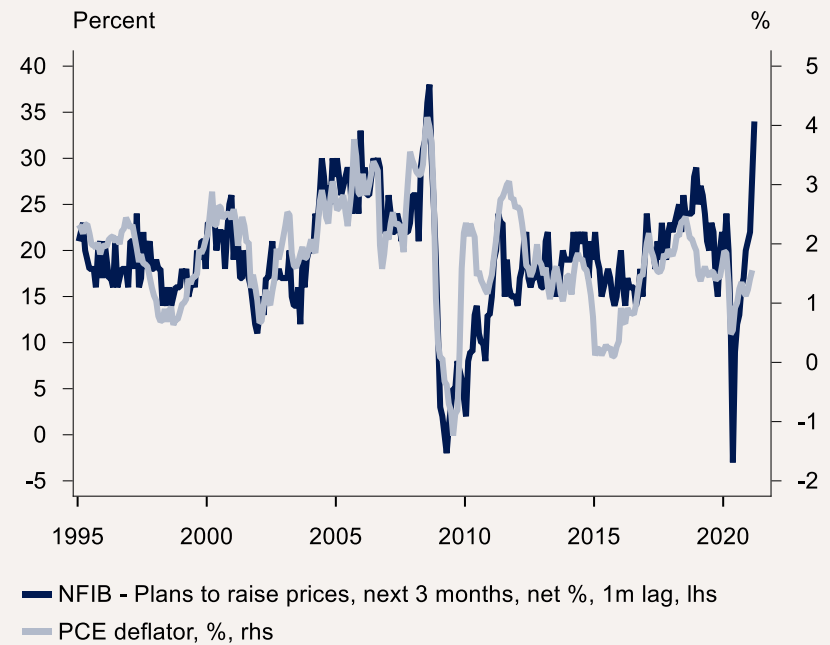


Reopening will lead to a jump in US inflation

Producer costs are rising fast ...

