SIGNIA: IN TUNE WITH YOU

SIGNIA
TALKING POINTS

APRIL 2022

Phone

+44 (0)20 7298 6060

Online

Email: info@signiawealth.com
Website: www.signiawealth.com

Putin and The Inflation Genie

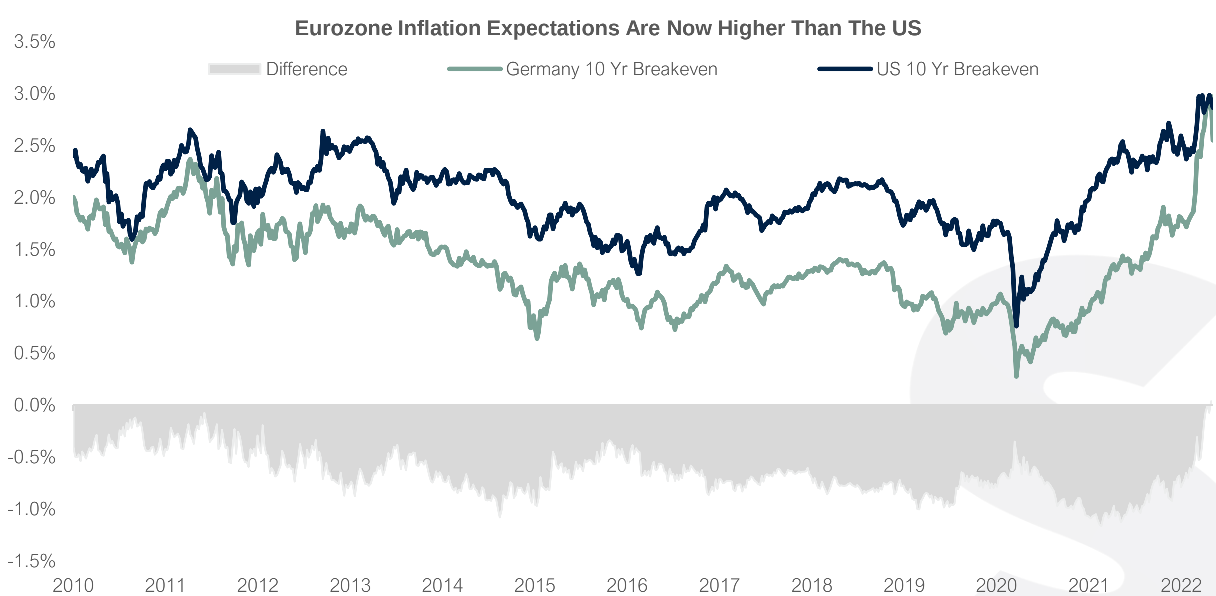
Christine Lagarde: "If inflation is the genie, then deflation is the ogre that must be fought decisively."

When Christine Lagarde talked about inflation in 2014 as the Managing Director of the International Monetary Fund, the world and prevailing macroeconomic environment was a very different place to today, with leaders and policymakers more concerned about ogres than genies. Thankfully, no deflationary monsters went on to wreck havoc on the global financial system, but now as President of the European Central Bank, Lagarde's attention is turning firmly towards keeping a lid on spiralling Eurozone inflation and this genie's proverbial bottle.

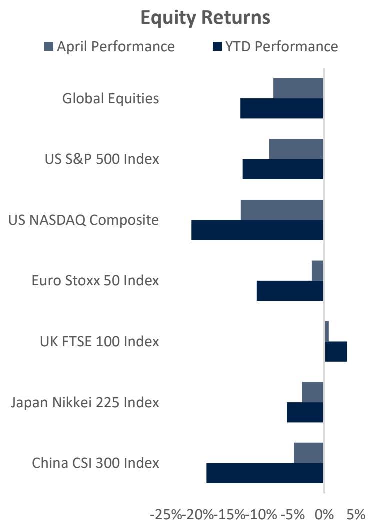
In April, long-term Eurozone inflation expectations – represented below by the German 10-year breakeven inflation rate – edged above its US counterpart for the first time since 2009. For most of the last decade the Eurozone has been struggling with low inflation levels and fending off deflation risks, as secular stagnation (low or no economic growth) and negative interest rates weighed on the spending habits and optimism of consumers and businesses. Eurozone inflation expectations subsequently languished behind US inflation expectations between -0.5% and -1.0% over the period. However, since Russia invaded Ukraine in February this year, Putin's war on Europe and NATO expansion has caused a surge in commodity prices from oil and natural gas to wheat and nickel, as a new regime of sanctions and supply shocks are priced into markets. Nobody knows what President Putin is going to do next, but sadly this is now looking like a war of attrition where the rising cost to humanity is compounded by the rising inflationary cost to consumers.

