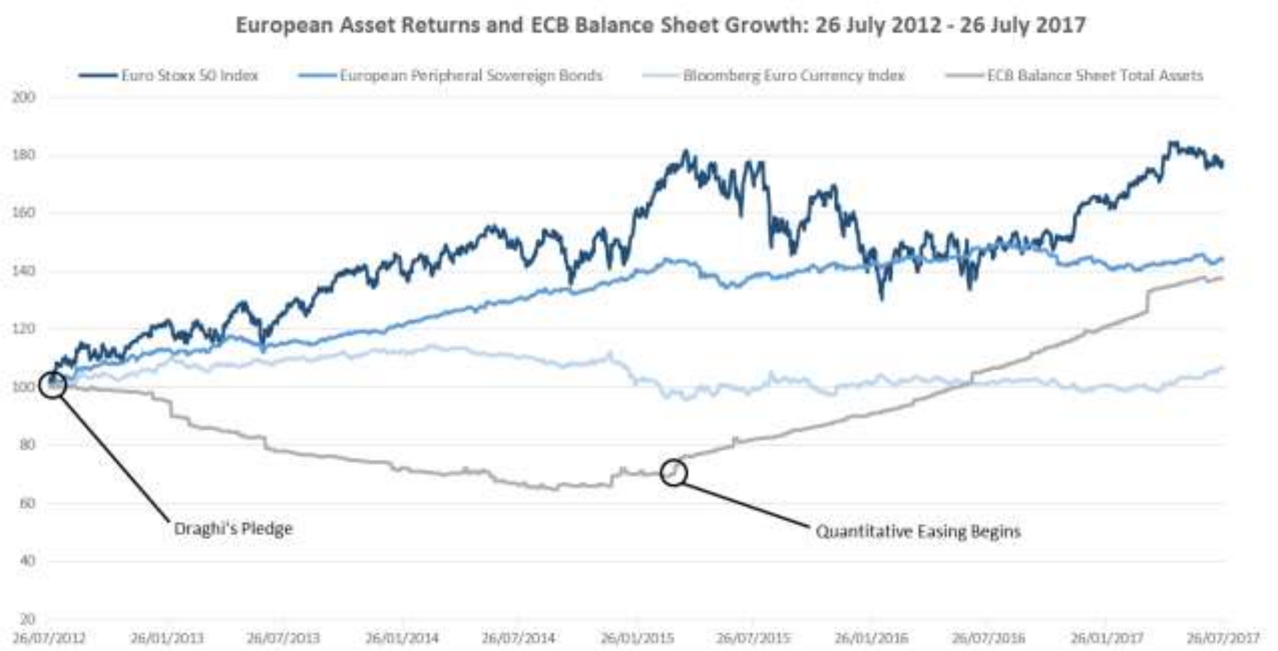
Signia Talking Points – July 2017

“Whatever it takes…”

Five years, four rate cuts and €2.25 trillion of quantitative easing purchases later… July marked the fifth anniversary of the now notorious words from the European Central Bank (“ECB”) President, Mario Draghi, in which he claimed that the ECB is prepared to do whatever it takes within its mandate to preserve the euro as implied conditional lender of last resort to its Eurozone sovereign borrowers. Mr. Draghi’s words had a material impact on European markets, reversing a near 30% price decline on the Euro Stoxx 50 index from its peak the previous year, but did his subsequent actions resonate louder than his words? The ECB’s balance sheet size would seem to indicate so, it contracted 35% following his announcement as previous loans to the European banking sector known as Longer Term Refinancing Operations (LTROs) were repaid, but subsequently the balance sheet has expanded to near 140% of its size over the last five years as the ECB rolled out its sizeable quantitative easing program, currently expected to end in 2019.



European Peripheral Sovereign Bonds: db x-trackers Sovereigns Eurozone Yield Plus ETF. Source: Bloomberg.