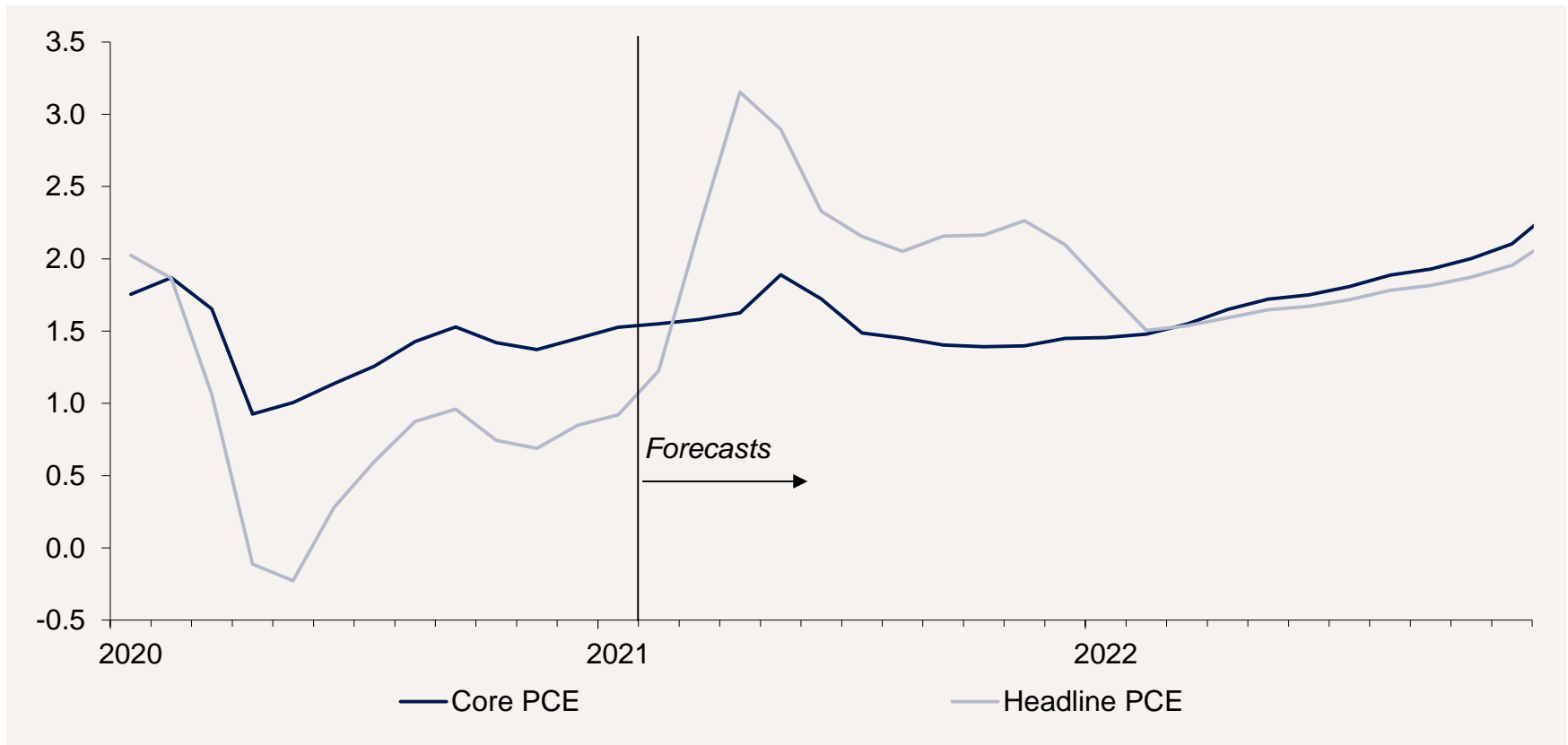


...and firms are planning to pass them on



Underlying inflation to trend higher in 2022

Base effects to dominate 2021, stronger wage growth to boost core inflation in 2022



Source: Macrobond, Bank J. Safra Sarasin, 13.04.2021. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results.

Views



Very strong growth throughout the year fuelled by \$2.8tn of fiscal injection. Inflation to peak at around 3.5% in Q2



Slow vaccination so far to force governments to ease restrictions only very gradually. Growth to accelerate again towards late Q2



Light-touch restrictions should enable the Swiss economy to recover lost output faster than the rest of Europe



A fast vaccination campaign should allow for a more rapid easing of restrictions than in the EU.



The Japanese economy to benefit from the global recovery and large fiscal support

