SIGNIA TALKING POINTS

January 2019

SIGNIA

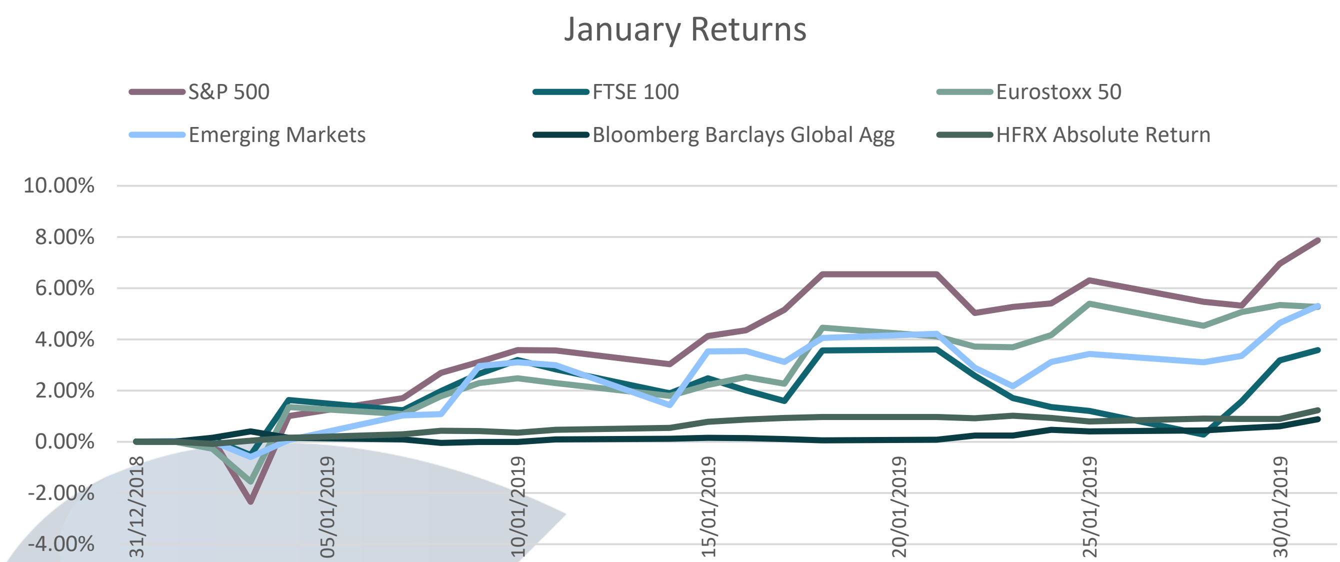
The Bull is Back

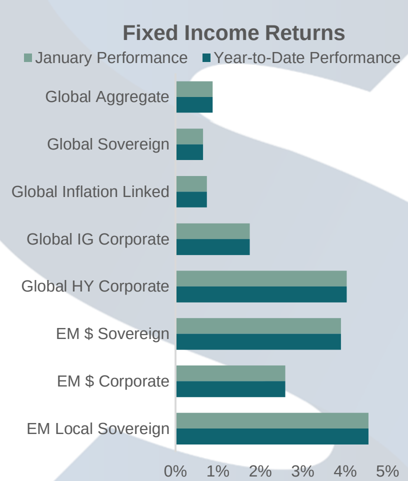
After the December turmoil, markets were in risk on mode for January. The rally actually started on Boxing Day and has continued largely unabated since. Interestingly, much like 2018 when the major asset classes all sold off in unison, January 2019 exhibited similar correlation characteristics and the major asset classes all rallied with commodities and rates joining the equity and credit party.

