SIGNIA: IN TUNE WITH YOU

SIGNIA
TALKING POINTS

FEBRUARY 2022

Phone

+44 (0)20 7298 6060

Online

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

The Market Impact of Invasions

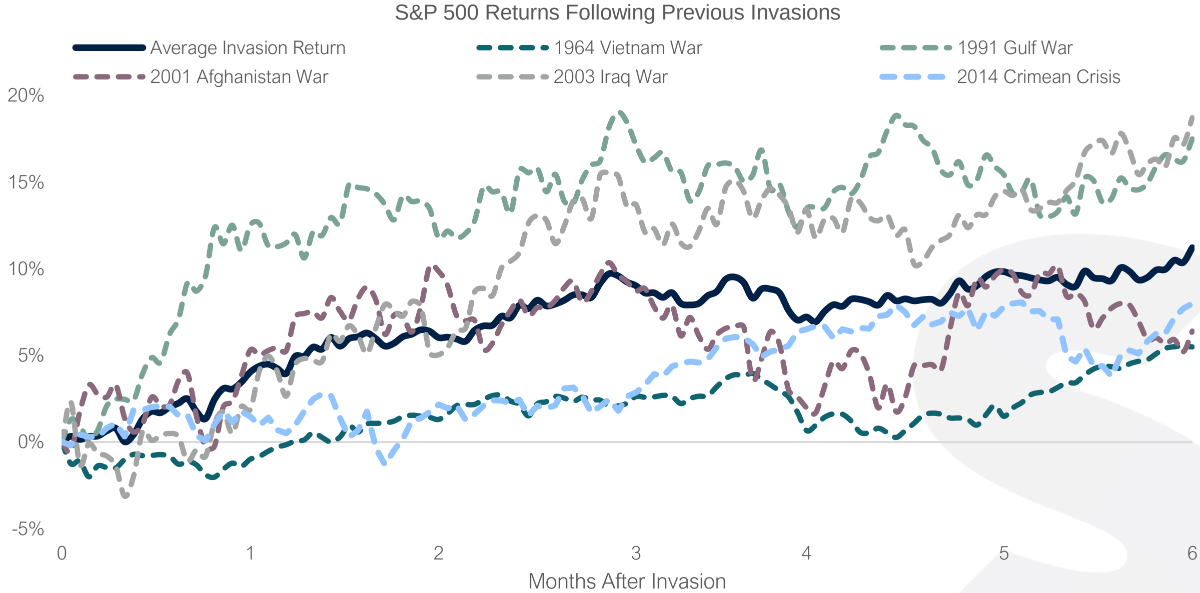
Ever since NATO's 3rd April 2008 Bucharest Summit declaration that "NATO welcomes Ukraine's and Georgia's Euro-Atlantic aspirations for membership in NATO… and agreed today that these countries will become members of NATO", tensions between Vladimir Putin and the Western world have never been the same. Russia subsequently invaded Georgia later that year in August 2008, then in 2014 after the ousting of pro-Russian Ukrainian President Viktor Yanukovych, Russia invaded and annexed the Crimean Peninsula from Ukraine. Whilst sadly it is fast becoming the next humanitarian tragedy of the modern era, it's hardly surprising then that in 2022 Russia has launched a larger scale invasion on Ukraine following President Zelensky's recent announcement for his country to obtain NATO membership as part of its National Security Strategy. There is no excuse for these atrocities, and as such much of the world have taken action to sanction Russia. The unprecedented restrictions on the FX reserves held by the Bank of Russia have handcuffed its ability to defend the ruble, which has depreciated more than 35% against the US Dollar this year and forced it to more than double its key interest rate to 20%. Could this latest act of military aggression prove to be a gross miscalculation for Mr. Putin despite his growing hatred of NATO?

At under 2% of world GDP in 2021, the impending collapse of the Russian economy will be a relatively insignificant hit to world growth. Equity markets have thus far behaved relatively calmly (excluding Russian equities!), with the S&P 500 index returning +1.5% since the invasion began on 24th February to 3rd March. Looking at how the US equity market has performed following previous invasions this reaction is not uncharacteristic. In the six months following the last five major geopolitical invasions, the US stock market has rallied and produced positive returns with an average return of +10% over the period. This is understandable as all invasions following WWII have been relatively isolated incidents with little or no negative impact on an increasingly diversified world economy.

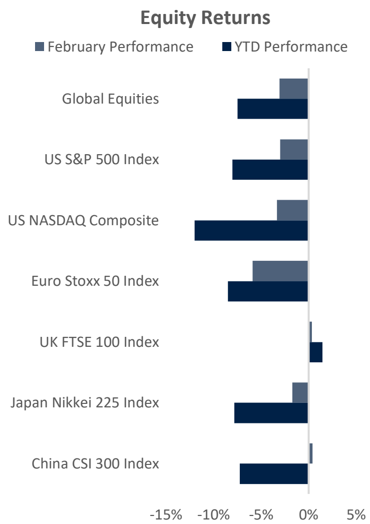
However, it is in the commodity markets where the Russian economy is truly a behemoth and waves are being felt. It is the world's largest exporter of natural gas and wheat, and second largest exporter of crude oil and raw aluminium. This is why in the last week alone since the invasion began, the prices of European natural gas, wheat, and brent oil have increased +105%, +59% and +18%, respectively. Whilst the US stock market may be right thus far in avoiding a knee-jerk reaction, the threat of stagflation (high inflation and stagnating growth) is one that investors should keep an eye on.