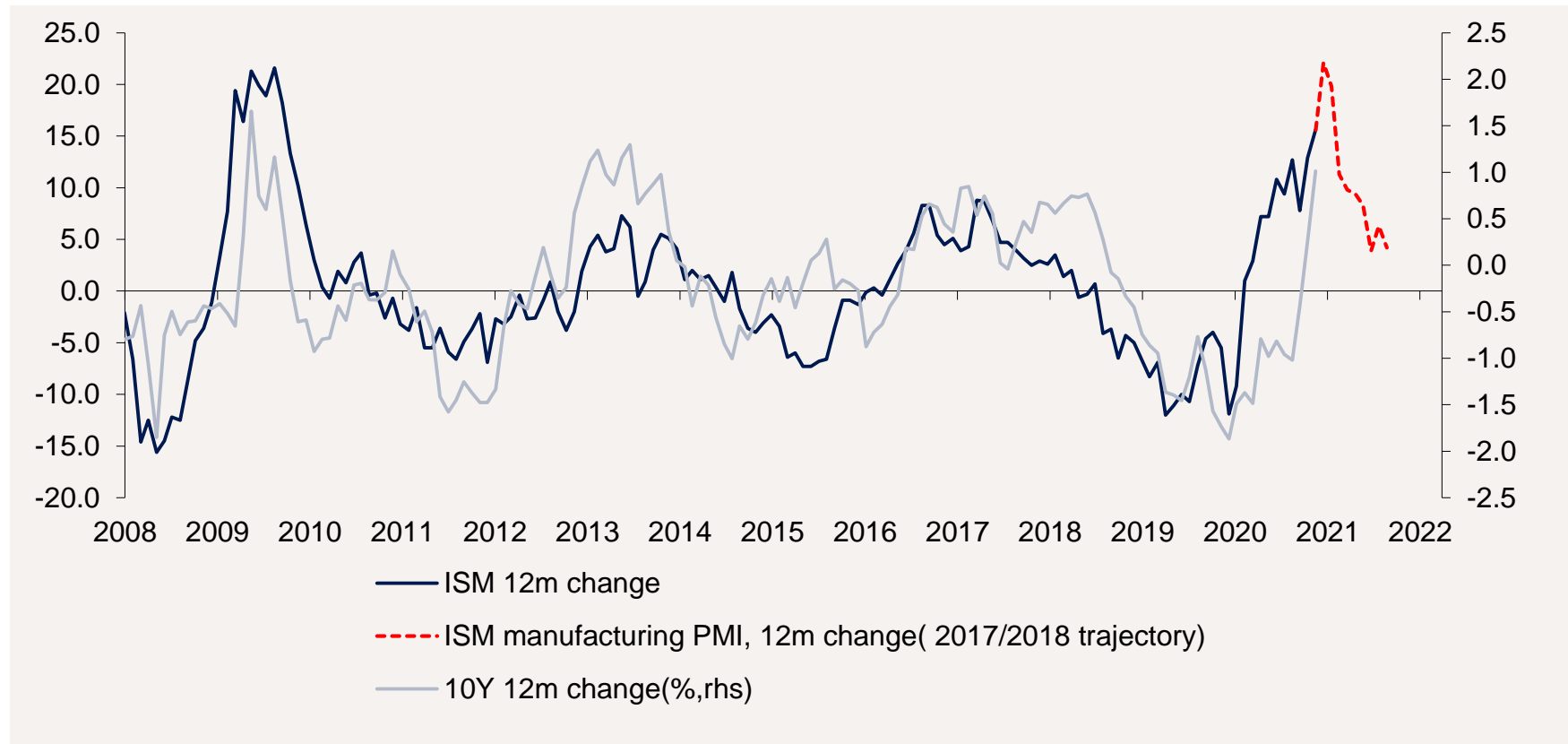
BJSS forecasts

- No changes to our GDP growth forecasts this month. But the American Jobs Plan & American Families Plan pose upside risks to our 2022 US growth forecasts.
- We have slightly increased our 2021 inflation forecasts for the euro area & Switzerland

		2020	2021	2022
US	GDP	-3.5	6.9	3.7
	CPI	1.3	2.6	2.2
Euro area	GDP	-6.6	4.0	3.8
	CPI	0.3	1.6	1.2
Switzerland	GDP	-2.8	3.0	2.9
	CPI	-0.7	0.2	0.7
UK	GDP	-9.9	4.8	6.1
	CPI	0.9	1.7	1.8
Japan	GDP	-4.9	3.8	1.4
	CPI	0.0	0.2	0.8
China	GDP	2.3	8.2	5.4
	CPI	2.5	2.1	2.5