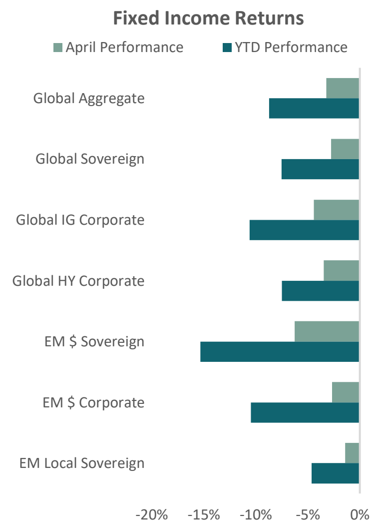
The biggest impact will most likely be felt in Europe, not just because of the proximity of the war and the higher proportion of economic trade impacted by it, but also because Lagarde's ECB will have its work cut out fighting the inflation genie whilst preventing a potentially damaging economic recession to the Eurozone. If the ECB raises interest rates too much or too quickly to combat rising consumer prices that rose 7.5% year-on-year in April, then it risks causing more damage to its increasingly delicate economy. However, if it fails to stop inflation expectations moving even higher and de-anchoring from their long-term range, then real incomes will be squeezed further and consumers will feel yet more pain. Surely then, if there is one monster that will keep Lagarde and her fellow central bankers up at night it is this, the threat of stagflation.

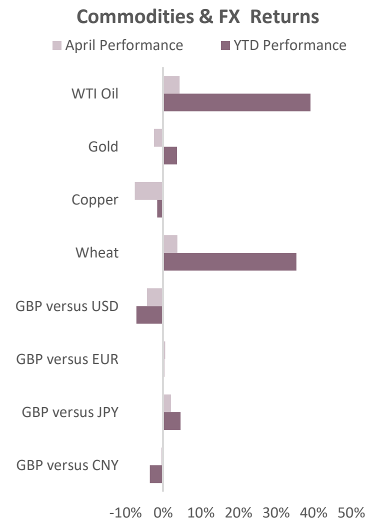
Robert Lee
Co-Head of Multi-Asset Investments



Source: Signia, Bloomberg. Data as at 30/04/2022.







Source: Signia, Bloomberg. Data as at 30/04/2022.

Global Equities: iShares MSCI ACWI ETF; Global Aggregate: Vanguard Global Bond Index GBP Hedged Fund; Global Sovereign: Xtrackers Global Government Bond GBP Hedged ETF; Global IG Corporate: Vanguard Global Corporate Bond Index GBP Hedged Fund; Global HY Corporate: iShares Global High Yield Corporate Bond GBP Hedged ETF; EM$ Sovereign: iShares J.P. Morgan USD EM Bond ETF; EM$ Corporate: iShares J.P. Morgan USD EM Corporate Bond ETF; EM Local Sovereign: iShares J.P. Morgan EM Local Government Bond ETF.