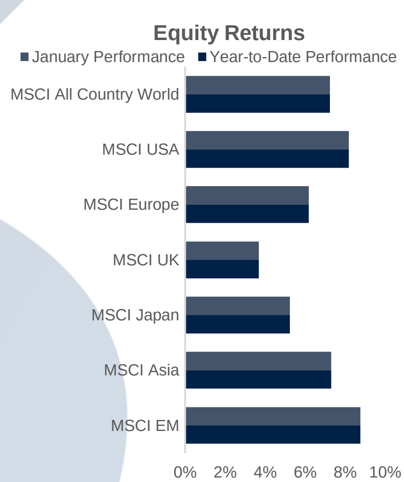
The main reason for the bullishness was the more dovish Federal Reserve ("the Fed"). The Chairman of the Fed, Jerome Powell, signalled that they would likely pause the Fed's rate hiking cycle, something that was unapparent at the December Federal Open Market Committee meeting. Significantly, he acknowledged the falling equity market and tightening in financial conditions, and said he would adjust policy quickly whilst being patient to see how the economy develops. Markets read this positively implying much of the risk premia associated with the final quarter of 2018 was directly attributable to concerns over the pace and extent of the Fed raising rates.

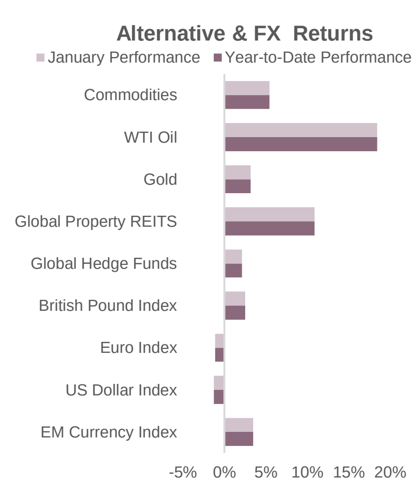
Adding to the risk on sentiment was the marginally positive news on US-China trade talks as they restarted, indicating that both sides were at least prepared to engage in dialogue. We wait and see for the ultimate breakthrough however.

Whilst January was a spectacularly bullish month with the S&P rallying nearly 8%, one has to only rewind a year for a similarly spectacular start to 2018 when the S&P rallied 5.6% only to retrace much of it's gains in February and to fall further still by the end of the year; so whilst it's been good so far this year, investors should not start feeling too comfortable.









Source: Bloomberg, Signia Wealth. Data as at 31/01/2019.
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: 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 USD; 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.

Fixed Income

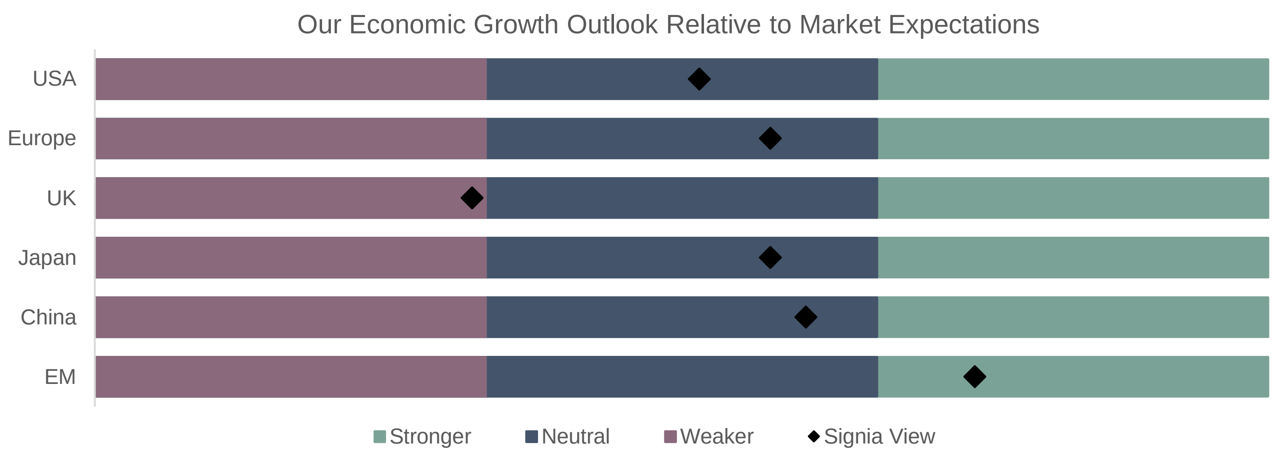
- It was a positive month for fixed income markets across all major sub-sectors following the more dovish stance of the Fed which saw US treasuries and the global sovereign bonds index rallying
- Emerging Market debt rallied the most over the month on the back of a more dovish Fed, range-trading dollar (having come off the highs of November), low oil prices, and attractive EM FX valuations
- Corporate credit also performed well on the back of earnings beating analysts' expectations and easing tensions surrounding the US-China trade talks. In high yield credit, low default rates and encouraging leverage ratios are still lending support to the asset class