Upward momentum in 10y US yields likely to fade over coming months

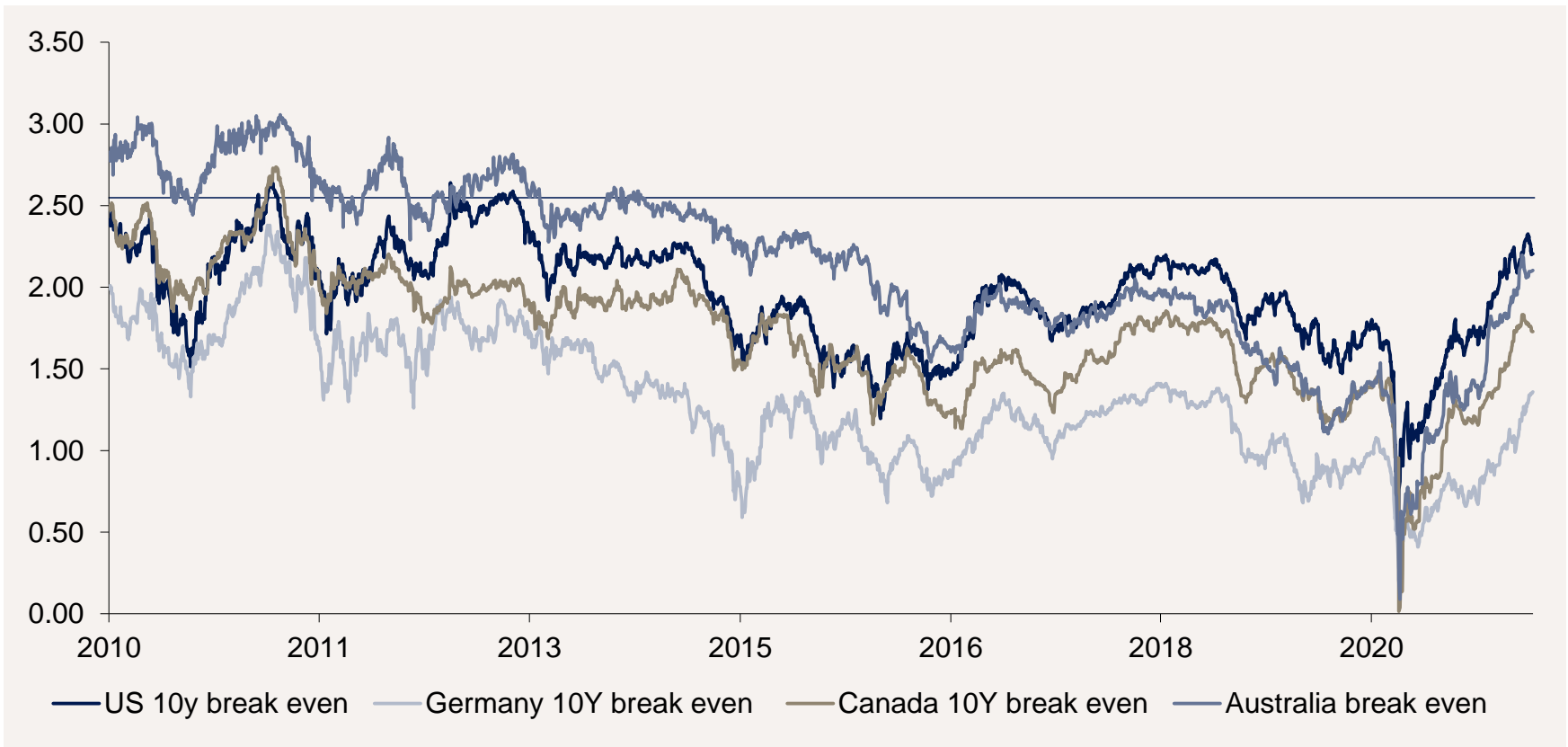
ISM YoY momentum will hit a peak in May and moderate in the second half of 2020



Source: Bloomberg, Bank J. Safra Sarasin, 13.04.2021. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results.

