

SARASIN

# Six minute strategy When to buy bonds?

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20 October 2023

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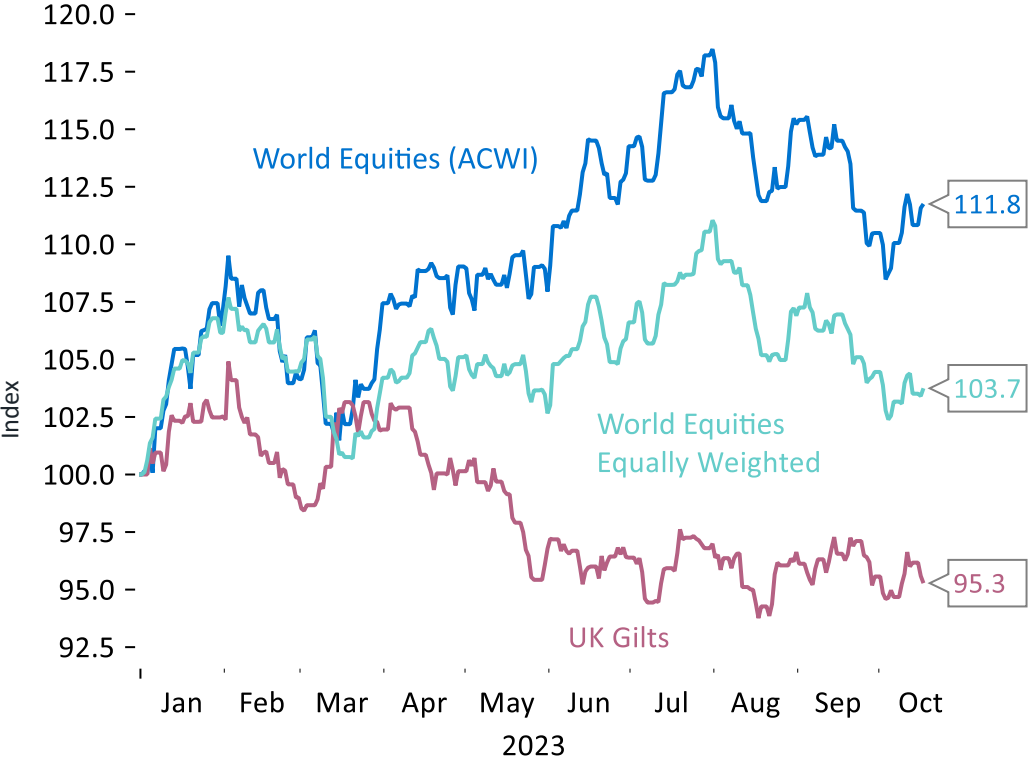
# 2023 asset market performance

Asset markets stable despite wars in both Ukraine and the Middle East

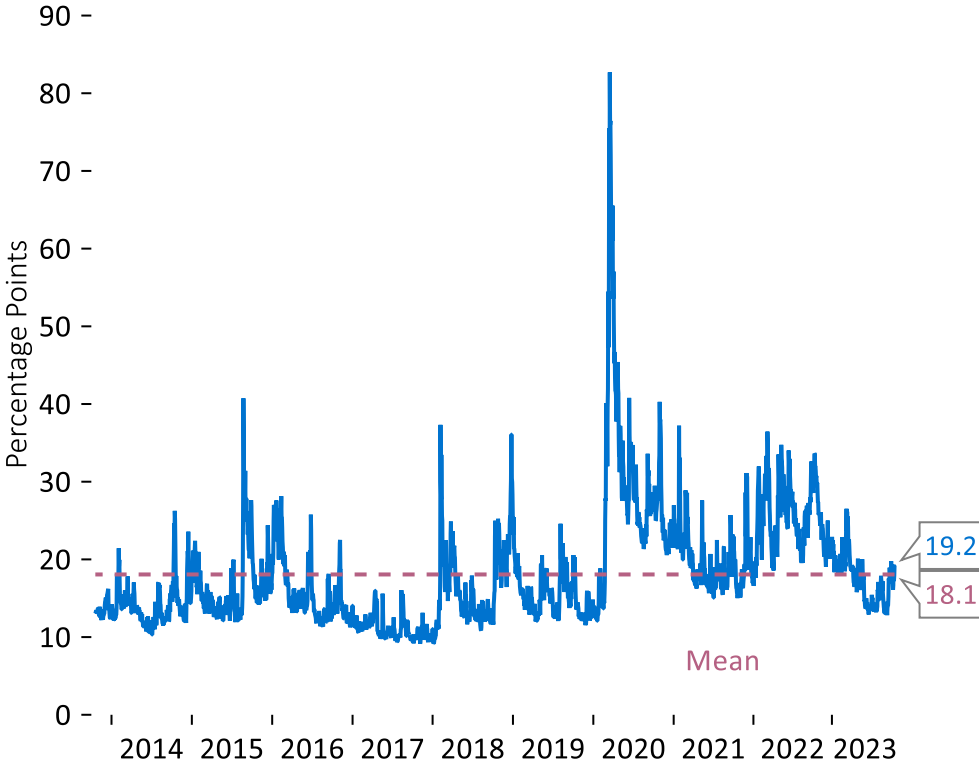
 Equities rally over past week - bond markets flat