Market Returns

Global Agg: Bloomberg Global Aggregate TR Hedged GBP; Global Sovereign: Bloomberg Global Treasury TR Hedged GBP; Global IL: Bloomberg World Govt Inflation Linked Bonds 1-10Y TR Hedged GBP; Global IG: Bloomberg Global Corporate TR Hedged GBP; Global HY: Bloomberg Global High Yield TR Hedged GBP; EM$ Sov: Bloomberg Emerging Markets Sovereigns TR Hedged GBP; EM% Corp: Bloomberg EM USD Corporate 10% Cap Hedged GBP; EM Local Sov: Bloomberg EM Local Currency Govt TR Unhedged GBP; Equities: MSCI indices reflect net total returns in local currency, except Asia and EM in USD; Commodities: Bloomberg Commodity TR Index; Global Property REITS: FTSE EPRA/NAREIT Global Index; Global Hedge Fund: HFRX Global Hedge Fund Index; British Pound: Bloomberg British Pound Index; Euro: Bloomberg Euro Index; US Dollar: Bloomberg US Dollar Index; EM Currency: JP Morgan Emerging Market Currency Index. Source: Bloomberg. **Data as at 31/07/2017.**

Fixed Income

- Central banks' more dovish tones and concerns on the inflation outlook for both the US and Europe means continued monetary policy support which is creating a positive environment for risk assets
- High yield and Investment grade yield spreads continued to grind tighter, indeed these sectors benefitted from strong corporate earnings and investor demand over the month
- Emerging market debt is benefitting from global growth recovery as import and export numbers are picking up, with prices supported by steady commodity prices and the weaker US dollar

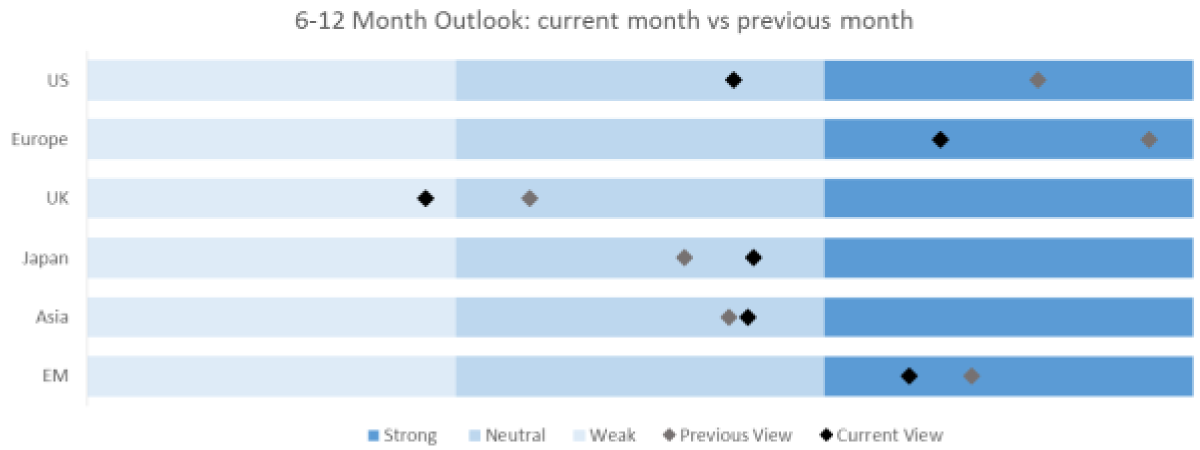
Equities

- A strong month globally supported by fundamental data and benign financial conditions, with Europe the notable exception as circa 3.5% strengthening in the euro dampened performance
- Asia and Emerging Markets were the notable outperformers on strong data and a weak US dollar
- Between 25% and 30% year-to-date increases in Asia and emerging markets highlighting the emerging markets' dominance over the developed world this year

Alternatives & FX

- Commodities rose 2.3% in July, driven by a strong rebound in oil (+9%) as OPEC announced talks to discuss compliance with production cuts and tensions in Venezuela swelled
- Gold climbed 2.2% over the month, aided by a weaker dollar and falling real yields as the Federal Reserve was dovish in the face of continued weakness in inflation
- The US Dollar index continued its decline (its fifth straight month of losses) closing the month down -2.9% and taking its year-to-date decline to -9.5%

Signia Macroeconomic Outlook



Source: Signia Wealth. **Data as at 31/07/2017.**

- We remain most positive on the strength of the economic recoveries in Europe and Emerging Markets, hold a neutral stance in the US, Japan and Asia, and a mildly negative outlook for the United Kingdom
- In the US we acknowledge the economy has been expanding for 8 years and is likely approaching its late cycle phase, whereas the European economic recovery is more mid-cycle but faces potential headwinds from a less dovish European Central Bank and strengthening domestic currency
- We have revised down our UK economic outlook to weak amidst heightened Brexit and political uncertainties, and a slowing economic growth path
- Emerging market growth remains in recovery mode following five years of deceleration, currency depreciation, fiscal adjustment, and structural reforms

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