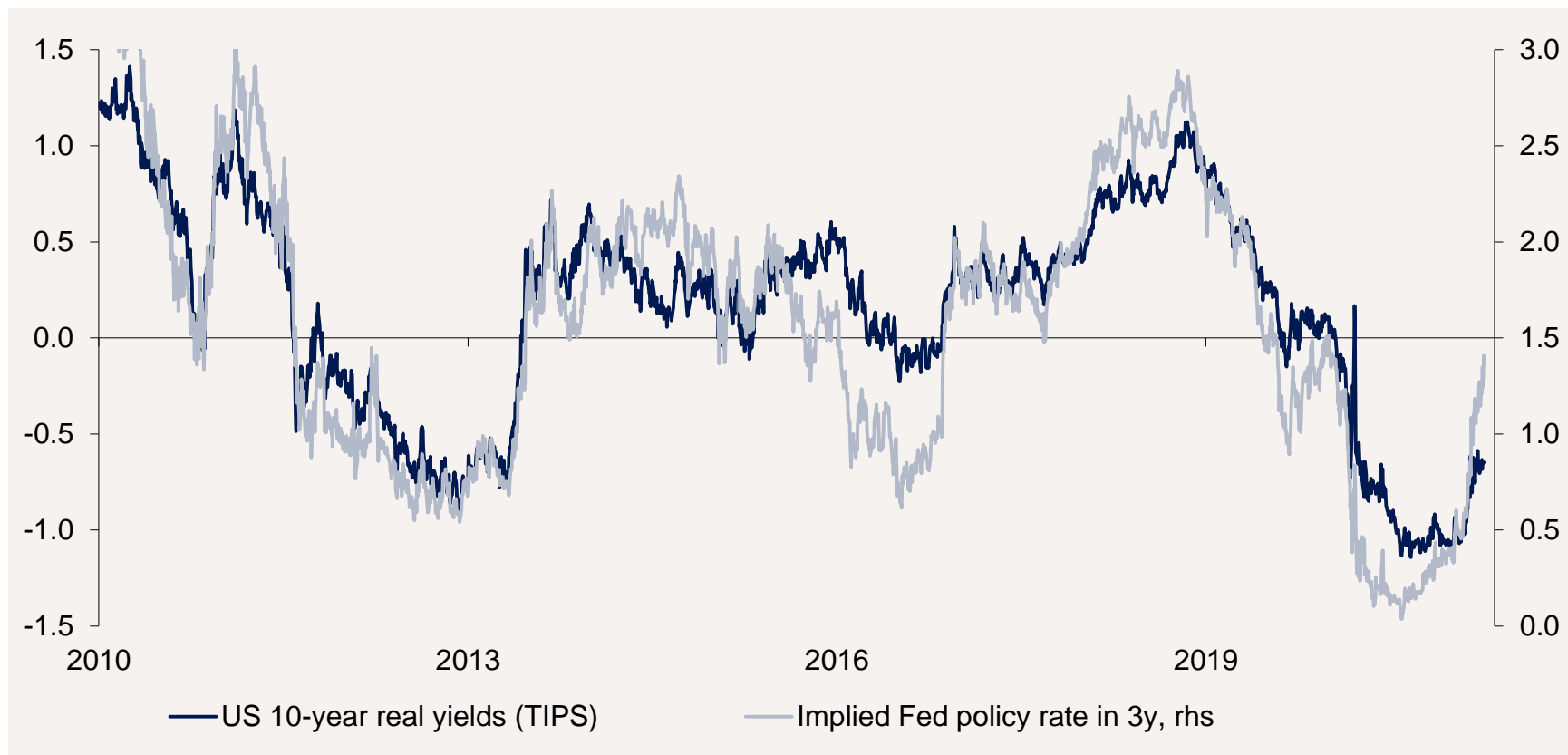
US inflation expectations have come a long way

US Inflation expectations are approaching the upper bound registered in the past 10 years