 Only a modest rise seen in equity volatility

Asset class performance 2023



US S&P500 Equity Volatility (VIX)



Source: Macrobond, 18.10.23

Source: Macrobond, 19.10.23

Past performance is not a guide to future returns and may not be repeated.

# Limited reaction in the dollar, gold & oil markets

Absence of sharp moves suggests markets see lower risk of Middle-East War spreading

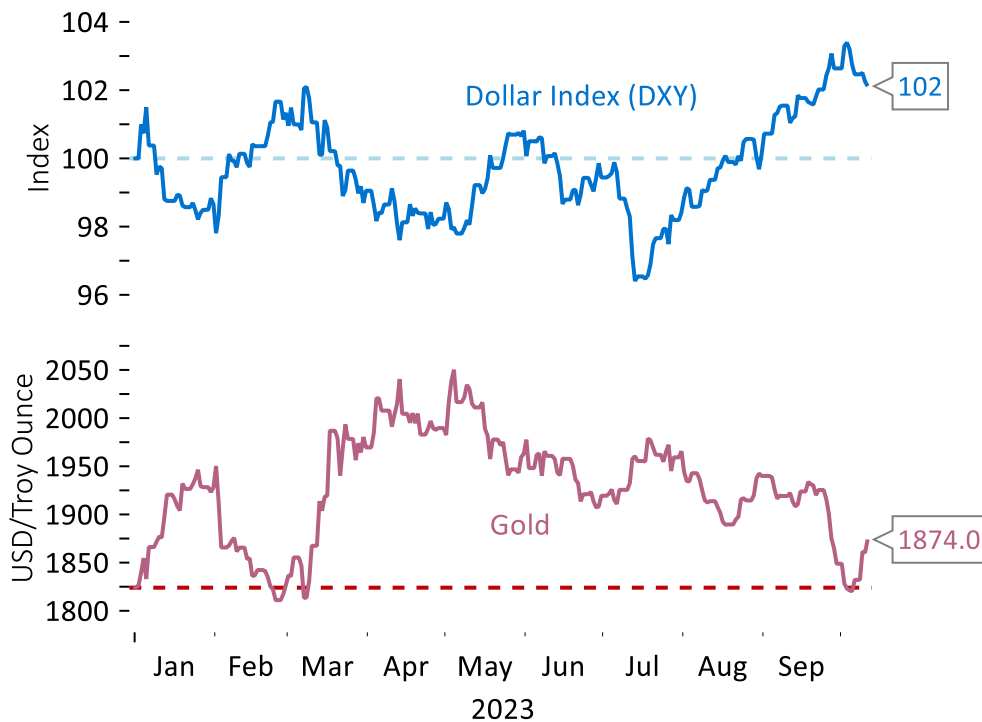


