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TALKING POINTS

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Brave new world or more of the same?

Many investors and non-investors alike will be glad to see the back of 2020. Setting aside the tragic humanitarian cost of the pandemic and focussing on financial markets, there has been volatility, sectoral rotations and unprecedented levels of global monetary and fiscal stimulus. 2020 certainly has been a year like no other.

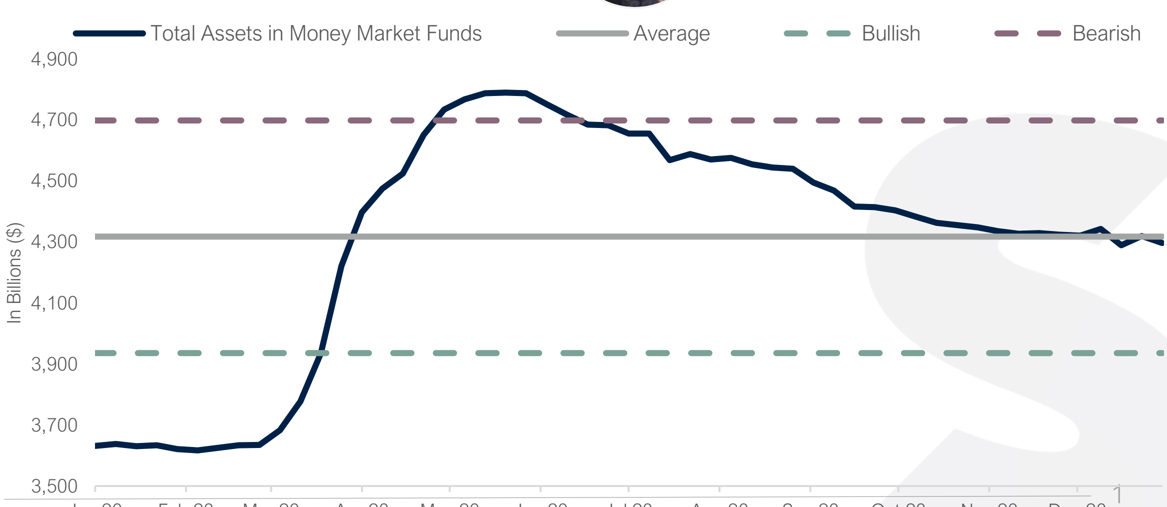
For all the negative hyperbole, asset returns for the full calendar year of 2020 have been bullish. Global stocks as measured by the MSCI All Country have returned 14.2%. Following interest rate cuts and corporate backstops bonds have returned 5%; as measured by the Bloomberg Barclays Global Index. Even commodities (which typically comprise a small proportion of multi-asset portfolios), are only down 3.5% for the year. All of this in a year during which oil traded at a negative price. WTI oil started 2020 at $61 a barrel and briefly during April was trading at close to -$38 a barrel; blowing up investors and wrecking sophisticated risk management models along the way.

Just as intriguing is the fact that asset classes and regions that did well before the pandemic have generally continued to do even better during the pandemic. Had an investor constructed their portfolio in January 2020 based on returns of the previous decade and over-weighted US stocks - in particular tech, over-weighted US government bonds, (which have been in a secular 35 year bull market); and largely shunned commodities, their portfolio should have earned a double digit return.

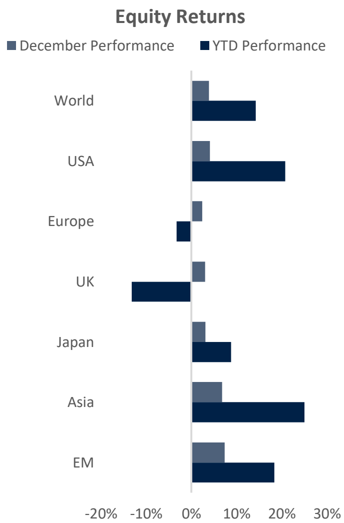
With the current resurgence of the virus and large swathes of developed market nations going back into the most stringent of lockdowns, there continues to exist an ever-growing dichotomy between Wall Street and Main Street. Currently the S&P 500 is at its all time high and on a pure valuations basis equity looks expensive with the S&P 500 at almost 30 times earnings. At the same time COVID-19 new case growth is above its Q2 2020 peaks in most developed countries. Given equities are now higher than they were pre-pandemic it's clear investors have shifted from outright bearishness to at least being neutrally positioned; as shown by the total assets in money market funds, (effectively cash), below. Investors are considerably overweight money market funds compared to February 2020 indicating that whilst bearish sentiment has ebbed, we are not yet back at early 2020 bullishness. An additional metric reflecting this is the VIX, often referred to as the 'fear gauge', which is at 23 versus a level of 14 pre-pandemic.

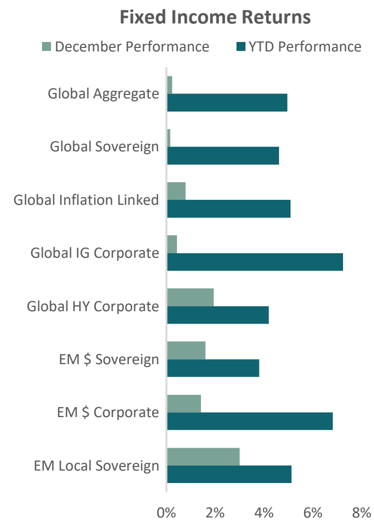
Financial markets are intrinsically forward looking and tend to price an environment at least 6 to 9 months ahead. As such, current equity levels in the context of a near zero interest rate policy, super supportive fiscal policy, vaccine roll-out and investors who still haven't fully embraced the bull market point to more room left to run on the upside for risk assets.

