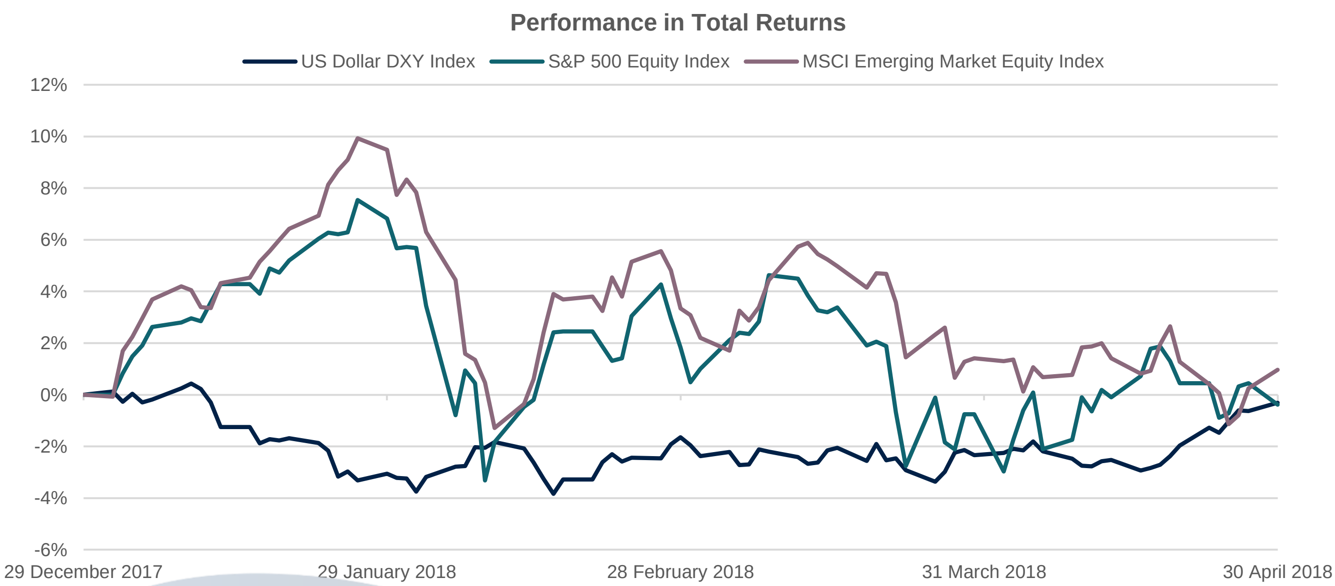
SIGNIA TALKING POINTS
April 2018

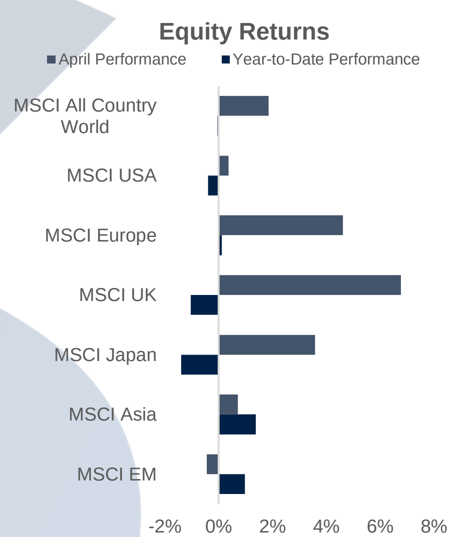
The US Dollar: Greenback strikes back

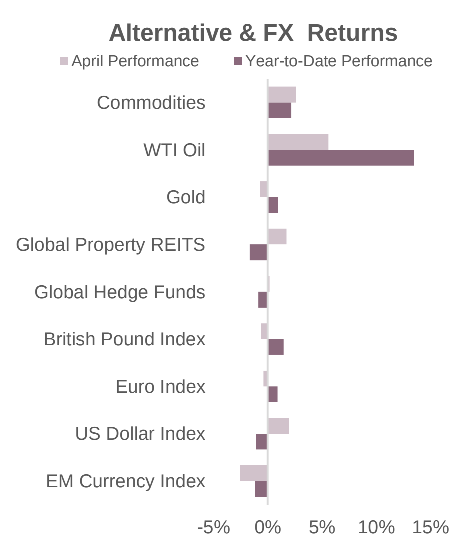
Rewind three months to a sunny January morning in the mountains of Davos, Switzerland, where comments from the US Treasury Secretary Steven Mnuchin at the World Economic Forum stole the show: "Obviously a weaker dollar is good for us as it relates to trade (more competitive exporters) and opportunities (more jobs and economic benefits)". Over the following weeks the US dollar index, which reflects the dollar's value against a basket of major currencies, duly weakened to a three year low, depreciating 14% from its December 2016 high. However, since mid-April the US dollar, otherwise known as the Greenback, has staged a sharp 3% rebound in a short two week period to claw back virtually all of its year-to-date losses and catch up with equity market returns.

The recent strength can be attributed to two key factors affecting relative central bank policy paths: (i) the solidity of domestic expansions in the rest of the world so far this year has slowed materially relative to the US, and (ii) rising oil prices are denting prospects for higher overall global growth and thus lowering the scope for low interest rate currencies to undergo their rate hike catch-up cycles relative to the US. The answers to these questions should dictate whether the US dollar resumes its weakening trend, or whether its recent rally continues.