Dollar rallies from lows – Gold flat for 2023



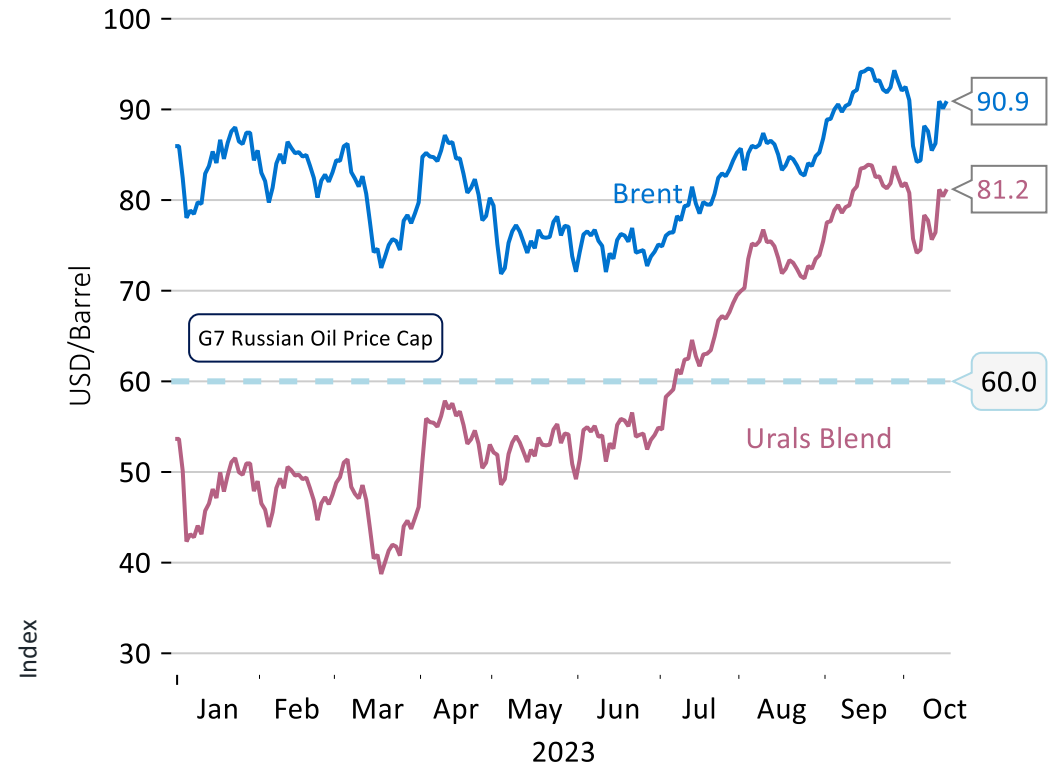
Oil rally pauses – discount for Russian oil narrows

## Asset class performance 2023



Source: Macrobond, 12.10.23

## Oil Prices



Source: Macrobond, 18.10.23

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# Oil and global conflicts

Conflicts typically have little direct impact on oil – Note US strategic oil reserves low

