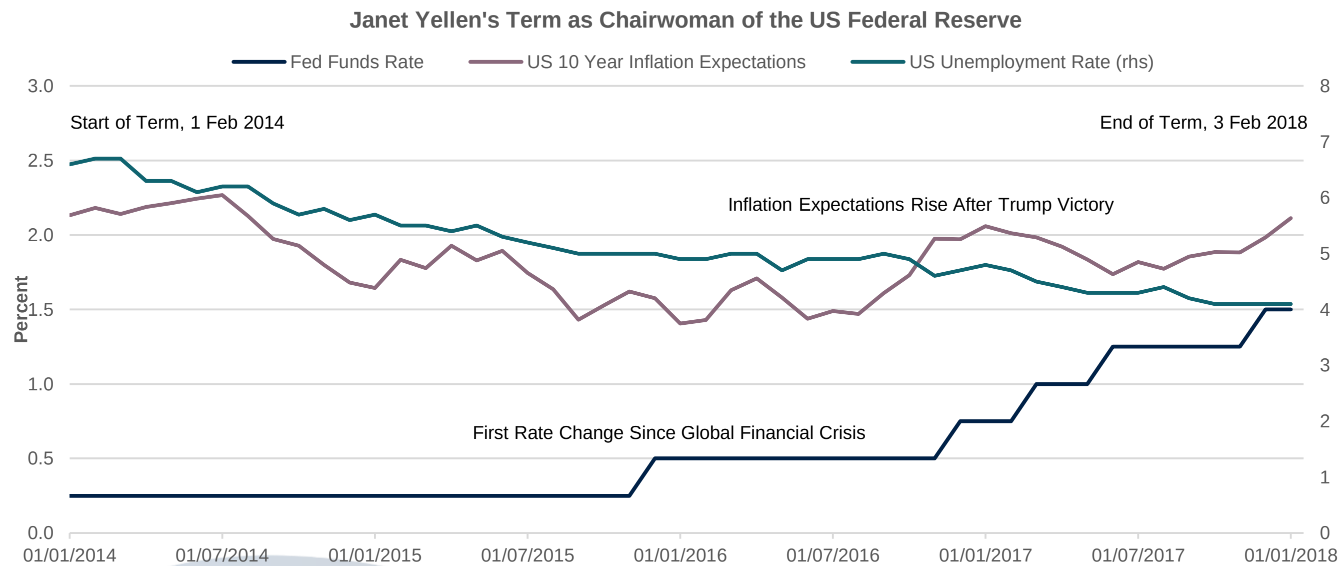
SIGNIA TALKING POINTS

January 2018

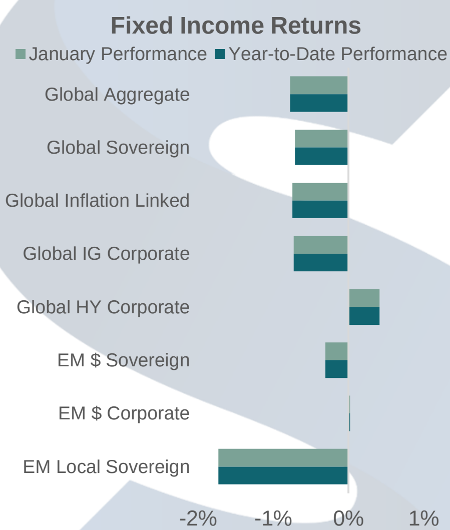
Farewell Janet

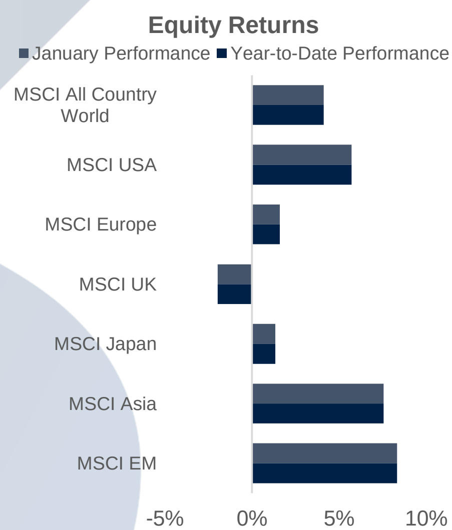
Janet Yellen, the US Federal Reserve's first woman chair, has bowed out of the Federal Open Market Committee (FOMC), after completing an arguably successful and crucial four year term at its helm. The FOMC is responsible for setting US monetary policy to achieve its dual mandate: to foster economic conditions that achieve both stable prices over the long run (targeting 2% consumer price inflation) and maximum sustainable employment (the economy's steady state level of unemployment). Whilst the goal of maximum employment has effectively been achieved, inflation levels have generally fallen short of target, but in recent months they look set to pick up as inflation expectations are rising again. After increasing US interest rates for the first time in over nine years from a record low of 0.25% set in December 2008, Mrs Yellen guided monetary policy on an unprecedented path of 'normalisation', lifting interest rates a further four times in her last 14 months in office. Her Republican successor, Jerome Powell, inherits a potentially contentious situation, where rising inflation levels could force the central bank to deviate from its slow and steady rate hiking path.

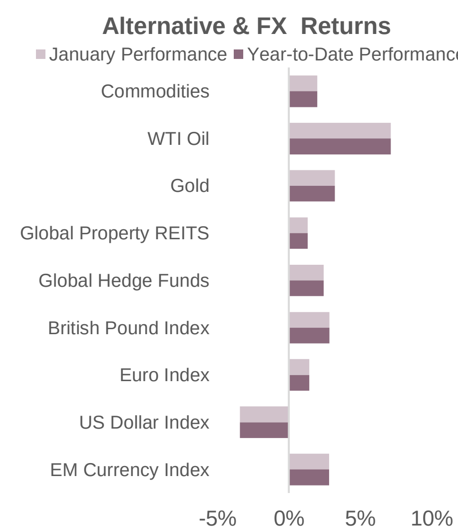


Source: Bloomberg

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 31/01/2018.