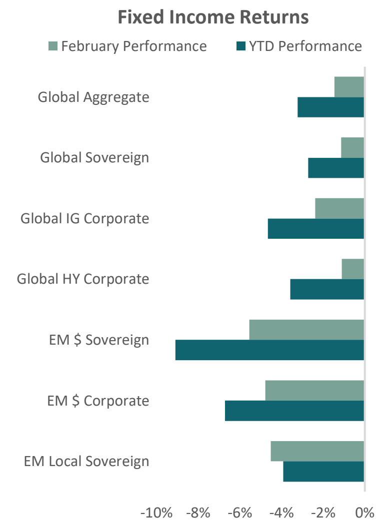
Robert Lee
Co-Head of Multi-Asset Investments

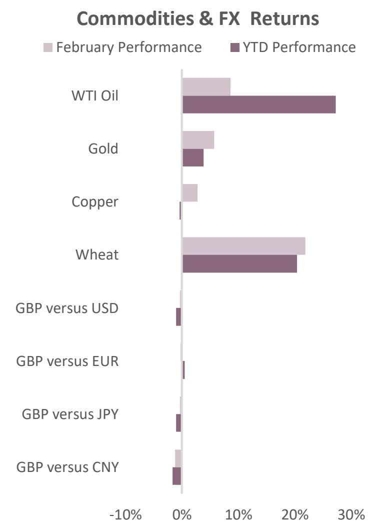
S&P 500 Returns Following Previous Invasions



Source: Bloomberg, Signia Wealth. Data as at 28/02/2022.







Source: Signia Wealth, Bloomberg. Data as at 28/02/2022.

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

- European equities fell the most during February, owing to their greater economic and geographical proximity to the outbreak of war between Russia and Ukraine.
- US and Japanese equities also fell but did so less than Europe, however UK markets managed to achieve a positive absolute return in light of the war's impact on commodity prices.
- Chinese equities also recorded a slight positive return for the month, with their less correlated nature and Chinese stimulus proving to be attractive for investors.

Fixed Income

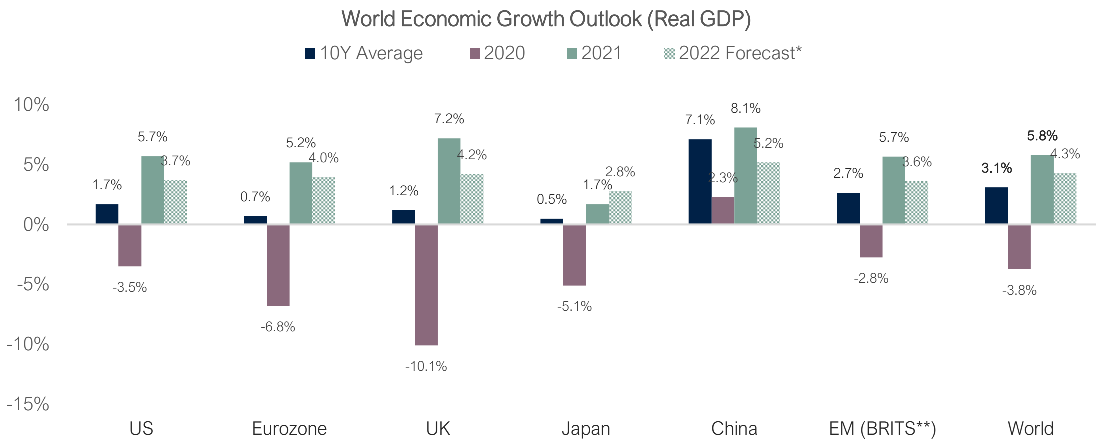
Grégoire Sharma
Fixed Income Fund Analyst

- 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 in January.
- 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 which would slow down the economy.
- Emerging market debt indices registered the worst performance in February as heightened market volatility due to Russia's invasion of Ukraine saw investors flee the asset class in favour of safe haven assets which in turn led to strengthening US dollar and weaker EM currencies.

Commodities & FX

Harry Elliman
Investment Analyst

- Gold surged 6.2% in February, posting its largest monthly gain since May 2021, as investors sought safe havens given the geopolitical turmoil on-going between Russia and the Ukraine.
- Concerns surrounding supply chain disruptions as a result of the Russia, Ukraine conflict led oil prices to continue their advance with Brent Crude positing a 10.7% gain and surpassing $100 a barrel for the first time since 2014. European natural gas futures were up 16.4%, bringing 2022 gains to 40.2%.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 28/02/2022.

United States of America

The economy is decelerating from its unprecedented 2021 pandemic recovery speed but is still expected to expand in 2022 at twice the pace of 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 position to withstand higher borrowing costs as the Fed prepares to increase interest rates to tame inflation. The labour force participation rate continues to rise slowly but is still notably below its pre-pandemic level, despite 2 million young workers entering the workforce during the pandemic.

Eurozone

Economic growth expectations for 2022 are decelerating quickly as sanctions on Russia and escalating commodity prices bite. Consumer sentiment remains resilient relative to other regions and savings should provide a meaningful buffer. Consequently, Eurozone inflation expectations are converging towards US inflation expectations as the Ukraine crisis worsens, translating into an energy crisis. French President Macron is the clear frontrunner for re-election in April.

United Kingdom

Rising consumer price inflation has now hit 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 stagflation.

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 have substantially constrained credit demand from the property and consumption sectors. However, the broader economic slowdown is moderating as the credit and aggregate financing cycle is bottoming and tax cuts are being implemented, a sign of policymakers' determination to stabilise the economy and boost consumption growth. Unlike most global economies, inflation pressures are low and still retreating in China, resulting in the PBoC being the only major central bank to cut interest rates this year.

Emerging Markets

Despite a buoyant global economic recovery in 2021, the BRITS economies are still expected to grow at an even pace this year relative to their developed market counterparts where policy support has been greater and vaccination programmes have been more widely available.

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