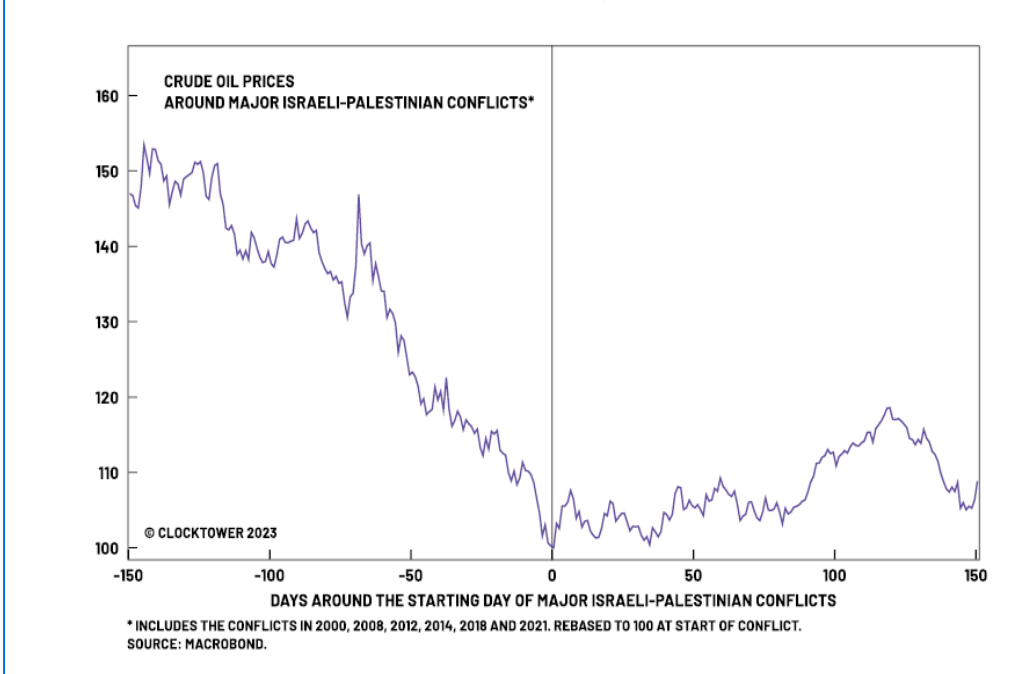


Previous Israeli-Palestine conflicts had limited impact on oil



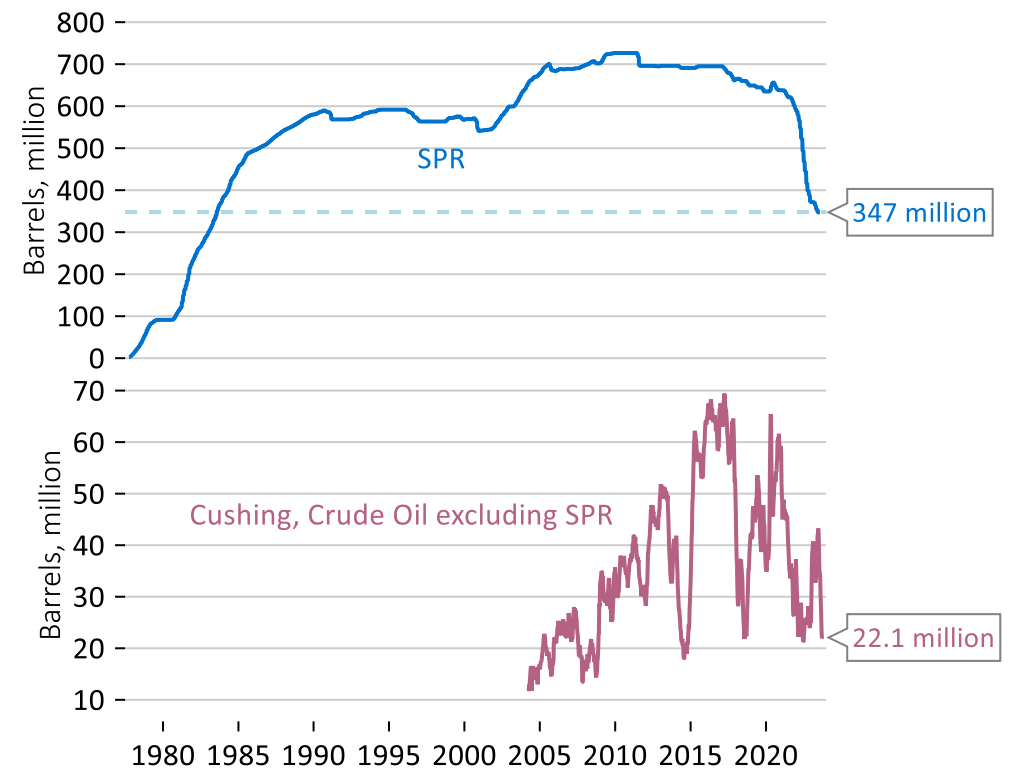
US strategic reserves at near 40-year low

CHART 1 | Israeli-Palestinian Conflicts Have Had Limited Impact on Oil Prices



Source: Bloomberg 09.10.2023

US Strategic Petroleum Reserve



Source: Macrobond, 12.10.23

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# The dollar is behaving like a 'Petro-Currency'