Source: Bloomberg





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 30/04/2018.

Fixed Income

- It was a tough month for fixed income with all sub-asset classes in the red, with the exception of global high yield credit which posted a slight positive performance
- Global treasuries weakened with US treasuries falling due to a combination of negative investor sentiment regarding the global outlook for trade and growth, and rising inflation expectations
- In credit markets, high yield credit did not suffer as much as low issuance provided a technical support whilst investment grade credit was more affected by higher volatility coupled with supply remaining heavy
- In emerging market debt, hard currency sovereign debt suffered the most, as dollar strength over the month combined with slowly rising US treasury yields means borrowing costs are hitting their highest levels in nine months

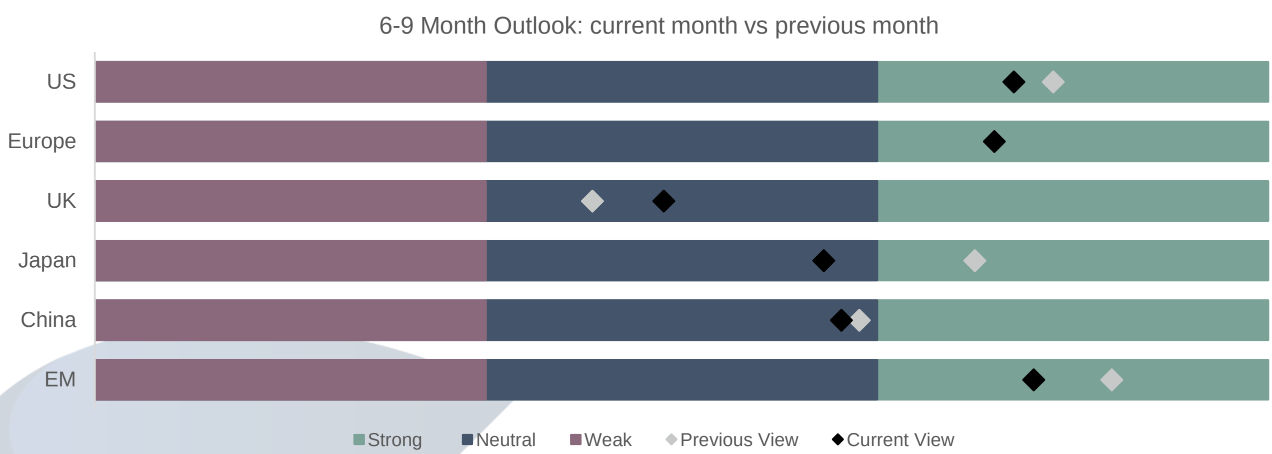
Equities

- Returns from US equities were muted, despite continued strength in underlying economic data
- UK equities were the best performer, with Sterling depreciation buoying the globally-exposed market
- Japanese equities were positive despite rising political uncertainty, whilst a weakening Euro and dovish central bank spurred the European bourse
- Strength in the US Dollar weighed on emerging market equities, which ended the month in negative territory

Alternatives & FX

- Commodities enjoyed good performance as oil continued to rise on lingering middle east tensions and further inventory draws
- The US dollar parred recent losses as US inflationary pressures continued to build and concerns emerged around tighter offshore US dollar funding
- A stronger dollar contributed to Sterling and Euro weakness over the month. Emerging currencies fared the worst however, with the Brazilian Real (-6%), Indian Rupee (-3%) and Mexican Peso (-3%) falling the most

Signia Macroeconomic Outlook



Source: Signia Wealth. Data as at 30/04/2018

- US: Tailwinds from tax cuts, expansionary fiscal policy and regulatory easing are supporting consumer and business sentiment and an extension of the second longest US economic expansion in history (107 months), now in the latter stages of its economic cycle. Rising trade war tensions with key trading partners is a notable risk but currently poses a minimal economic threat.
- Europe: Economic and earnings recoveries are earlier in their cycles but losing some momentum from several key headwinds, namely a less accommodative European Central Bank, strengthening domestic currency, and populist uprisings across the southern nations. French President, Emmanuel Macron, has risen to replace his weakened German counterpart, Angela Merkel, as the region's figurehead.
- UK: Real wage growth is now positive as pressures from high consumer price inflation ease, but risks remain balanced as existential Brexit uncertainty with the European Union continues to weigh on both consumer and corporate sentiment, and business investment.
- Japan: The Bank of Japan remains committed to stimulating consumer price inflation which is picking up from a low base and supported by a tight and growing labour market. Prime Minister Abe's ratings have suffered considerably by a prolonged political scandal.
- China: Curbing pollution levels is an environmental positive but comes at an economic cost by slowing industrial output growth at a time when the corporate sector is deleveraging and economic growth is slowing. Rising trade war tensions with the US is a notable risk but currently poses a minimal economic threat.
- Emerging Markets: Strong economic growth is being tested by a strengthening US dollar, but buoyant energy prices and a synchronous global economic expansion continue to offer a fillip to the broader emerging market complex.

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