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TALKING POINTS

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Phone

+44 (0)20 7298 6060

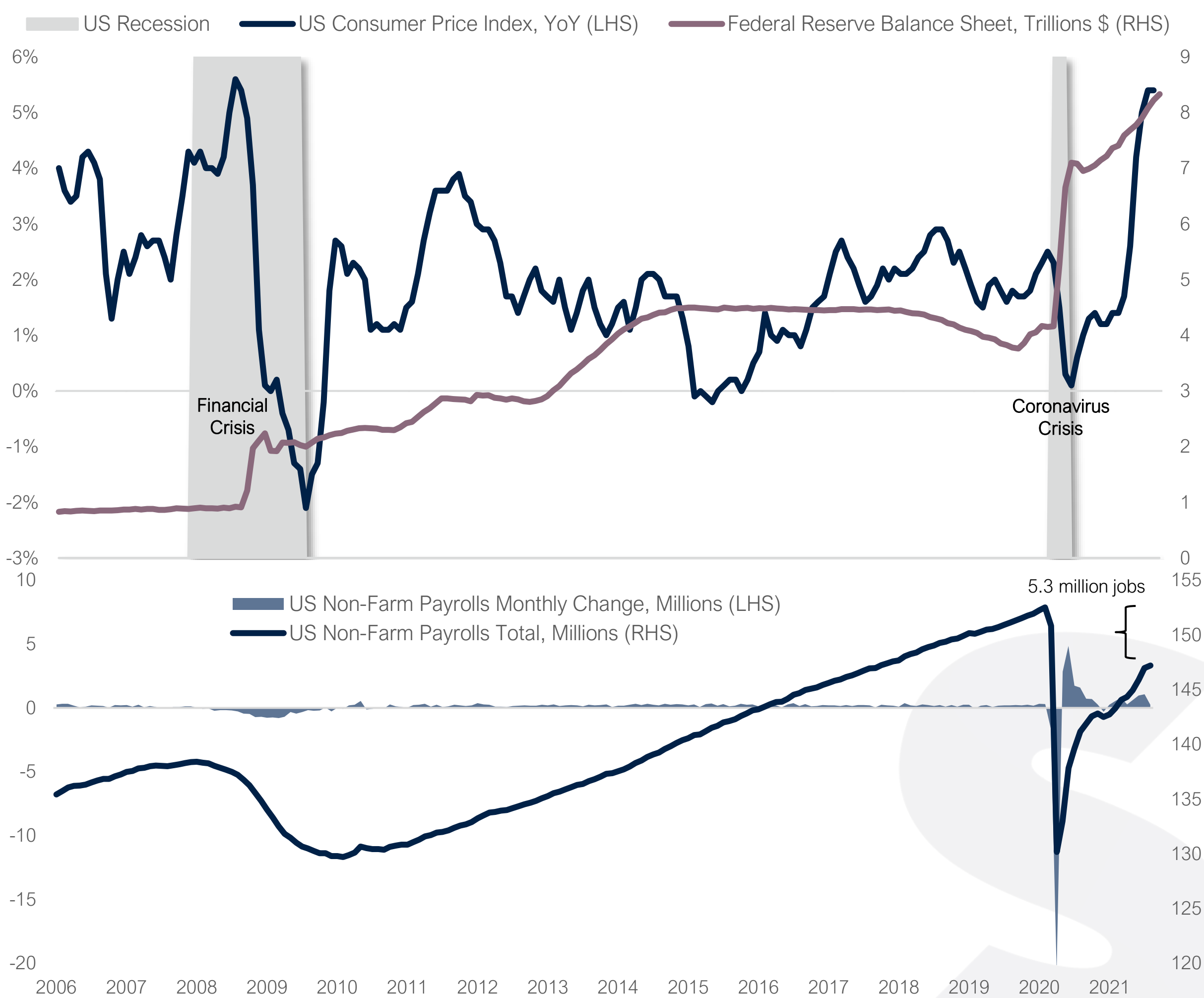
Online

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

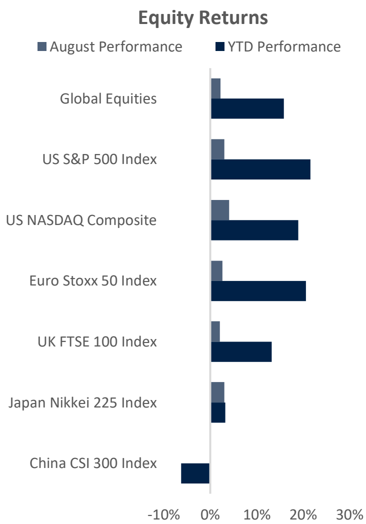
US Inflation – Hiding in Plain Sight

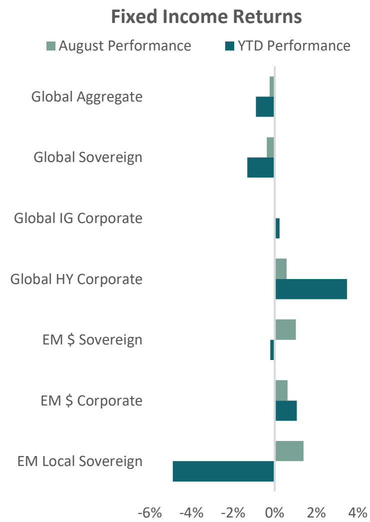
It's safe to say that the Coronavirus Crisis has brought us many unexpected twists and turns, but if you'd told me 18 months ago that consumer price inflation rising above 5% in 2021 would be one of them then I'd politely inform you that you must be mad. After all, how could the deepest synchronised economic recessions since WW2 spanning across the seven continents not possibly result in a deflationary spiral, or at the very least even lower inflation for years to come? Indeed, I would have been crazy not to listen because today US consumer prices are 5.4% higher than they were a year ago. Even accounting for low base effects this is high and equivalent to levels not seen since the lead up to the 2008 Financial Crisis. It seems now that inflation is everywhere, from rising microchip and raw commodity prices, to higher shipping and transportation costs, to increasing scarcity of labour and wage inflation pressures. The US Federal Reserve, however, does not see the world this way and does not see an inflationary scare on the horizon. It's