As US energy production grows the correlation of oil and the dollar has risen

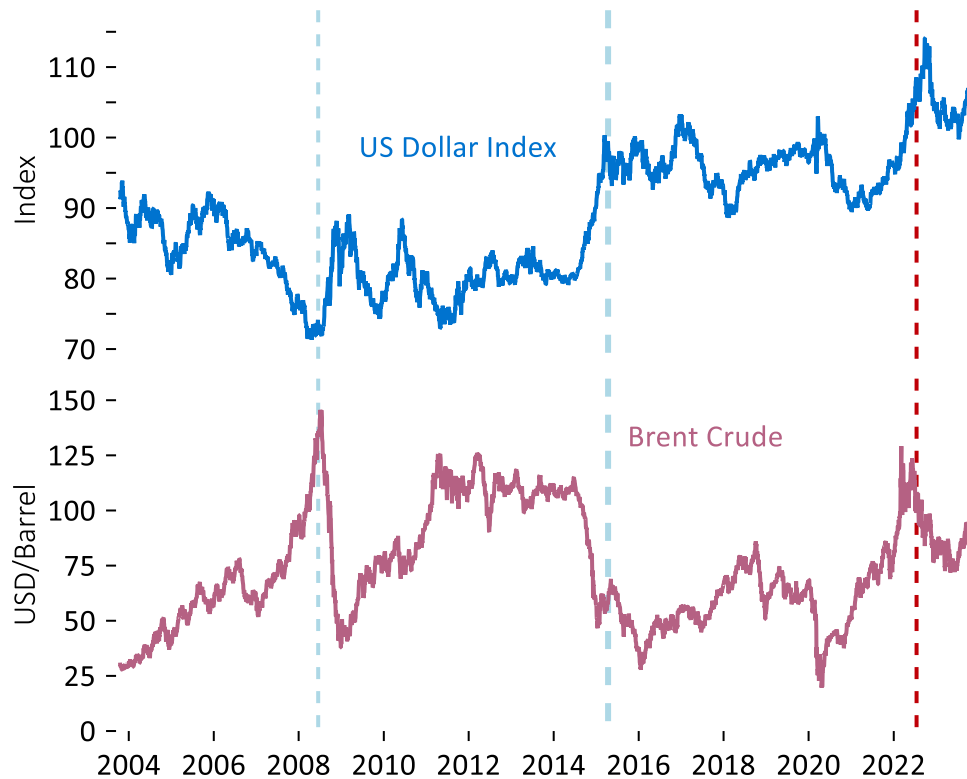


Dollar/Oil correlation has risen as US production climbs



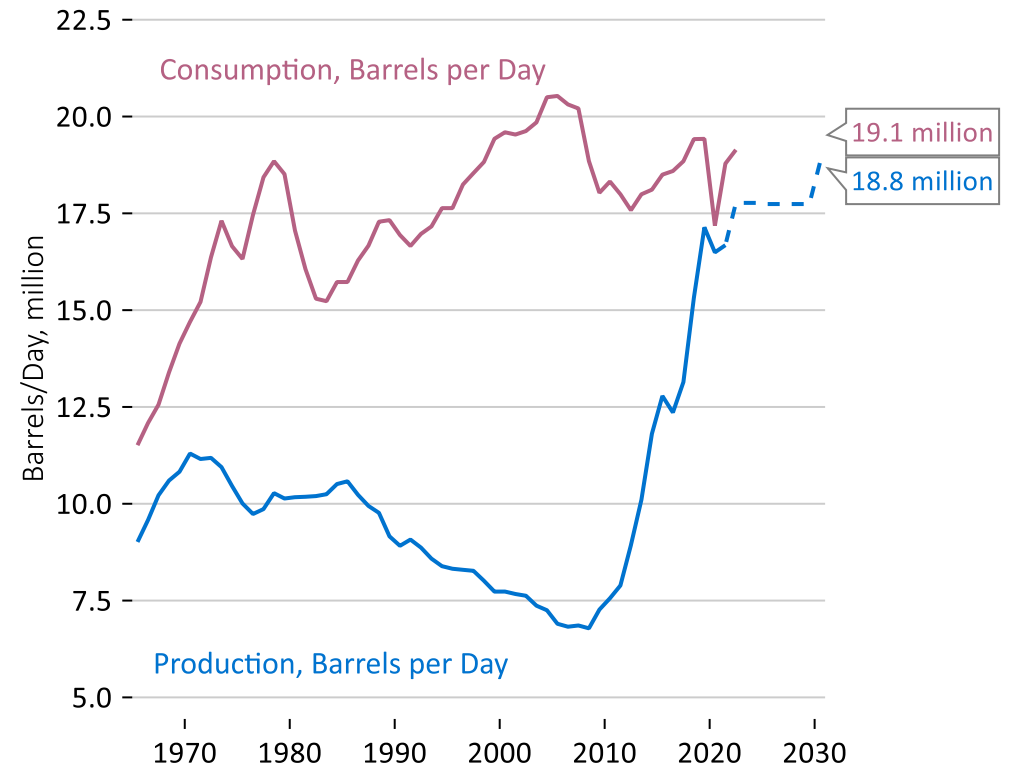
US domestic oil output has more than doubled in 10 years

