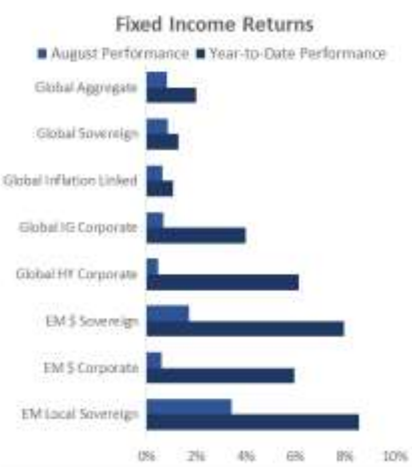
Signia Talking Points – August 2017

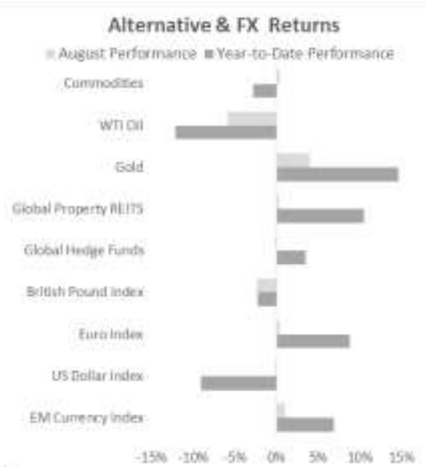
Stability Breeds Instability

Financial instruments and their collective investment markets were created by humans as mechanisms to borrow money today in exchange for money tomorrow – as argued by the 20th century American economist and posthumous media star, Hyman Minsky – so their levels reflect embedded human sentiment about their financial future. If a firm wants to pay now for the construction of a factory to generate future running profits in coming years it has two choices: the firm's own cash or that of others (for example, if the firm borrows from a bank). The delicate balance between the two is therefore key for the stability of the financial system, one which accommodates both the greed and fear embedded in human nature, allowing risks to migrate over the long term to somewhere else in the system. With volatility levels across most asset classes at historic lows, how far are we from another "Minsky moment" where a sudden decline in asset values from a turning credit or business cycle causes asset price volatility to spike higher?

Equity Volatility: VIX Index; Currency Volatility: Deutsche Bank CVIX Index; Bond Volatility: Merrill Lynch MOVE Index. 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 31/08/2017.**

Fixed Income

- The global economy is continuing its expansion as seen from strengthening fundamental economic metrics released earlier in the month, this coupled with lower inflation expectations is keeping volatility low in financial markets
- High yield and investment grade spreads are still grinding tighter as a result of the positive economic backdrop and investor demand
- Emerging market local currency debt continued to outperform on the back of the global economic expansion, stronger local economies, and a weaker dollar

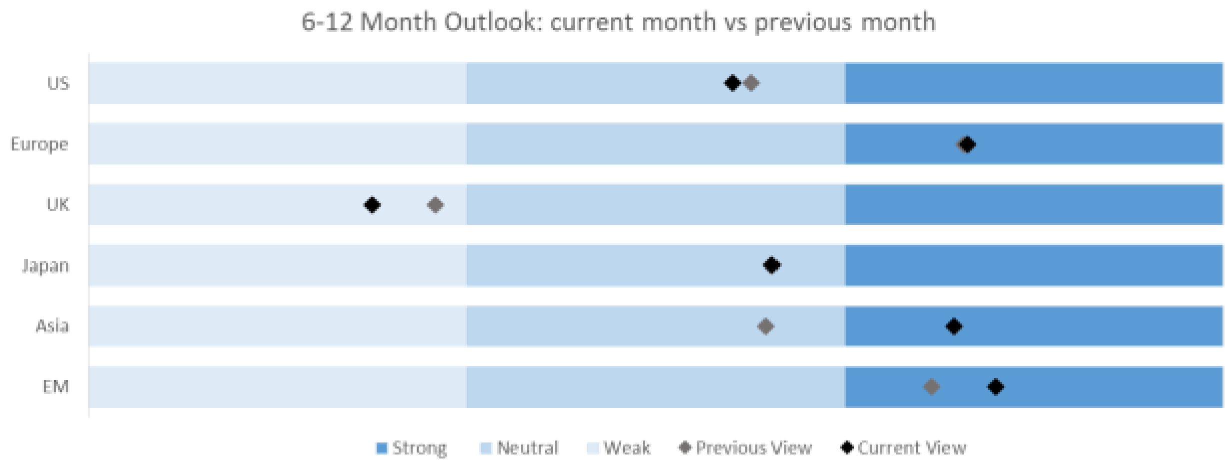
Equities

- Global equities were marginally higher this month, as growth across the world remained supportive
- Emerging Markets and Asia were the strongest performing regions, whilst the performance of developed markets was mixed
- Europe was weighed down by continued Euro strength and signs of profit taking
- UK equities benefited from further sterling weakness and improved earnings within the energy sector

Alternatives & FX

- Despite oil prices continuing to fall, commodities moved higher, as industrial metals performed well (+10%)
- Gold price was also up this month on the back of its safe haven appeal and rising tensions in North Korea
- Broad based US dollar weakness continued, supporting emerging market currencies and the euro - the Euro's 9% rise this year has also been driven by strong Eurozone growth and rising inflationary pressures in the region

Signia Macroeconomic Outlook



Source: Signia Wealth. **Data as at 31/08/2017.**

- We remain most positive on the strength of the economic recoveries in Europe, Asia and Emerging Markets, hold a neutral stance in the US and Japan, and a negative outlook for the United Kingdom
- In the US, we acknowledge a growing political impasse for President Trump's policy and economic reform agenda in congress, which is greatly needed for the economy which is approaching its late cycle phase after an 8 year expansion. 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 further revised down our UK economic outlook amidst a growing Brexit impasse, a weakened political situation after the general election, and a slowing growth trajectory for the UK economy
- Emerging market growth remains in recovery mode and is expected to outperform developed markets following five years of deceleration, currency depreciation, fiscal adjustment and structural reforms

Important Information