Fixed Income

- US Treasury yields jumped over the month following jitters around a US congress shutdown, news on a Federal Reserve (Fed) members reshuffle and positive economic data which could potentially lead the Fed to increase the pace of rate hikes this year
- Global investment grade credit reacted negatively to a rise in US sovereign yields whilst high yield spreads saw continued compression leading to positive returns over the month
- Emerging market local debt had a good month in US Dollar terms (but not against the British Pound as the currency appreciated strongly), on the back of continued strength in the global economy, improving fundamentals, and investor demand

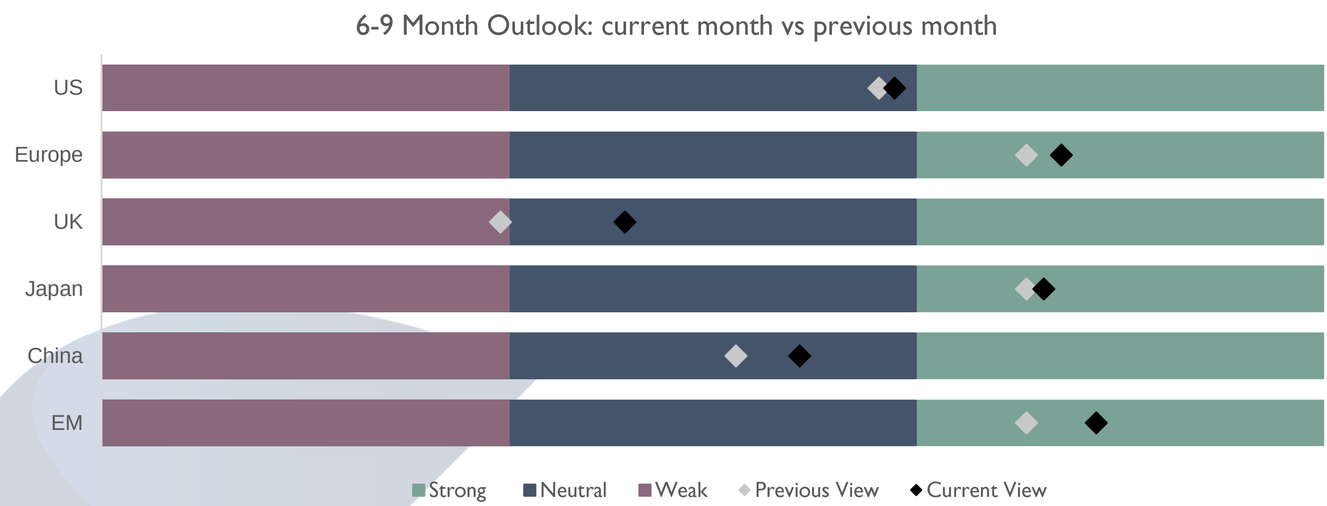
Equities

- Emerging market equities were the best performer, fuelled by renewed weakness in the US Dollar, increased risk appetite, as well as China achieving better than expected economic growth in 2017
- The S&P 500 Index also recorded robust returns, with tailwinds from the recent tax cuts continuing to support markets. This was reinforced by positive corporate earnings which largely met expectations
- UK equities lagged other markets, as continued Brexit uncertainty and Sterling strength weighed on returns

Alternatives & FX

- Commodities had another strong month in January with the BCOM Total Return Index closing at 184.04 (+1.99%). Energy was up +4.50%, Petroleum was up +4.65% and Grains had a strong month closing up 4.34%. BCOM WTI was up +7.24% and BCOM Brent was up +3.98%, the moves in the oil space were triggered by talk of renewed production cuts by OPEC as well surprise draws on inventory data
- The DXY had its worst month in a year closing at 89.133 (-3.25%). Some analysts have attributed the weakness to a loss in faith in US political institutions and policy. It is speculated that both events drove the largest holders of US currency (i.e. foreign governments) to offload US Dollars in significant volume

Signia Macroeconomic Outlook



Source: Signia Wealth. **Data as at 31/01/2018**

- **Global**: We are most positive on the strength of the economic outlooks for Europe, Japan and the Emerging Markets, and remain most cautious for the outlook on the UK economy
- **US**: The passing of tax cuts and reforms by congress should further support a continuation of a solid economic expansion for an economy that was previously viewed as being in the latter stages of its cycle
- **Europe**: Economic and earnings recoveries are earlier in their cycles and gathering momentum, but face potential headwinds from a less accommodative European Central Bank and strengthening domestic currency
- **UK**: High consumer price inflation and negative real wage growth, combined with existential Brexit uncertainty with the European Union, has begun to weigh on consumer sentiment and the growth outlook for the UK economy
- **Japan**: The Bank of Japan remains firmly committed to its accommodative policies to stimulate consumer price inflation, whilst the Japanese economy stands to benefit most from a continued synchronised global economic expansion this year
- **China**: Curbing of pollution levels in China is an environmental positive but comes at an economic cost by slowing industrial output growth at a time when the corporate sector is deleveraging and economic growth is on a downward trend
- **Emerging Markets**: Buoyant commodity prices and a weak US Dollar environment are historically a perfect cocktail for strong emerging market growth, which also stands to benefit from a continued synchronised global economic expansion this year

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