SIGNIA: IN TUNE WITH YOU

SIGNIA
TALKING POINTS

AUGUST 2019

Phone

+44 (0)20 7298 6060

Online

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

Investigating Inversions – part 2

If America sneezes and the rest of the world catches a cold, then what happens if the world's two largest economies give each other the flu? One of the most prominent market concerns this year has been exactly that – the unpredictable and escalating trade war between the US and China. Now well into its second year after the opening salvo of tariffs were fired, the effects on the global economy are undoubtedly being felt by all, as slowing global trade and manufacturing activity has begun to infect other economic sectors and more discernibly global growth momentum.

This has consequentially impacted markets, and amongst a confluence of other factors, caused multiple inversions of the US yield curve, which probably completed its most important 2Y10Y inversion in August when the yield on the ten-year treasury bond declined below the yield on the two-year treasury bond for the first time since 2007.

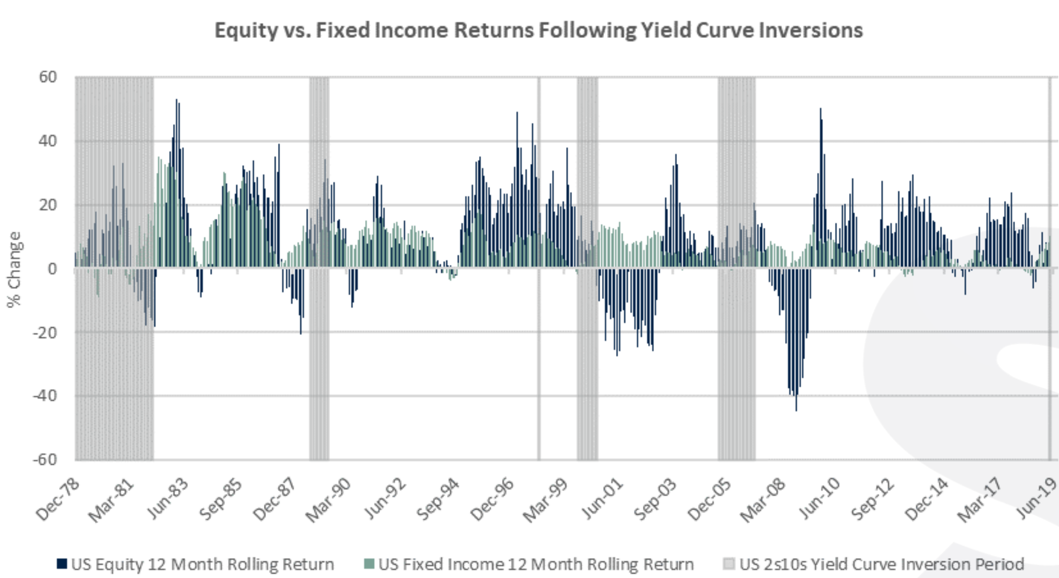
We first discussed inversions back in March: Investigating Inversions – part 1, highlighting this phenomena in fixed income markets following the 3M10Y inversion. Yield curves are normally upward sloping to compensate investors for taking time risk, but when they do invert investors take notice as historically they have tended to precede US recessions by between 12 and 18 months.

The US Federal Reserve are also watching closely having developed their own US recession probability model, which includes a US yield curve component, and is currently assigning a 37% probability that the US will be in a recession in twelve months' time – below 50% but the highest this has been since the 2008 global financial crisis.

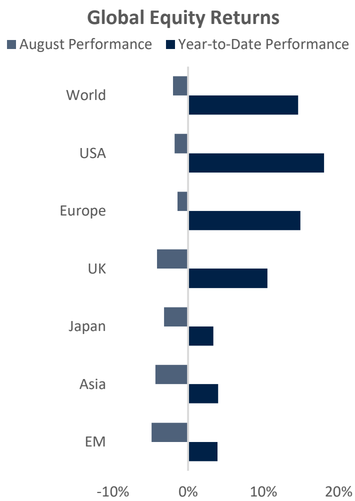
Should investors be worried? If history is anything to go by then this depends on which type of investor you are – equity or fixed income. In the four meaningful inversion periods since 1978, each one has been followed by negative equity returns within two years from first inverting, with declines occurring before the start of a recession. Fixed income returns have been broadly unaffected by inversions but have gained more substantially from the subsequent recession and easier monetary conditions.

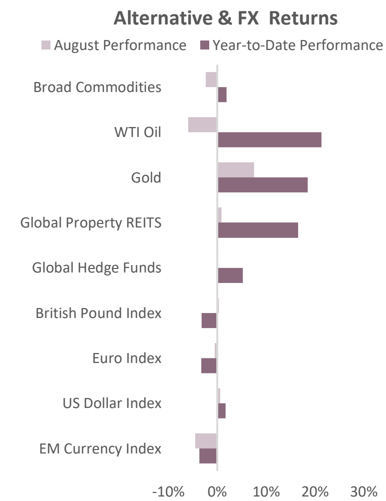
Whether this latest inversion is the start of a period of ill-health for equity investors remains to be seen, but disconcertingly their fate could simply lie in the hands of Mr Trump and Mr Xi Jinping.

Robert Lee
Co-Head of Multi-Asset Investments



Source: Signia Wealth, Bloomberg. Data as at 31/08/2019.