## US Dollar & Oil Prices



Source: Macrobond, 19.10.23

## United States, BP Statistical Review of World Energy, Oil



Source: Macrobond, 16.10.23

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# Higher defence spending at a time of widening deficits

Deficits increasing at the same time as central banks stop buying bonds

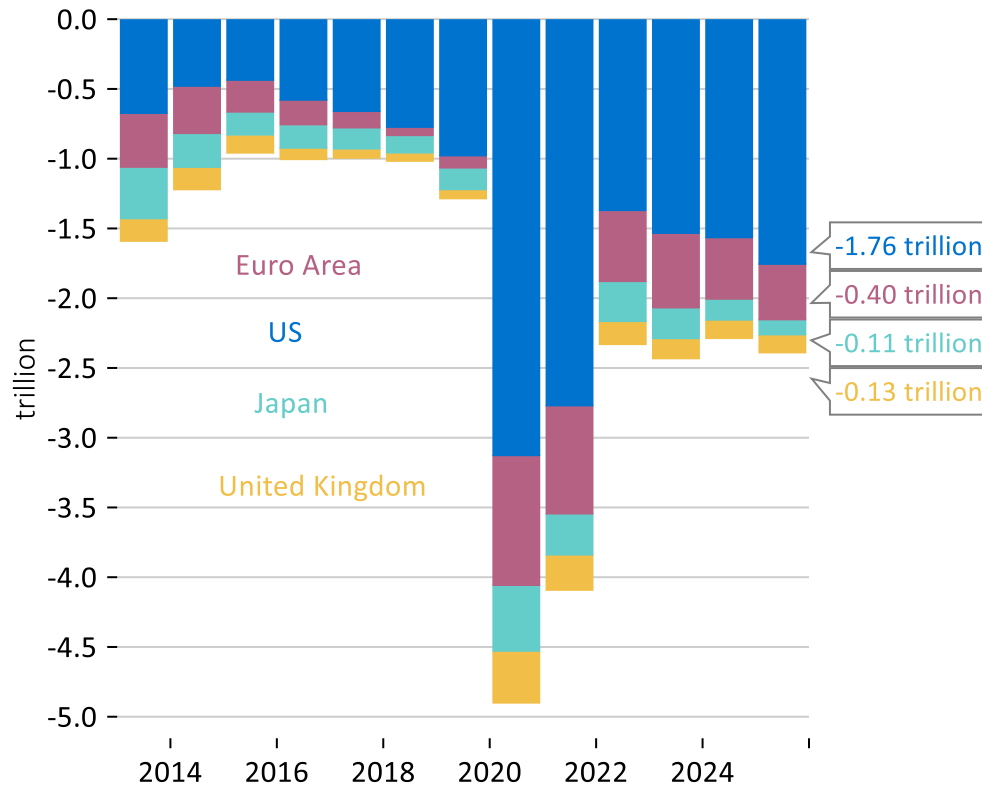


Budget deficits (IMF World Economic Outlook)