Equities

- US equities ended January as the second strongest performer, as better-than-feared corporate earnings and dovish comments from the Fed helped buoy sentiment
- Emerging market equities recorded the best performance, with cheap valuations and a relatively strong outlook driving returns
- UK equities lagged over the month, as Sterling strength versus the US dollar weighed on the large globally exposed stocks that dominate
- European and Japanese bourses delivered solid, if not spectacular, positive performance, somewhat recovering December losses

Alternatives & FX

- Oil rebounded strongly to start the year which helped lift commodity prices
- The US Dollar weakened as the Fed shifted their stance by pausing rate hikes and reviewing balance sheet tapering. This along with the rise in commodities helped emerging market currencies, most noticeably, the South African Rand (+8%), Brazilian Real (+6%) and the Canadian Dollar (+4%)
- Gold also benefited from a weaker US dollar as well as a decline in real yields



Source: Signia, Bloomberg. Market Expectations are represented by the Bloomberg Contributor Composite. Data as at 31.01.19.

- USA: A government shutdown over funding Trump's border wall with Mexico lasted 35 days ending mid-January with a temporary truce, furloughing 800,000 workers and detracting circa 0.3% from GDP. A trade war truce with China was agreed at the November G20 summit with both sides working towards a more permanent agreement by the end of February. Despite tightening financial conditions and an inverting yield curve a recession in 2019 remains unlikely.

- Europe: Economic growth indicators have weakened as the end of the ECB's asset purchase programme in December and numerous political issues in 2018 dragged on economic sentiment. Economic expectations remain low but with the employment market and wage growth in healthy shape, and the ECB contemplating additional stimulus, economic growth could surprise on the upside later in the year. European parliament elections are due to be held in May.

- UK: The economy remains in a delicate state with monetary policy tied to a Brexit outcome. Profit growth is declining and risks remain to the downside as intensifying Brexit uncertainty weighs heavily on business confidence and the British Pound. As the March 29th Brexit deadline draws closer without a solution, some economic indicators are showing stockpiling of goods in preparation for a no deal Brexit.

- Japan: Fiscal stimulus from the government is increasing to help the Bank of Japan in its monetary fight against structurally low economic growth but also consumer price inflation which continues to be anchored near zero despite a very tight labour market. Foreign workers continue to drive the replacement of the shrinking domestic labour force as immigration policies are relaxed. Weak economic growth could recover and corporate profit margins are at all-time highs.

- China: President Xi Jinping's government is cutting both corporate and personal taxes in an attempt to stimulate its economy and head off any trade war risks with the USA. The People's Bank of China is also helping and is in easing mode to counter this and other self-inflected risks by the government who have been cracking down on the unregulated shadow banking sector that has caused credit growth and infrastructure spending activity to decline substantially.

- Emerging Markets: After slowing in 2018 due to tighter financial conditions and a stronger U.S. Dollar, broad economic growth looks to have stabilised, helped by declines in domestic currencies and the price of oil. The macro environment in 2019 is looking more supportive as a more market friendly U.S. Federal Reserve, softer U.S Dollar, and anchored bond yields provide a fillip for the EM complex.

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Important Information