US implied policy rates suggest some upward pressure on real rates

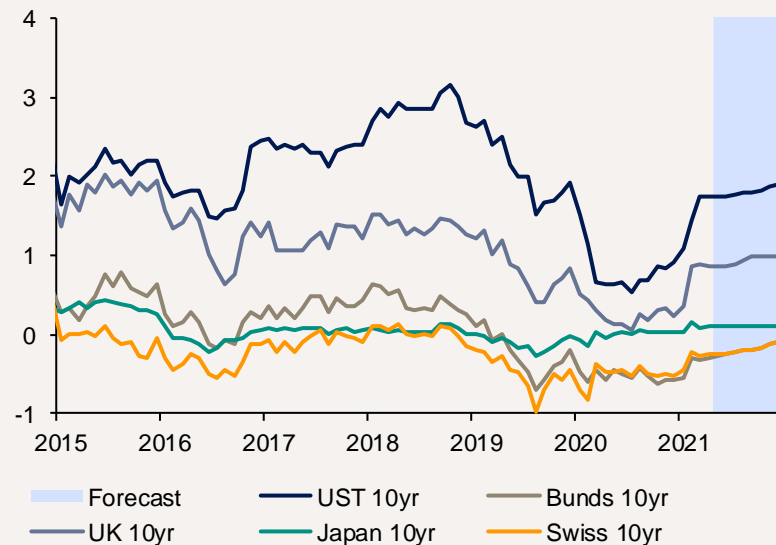
US real yields continue to hover at very low levels



Views

- Expectations for a slow removal of monetary accommodation in 2022 or 2023 will start to put upward pressure on real yields over the next 6- to 12 months. As the recovery of the global economy gains traction in 2021, inflation expectations should continue to rise from current levels.
- Yield curves are likely to steepen further, mostly in non-Euro area developed markets, but they will remain flatter than in previous cycles. We expect moderately higher bond yields over the next 6- to 12 months.
- Prefer High Yield (HY) to Investment Grade (IG) as it is less exposed to duration risk and will benefit more from an accelerating global economy in 2021.

BJSS forecasts



	13-Apr-21	Jun-21	Sep-21	Dec-21
USA	1.62	1.75	1.80	1.90
Germany	-0.33	-0.25	-0.20	-0.10
Switzerland	-0.27	-0.25	-0.20	-0.10
UK	0.81	0.85	1.00	1.00
Japan	0.09	0.10	0.10	0.10

Source: Refinitiv, Bank J. Safra Sarasin, 13.04.2021. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results.

Equity Strategy: Sector preferences

Global Equities

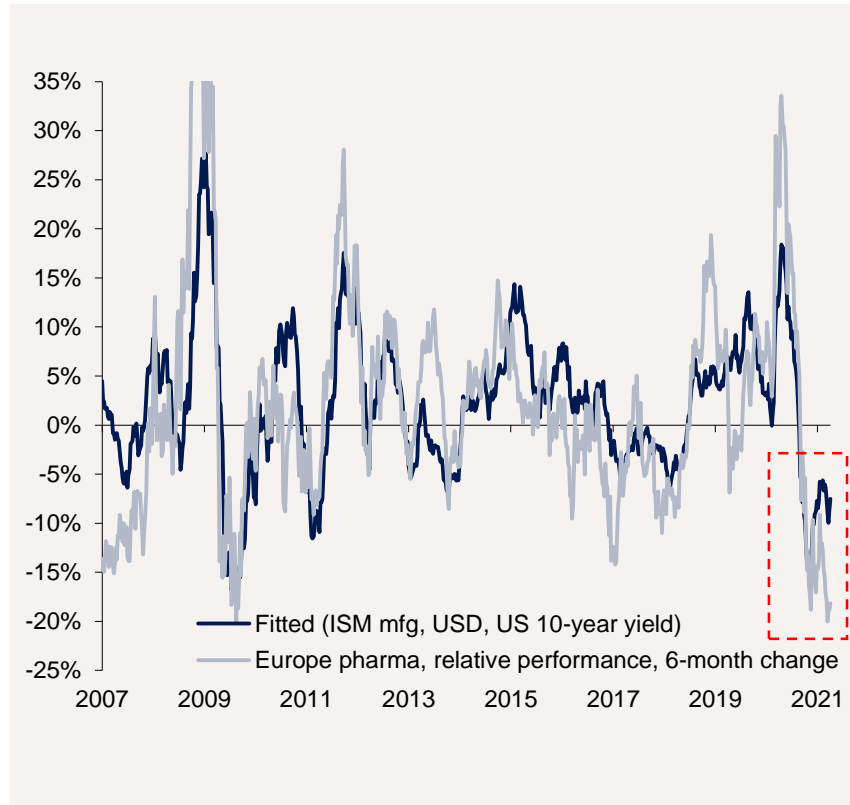
We are cautiously reducing our cyclicals exposure and add exposure to health care & tech