Equities

Jack Rawcliffe
Senior Equity Fund Analyst

- In what was a sharply negative month for equities US markets fell the most, as heightened concerns surrounding the pace of monetary tightening triggered a widespread sell-off, particularly amongst higher growth names
- European and Japanese indices also fell but did so significantly less than their US counterpart, while UK equities actually managed to record a positive return for the month owing to their greater concentration in less highly valued companies
- Chinese bourses also witnessed falls, as the perceived lack of economic stimulus and continued adherence to strict lockdowns to contain Covid-19 weighed on risk appetite

Fixed Income

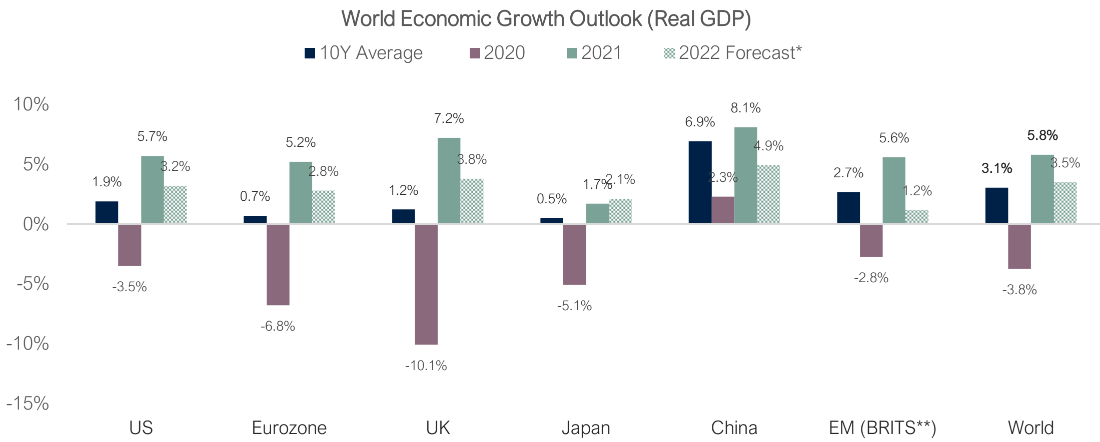
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds finished the month down as high inflation data and market expectations of more restrictive monetary policy from the US Federal Reserve saw bond yields rise to their highest level since the end of 2018.
- Global corporate credit indices suffered over the month on the back of elevated market volatility as US bond yields priced in tighter-than-expected US monetary policy and slower global growth.
- Emerging market debt indices registered the worst performance in April as heightened market volatility, increased Covid-19 related restrictions in China, and a surge in the US dollar all contributed to poor performance across the board in the asset class.

Commodities & FX

Harry Elliman
Investment Analyst

- The British Pound dropped 4.3% against the US Dollar in April, on fading conviction that the BoE will raise interest rates as high as priced into markets, whereas strong consensus continues to grow surrounding the hawkish policy set out by the US Federal Reserve, this has aided the Dollar.
- Concerns surrounding global interest rate policy, recession fears, elevated price levels, and fading corporate optimism saw equity volatility (The Vix) rise 62.5% as investor transition from a liquidity driven environment to a reduction in financial conditions.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia, Bloomberg, IMF. Data as at 30/04/2022.

United States of America

The economy is decelerating from its unprecedented 2021 pandemic recovery speed but is still expected to expand in 2022 at a pace above its long-term trend growth rate. Wage and employment cost growth have also accelerated to the highest levels in the post-Global Financial Crisis era, whilst consumer price inflation is at a 40-year high. However, consumers, corporations, and banks are cash rich, and remain in a good starting position to withstand higher borrowing costs as the Fed embarks on a potentially aggressive tightening cycle.

Eurozone

Economic growth expectations for 2022 are decelerating quickly as sanctions on Russia and escalating commodity prices bite. Consequently, Eurozone inflation expectations have converged with US inflation expectations as the war in Ukraine continues, translating into an energy crisis. French President Macron defeated challenger Marine Le Pen for a second consecutive time and was re-elected for another 5-year term, a positive outcome for the cohesion of the EU.

United Kingdom

Rising consumer price inflation is running at 7.0% year-on-year, the highest level since 1992, caused in part by surging energy bills. A triple whammy of rising inflation, increasing interest rates, and higher taxes are expected to hurt household disposable incomes and could cause a cost-of-living crisis, potentially pushing the British economy into a recession this year. The Bank of England warns that consumer price inflation could surpass 10% in the near-term.