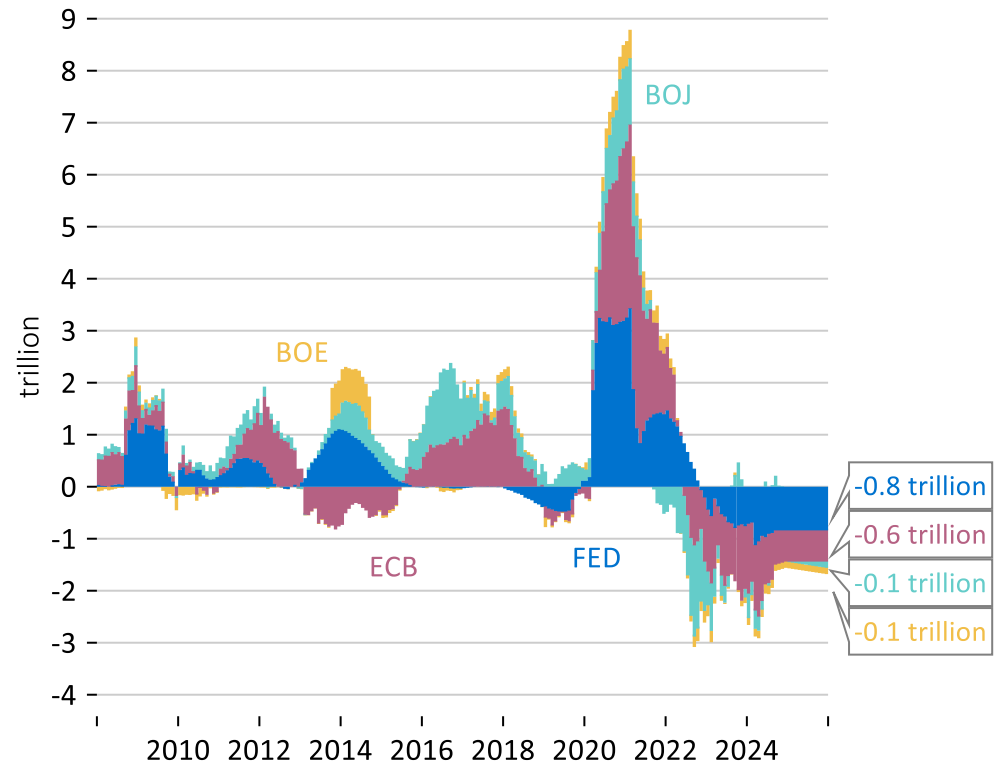


Annual change in central bank balance sheets

Combined budget deficits for Advanced Economies



Source: Macrobond, 18.10.23



Source: Macrobond, 09.10.23

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# Bonds: Value now appearing in corporate bonds

Favour Sterling corporate issues - risk for US T-Bonds short-term as supply surges