Most preferred	Healthcare	Attractive valuations. Rates headwinds fading and COVID immunity to support demand for non-COVID treatments
	Consumer Discretionary	Valuations seem stretched but sector should continue to benefit from ramp up in consumer demand as economies open up
	Information Technology	Rates headwinds to valuations fading. Underlying earnings potential remains very strong
Neutral	Communication Services	Stretched valuations but structural drivers remain strong. Headwinds for defensive telecommunications sector fading
	Banks	Strong yield-driven recovery year-to-date slowing due to more moderate upside for rates
	Insurance	Strong yield-driven recovery year-to-date slowing due to more moderate upside for rates
	Energy	Oil prices are unlikely to break out to the upside as macro momentum seems close to peak and as USD has stabilised
	Utilities	Renewable utilities to benefit significantly from US infrastructure spending but spending will be spread over several years
	Consumer Staples	Headwinds from rising rates upside fading. Prefer beverages as re-opening trades
Least preferred	Industrials	Global macro momentum seems close to peak reducing tactical tailwinds for industrials
	Materials	Sector heavily geared into metals cycle which may see more weakness on slowing China data and after surge over past year
	Real Estate	Clouded outlook for commercial real estate

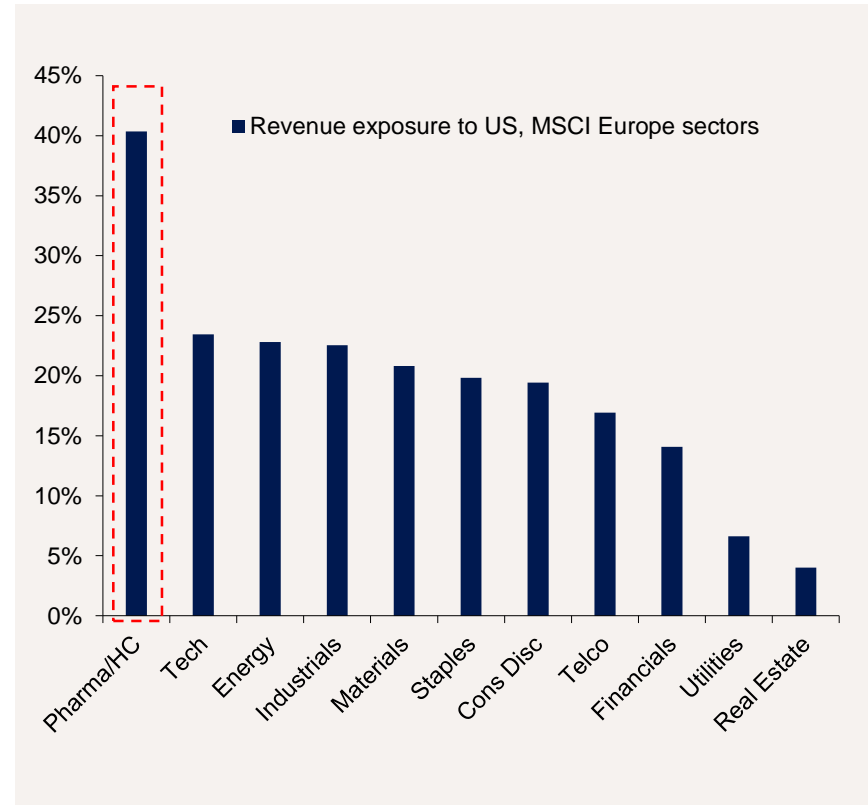
Source: Bank J. Safra Sarasin, 13.04.2021. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results.