still purchasing $120bn of fixed income securities per month and has doubled the size of its balance sheet to over $8 trillion. Instead focusing on getting US employment back to pre-pandemic levels, some 5.3 million jobs more than today. With many of these workers now retired from the pandemic and many more too scared or simply reluctant to re-join the workforce, the Fed could have its work cut out in achieving this, especially if the inflation it can't see suddenly becomes visible.

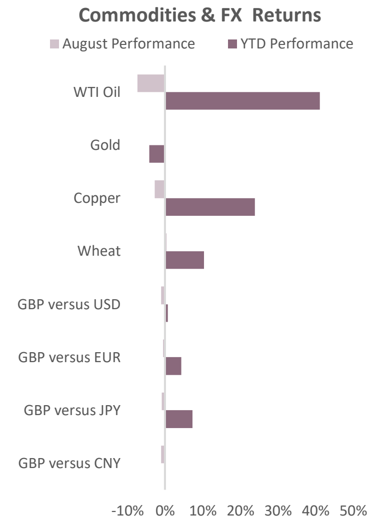
Robert Lee
Co-Head of Multi-Asset Investments



Source: Bloomberg, US Federal Reserve, Signia Wealth. Data as at 31/08/2021.







Source: Signia Wealth, Bloomberg. Data as at 31/08/2021.

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

- US equities, especially those of a higher-growth nature, performed particularly strongly in August, with investor concern around sooner-than-expected tapering of monetary support eased by the Federal Reserve
- European and UK equity markets also recorded decent positive returns for the month, as did Japanese markets owing to attractive valuations and improving economic data
- Chinese equities posted negligible returns during August, as continued regulatory intervention by Chinese authorities in certain areas of the market weighed on confidence

Fixed Income

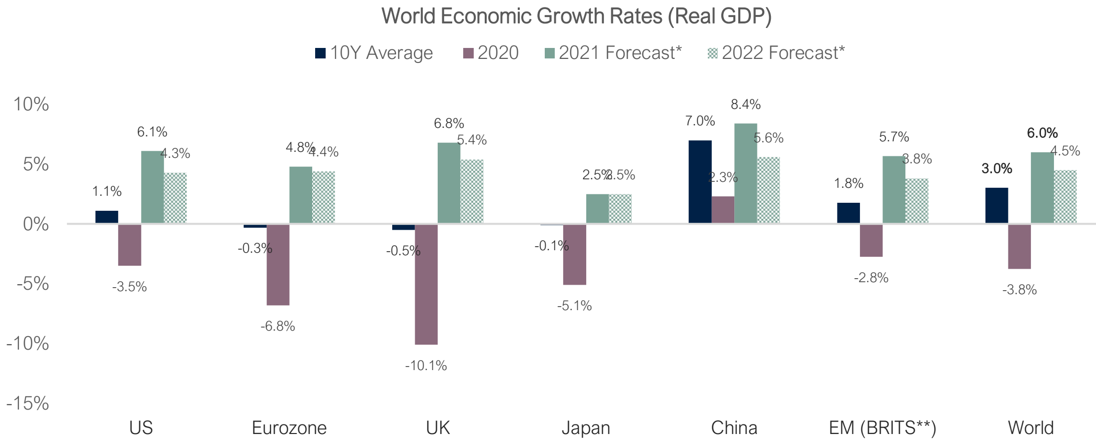
Grégoire Sharma
Fixed Income Fund Analyst