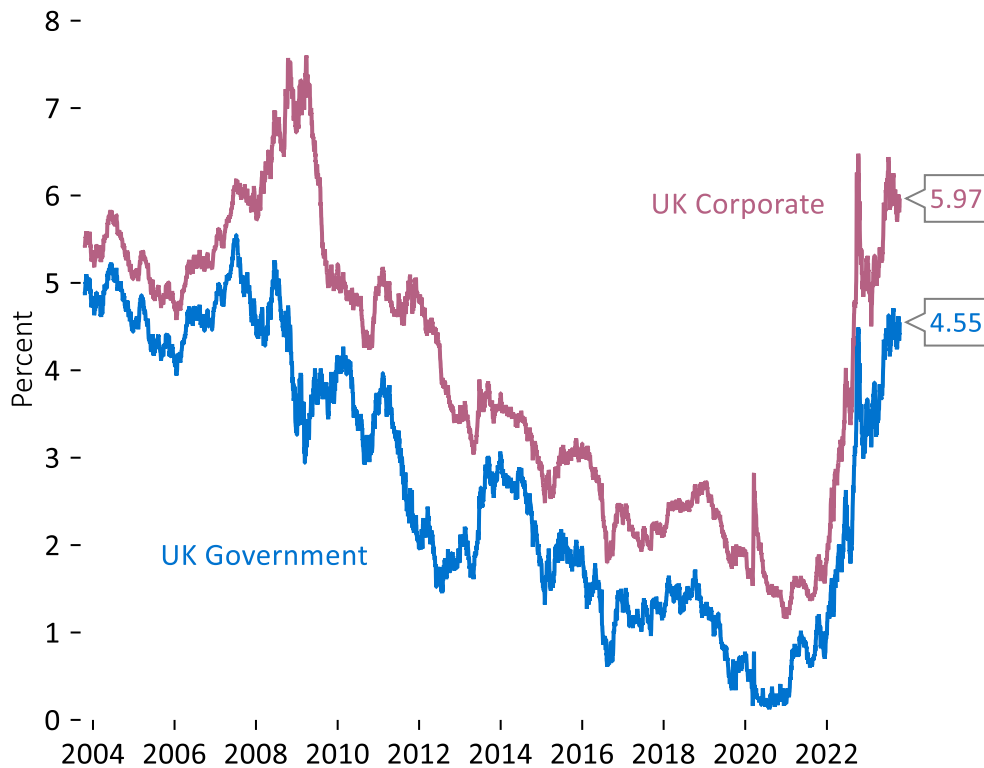


UK Bond yields climb to near 15-year highs



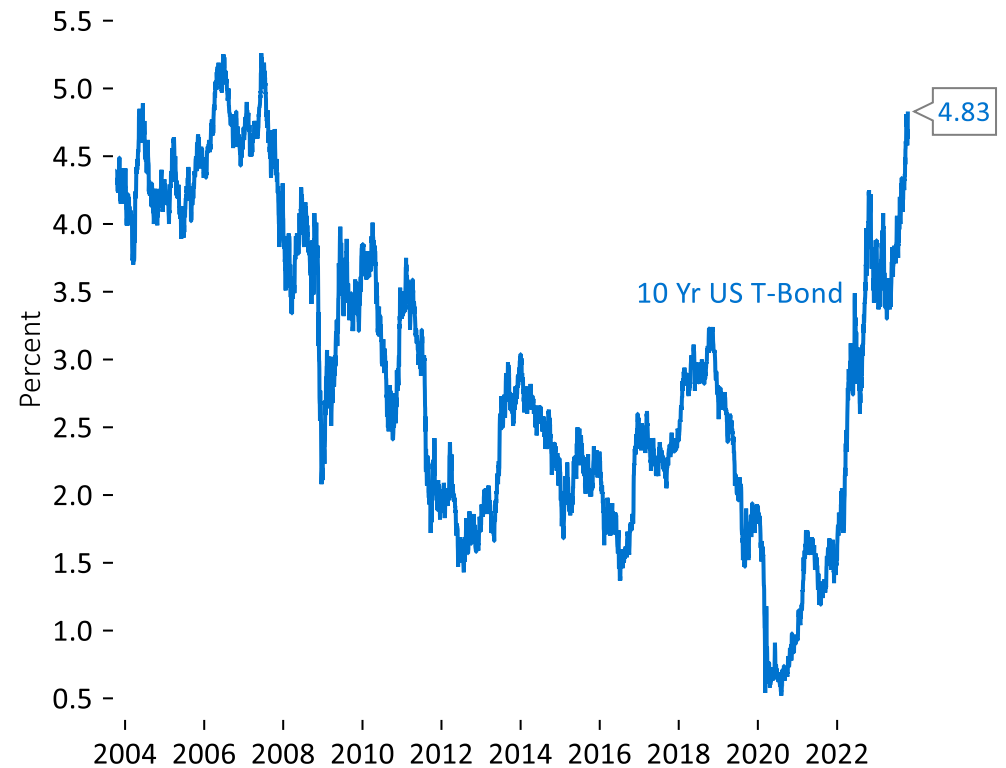
US T-Bond yields highest in 16 years

### UK Government and Corporate Bond Yields



Source: Macrobond, 18.10.23

### US T-Bond & Inflation Protected Securities (TIPS) Yields



Source: Macrobond, 19.10.23

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