We cautiously add exposure to cheap defensives via Health Care (prefer Europe Pharma)

Pharma has undershot its key drivers



Europe pharma to benefit from US re-opening



Equity Strategy: Regional preferences

Global Equities

Region views and forecasts

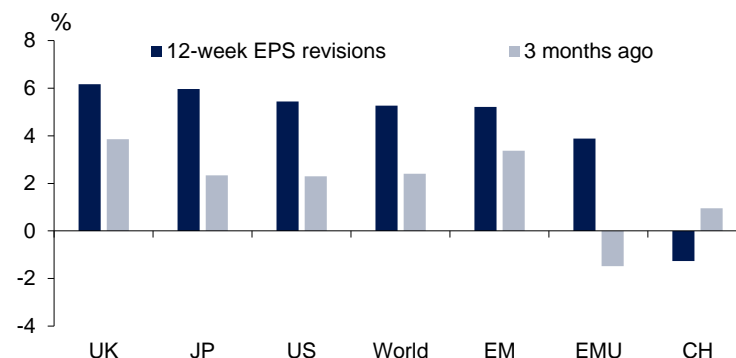
		Strongest major market year-to-date (in local currency) as improving macro momentum and weaker euro provided double benefit. Euro support may fade but cyclical catch-up potential to rest of world in place
		Tactical upside through potential sterling weakness. Attractive valuations. Structural challenges remain
		Attractive valuations and more gradual upside for rates help tactical outlook for defensive Swiss market. European Pharma should support Swiss performance
		Upside for real rates more limited, reducing tactical headwinds to valuations. Structural earnings upside remains strong and provide end-year upside
		Despite sharp underperformance over past 2 months, cyclical headwinds, stemming from China, remain
		Regulatory risks for big tech. Credit impulse remains negative. Sluggish vaccination progress a risk as COVID immunity potentially hampered by low vaccine efficacy
		Global cyclical tailwinds expected to slow with little support from more stable rate environment.

Sorted by preference: //

Source: Refinitiv, Bank J. Safra Sarasin, 13.04.2021. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual results.

Index targets	Current	Dec-21
MSCI World	2'907	3'050
S&P 500	4'128	4'300
Nasdaq 100	13'819	14'400
FTSE 100	6'889	7'200
DJ Euro Stoxx 50	3'962	4'150
SMI	11'181	11'700
MSCI Japan	1'192	1'250
MSCI EM	1'322	1'400

UK EPS have been lifted by energy



Economic outlook

- Global inventory restocking, \$2.8trn of fiscal support and possibly another big US infrastructure bill later this year should support a strong global recovery this year and next, despite slowing momentum in China.
- European governments will remove restrictions only very gradually given the more contagious strains of the virus and a slow start of the vaccination campaign. But a wider distribution of vaccines later this year sets the stage for a broad economic recovery in Europe too.
- Inflation to be volatile this year due to base effects. The release of pent-up demand in 2H21 and some capacity constraints in sectors that have been hit hard by the crisis should lead to higher inflation going into 2022.
- The expected increase in US inflation is likely to be more persistent than what the Fed currently implies. Still, its new framework means that it will probably raise rates a bit later and a bit more gradually than what is currently priced in.

Asset class views

FX

- Near term, rising yields constitute USD upside risk
- Medium term, USD to resume to its downward trend, cyclical currencies to benefit

Fixed income

- Prefer short over long duration, TIPS over nominals
- Prefer High Yield to Investment Grade in credit

Global equities

- Balance of risks shifting as macro momentum is closer to peak. Reduce cyclicals exposure and add attractively valued defensives (e.g. European pharma)

Asset allocation

- **Bonds:** Underweight
- **Equities:** Overweight equities, with focus on Europe, reduce cyclicals exposure, downgrade Financials and Energy to neutral

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