- The global treasuries index was down slightly on the month retracing some of the strong performance seen during July. The US 10 year treasury yield rose from 1.20% at the start of the month to 1.30% as some of the more extreme concerns over peak global growth witnessed towards the end of July began to unwind.
- Global corporate credit indices were mixed in August with investment grade bonds underperforming high yield bonds on the back of higher sensitivity to rising interest rates. Furthermore, global high yield credit saw spread compression as improved risk appetite and continued loose monetary and fiscal policies globally supported the asset class.
- Emerging market debt benefitted from increased risk appetite with all three sub-asset classes generating strong positive performance this month.

Commodities & FX

Harry Elliman
Investment Analyst

- WTI Crude Oil fell 7.4% as demand concerns escalated on the back of moderating economic growth and concerns surrounding the infectious Delta variant.
- The US Dollar Index rallied half a percent on the back of a solid August jobs report and relatively upbeat Federal Reserve officials, although, the currency and US Treasury Yields were kept in check due to questioning surrounding when the Federal Reserve will begin to reign in its extraordinary stimulus measures, starting with its monthly bond purchases.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 31/08/2021.

United States of America

The economy is expected to grow in 2021 at its fastest pace since the 1980s as pent-up consumer demand from record high levels of savings boost consumption, stimulus from Biden's multiple trillion-dollar fiscal packages are deployed, and as the Fed maintains its accommodative stance. Housing affordability has fallen sharply as house prices reach all-time highs above 2007 levels, whilst the labour force is still 5.3 million workers short of its pre-pandemic level.

Eurozone

After a slow start the European COVID-19 vaccination programme has accelerated past the UK's, with a higher percentage of its population now immunised. Member countries will soon benefit from European Recovery Fund stimulus spending, and together with continued ECB stimulus support via the Pandemic Emergency Purchase Programme, expectations for a stronger economic rebound this year and beyond are growing. However, southern economies are suffering another summer of disappointing tourism activity as international travel restrictions largely remain in place, and higher inflation is beginning to hamper consumer confidence and credit growth.

United Kingdom

British households have used long winter lockdowns and government furlough schemes to strengthen their finances and become net savers in anticipation of a summer spending spree following a swift vaccine rollout programme this year. Daily infections are rising and are on course to reach previous peak levels, but hospitalisations remain low thanks to a largely immunised population. The Bank of England said Britain's economy would grow by the most since its World War Two recovery as it raised its estimate for 2021 UK GDP to 7.25%, above market expectations.

Japan

Japan is struggling to control a prolonged coronavirus infection wave driven by the spread of the Delta variant and in the wake of the Summer Olympic Games which has exacerbated the problem, causing Prime Minister Suga to announce he intends to resign from his post meaning a general election must be held before the end of November. Despite substantial monetary and fiscal policy support, a vaccine-sceptic population has thus far prevented a significant economic rebound in 2021. Inflation levels are struggling to recover from negative territory and are still significantly lower compared to other G10 economies.

China

Chinese economic growth has rebounded strongly to between 8-9% this year, far ahead of any other major economy. However, being the first economy to recover from the pandemic last year means that the Chinese rebound is now ageing and beginning to slow from its peak, whilst headline consumer price inflation remains low and relatively benign, allowing policymakers to ease liquidity conditions. China's vaccination programme accelerated quickly this summer.

Emerging Markets

Most emerging economies have found themselves lagging the global vaccine rollout programme with most of the poorest EM populations currently largely unvaccinated. Despite a buoyant global economic recovery in 2021 as broad economic momentum gathers pace, the BRITS economies are still expected to grow at a slower pace than their developed market counterparts in the US and UK where policy support has been stronger.

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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.

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

Phone

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Online

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Website: www.signiawealth.com