Japan

Japan's economic recovery still lags behind other major economies but is catching up and helped by a recently announced large fiscal stimulus package from newly elected Prime Minister Kishida. Headline consumer price inflation has accelerated to above long-term levels and is gathering momentum, but core inflation excluding food & energy prices has fallen back deeper into deflationary territory indicating that most of Japan's inflation has been imported.

China

Chinese property curbs and zero covid policy lockdowns have substantially constrained credit demand from the property, consumption and services sectors. However, the credit and aggregate financing cycle is bottoming and tax cuts are being implemented in a sign of policymakers' determination to stabilise the economy and boost consumption growth. Unlike in most global economies this year, inflation pressures have remained low and benign in China, resulting in the PBoC being the only major central bank to cut interest rates so far in 2022.

Emerging Markets

Economic growth of the BRITS bloc has been substantially revised down this year, predominately due to a severe invasion-induced recession to the Russian economy which is expected to contract by more than 10% this year.

Important Information

The information set out in this document has been provided for information purposes only and should not be construed as any type of solicitation, offer, or recommendation to acquire or dispose of any investment, engage in any transaction or make use of the services of Signia. Information about prior performance, while a useful tool in evaluating Signia's investment activities is not indicative of future results and there can be no assurance that Signia will generate results comparable to those previously achieved. Any targeted returns set out in this document are provided as an indicator as to how your investments will be managed by Signia and are not intended to be viewed as a representation of likely performance returns. There can be no assurance that targeted returns will be realised. An estimate of the potential return from an investment is not a guarantee as to the quality of the investment or a representation as to the adequacy of the methodology for estimating returns. The information and opinions enclosed are subject to change without notice and should not be construed as research. No responsibility is accepted to any person for the consequences of any person placing reliance on the content of this document for any purpose.

No action has been taken to permit the distribution of this document in any jurisdiction where any such action is required. Such distribution may be restricted in certain jurisdictions and, accordingly, this document does not constitute, and may not be used for the purposes of, an offer or solicitation to any person in any jurisdiction were such offer or solicitation is unlawful. Signia Wealth is authorised and regulated by the Financial Conduct Authority.

FOCUSED
AND SPECIALISED

Signia is a private investment office that finds fresh but secure ways to manage money so that entrepreneurs can enjoy their wealth.
We create investment strategies that work for individuals and institutions.

We enjoy working with successful people, creating and managing global investment portfolios.
Our clients are entrepreneurs who value independence.

We respect that and provide a personalised service to meet individual objectives.
By meeting your needs, by being serious about your money, we establish good relationships. We think you'll enjoy working with us.

We're not vast in scale. We're small enough to know our clients well, so we have informed conversations rather than academic lectures. It's all based on experience and understanding, with the belief that you want to enjoy your money, not worry about it.

You've created wealth. Now you want to do the best you can with it, something that satisfies all your instincts.

With your wealth comes responsibility, and we make every effort not only to grow your investments but to understand what you really want to achieve with them.

MULTI-ASSET INVESTMENT

We think long-term – that achieves the best results. So we manage long-only investment portfolios and we stick to guidelines agreed with you.

HEDGE FUND INVESTMENT

If you seek attractive risk adjusted returns, we use our expertise to consistently deliver this for you.

CASH MANAGEMENT & DEBT

Cash and debt need to be managed well. We consider both alongside your other investments.

PRIVATE CAPITAL

Intellectual capital can be just as important as investment. Our clients appreciate that we bring them together to make the best deals.

SIGNIA: IN TUNE WITH YOU

LETS START THE CONVERSATION

We can help you to administer your global wealth; from managing your investments to setting a cross-border strategy for your current and future generations or investing for a social impact.

Whatever your needs we will work with you to find a solution, call us on +44 (0)20 7298 6060.

Phone

+44 (0)20 7298 6060

Online

Email: info@signiawealth.com
Website: www.signiawealth.com