Source: Bloomberg, Signia Wealth. Data as at 31/08/2019.

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. 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.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. JP Morgan Emerging Market Currency Index.

Equities

Jack Rawcliffe
Senior Equity Fund Analyst

- US equities fell but were the second best performer in August, following a perceived easing of trade tensions and expectations of further cuts to interest rates
- European bourses posted the strongest relative returns, falling the least as the Euro weakened
- Asian and emerging market equites fell the most, as negative capital flows and slower global activity weighed on investor sentiment
- UK and Japanese equity markets also fell, with the former continuing to be impacted by Brexit-related sentiment and the latter by a strengthening Yen

Fixed Income

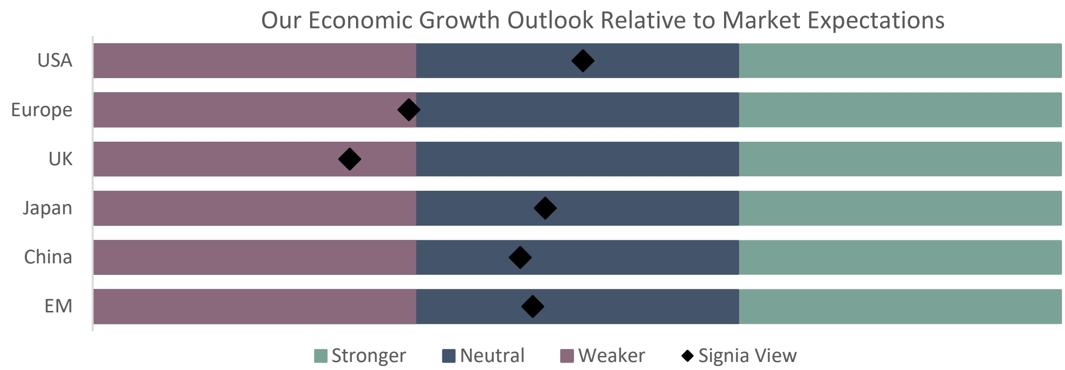
Grégoire Sharma
Fixed Income Fund Analyst

- It was a good month for fixed income as investors continued to pile into safe-haven assets after trade tensions between the US and China escalated in August, causing a 2s10s yield curve inversion
- In Europe, Italian politics remained in focus as Salvini's attempted power grab backfired with the announcement of a more market friendly 5Star/PD coalition government to oppose him which means a less confrontational stance towards Brussels
- In emerging markets, Argentine debt suffered as the incumbent market-friendly government lost heavily in primary elections against opposition candidate Alberto Fernandez

Alternatives & FX

Thomas Sollis
Investment Analyst

- Commodities fell on further signs of slowing growth and negative US China tariff announcements – Copper and Oil were amongst the weakest performers
- Gold rose strongly, as global yields continued to fall and investors looked to safe haven assets
- The US Dollar strengthened alongside traditional safe haven currencies such as the Japanese Yen



Source: Signia Wealth, Bloomberg. Market Expectations are represented by the Bloomberg Contributor Composite. Data as at 31/08/2019.

United States of America

The Federal Reserve is in easing mode to combat declining growth indicators, a benign inflation outlook and rising external risks from a prolonged trade war. Healthy wage growth is supporting domestic consumers and household balance sheets, but labour market momentum is slowing. In the corporate sector, profit margins have peaked and leverage is rising. Despite an inverted yield curve a recession in 2019 remains unlikely.

Europe

Growth and inflation indicators continue to weaken below long-term trends, led by German and Italian slowdowns, whilst heightened economic uncertainty has caused a decline in real investment and business expectations. The ECB stands ready to increase stimulus and is most likely preparing to cut interest rates and re-start its quantitative easing programme. Brexit risks are rising again as the EU prepares for re-negotiations with new UK Prime Minister, Boris Johnson.

United Kingdom

The economy remains in a very delicate state despite a strong jobs market, with monetary policy tied to a Brexit outcome. Profit growth is declining as Brexit uncertainty weighs heavily on business confidence and the value of the British Pound. Boris Johnson is committed to Brexit on 31 October, “no ifs no buts” and the probability of a snap general election is rising. The economy could already be in a technical recession.

Japan

Despite a still accommodative Bank of Japan (BoJ), economic growth remains anaemic. Wage growth and consumer sentiment indicators now also deteriorating, and with a consumption tax hike on the way in October the outlook for businesses and the Japanese economy remains depressed for 2019 in the absence of additional BoJ or government stimulus.

China

As the trade war with the USA weighs on economic growth, authorities have reaffirmed their support to stimulate the economy and contain any slowdown in order to achieve its GDP growth target of 6%-6.5% for 2019, which is looking tenuous. After an initial surge in the first quarter, total social financing (broad money supply) has stagnated with potentially negative implications for economic momentum. Hong Kong protests are weighing on both markets and its economy.

Emerging Markets

Easier financial conditions from a dovish pivot by the US Fed this year in its rate cycle has struggled to provide a meaningful boost for emerging market asset prices in the face of slowing global growth and a stronger US Dollar. A re-escalation of US-China trade tensions has caused a drop off in Chinese demand and Asian trade activity.

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