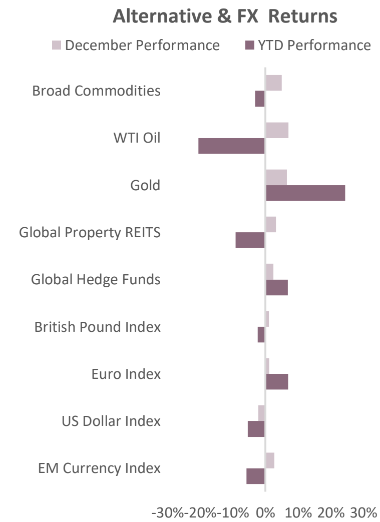
Ammalan Annalingam
Co-Head of Multi-Asset Investments



Source: Signia Wealth, Bloomberg. Data as at 31/12/2020.







Source: Signia Wealth, Bloomberg. Data as at 31/12/2020.

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, particularly in the technology sector, recorded strong returns during December, with hopes of further fiscal stimulus buoying investor sentiment
- UK and European indices posted positive returns but lagged their US counterparts, as renewed coronavirus concerns and fresh lockdowns outweighed the agreed Brexit deal
- Japanese and Chinese bourses also performed well, with the former supported by improving economic data

Fixed Income

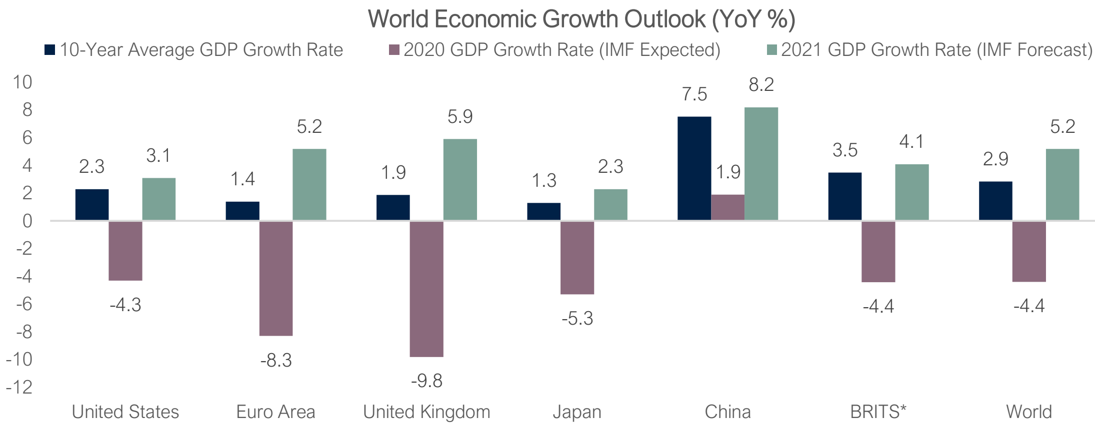
Grégoire Sharma
Fixed Income Fund Analyst

- December was rife with positive news ranging from the announcement of vaccine rollouts to major stimulus packages in Europe and the US which saw the global sovereign bond index underperform risky assets as a result.
- Global corporate credit spreads tightened on the back of continued support from central banks. Global high yield credit outperformed investment grade credit as the energy sector had a strong month, driven by the price of crude oil.
- Emerging market debt outperformed all other fixed income sectors, buoyed by the pick-up in investor sentiment, improving Chinese macroeconomic data and a strong hunt for yield.

Commodities & FX

Harry Elliman
Investment Analyst

- Copper continued its tremendous run in December returning 2.9% and therefore 25.8% for 2020. This was in anticipation of a global economic recovery, its usability in green projects, and demand from the world's largest buyer, China, as it continues its impressive recovery from COVID-19.
- Gold jumped back from its drawdown in November to return 6.8% in December, thus returning over 25% in 2020. This was as a result of rising inflation expectations and a decline in real yields and the US Dollar.



* Brazil, Russia, India, Taiwan, South Korea
Source: Signia Wealth, IMF, Bloomberg data as at 31/12/20

United States of America

The US economy has rebounded quicker and stronger than expected over the summer after the shortest sharpest recession in history, which saw the economy contract -10.4% in nominal terms during the first half of 2020. However, Coronavirus infections remain high and are rising again after the Thanksgiving holidays. The blue wave has now materialised and a Democrat controlled White House and Congress should boost government spending.

Eurozone

Europe has experienced a deeper economic recession this year versus other regional economies and deflation risk is now gripping the regional bloc after four consecutive months of negative year-on-year CPI prints. Second economic lockdowns are still largely in force as winter COVID-19 infections persist, further pressuring inflation expectations, However, with the European Recovery Plan nearing ratification by all 27 EU states and additional ECB stimulus on the way in December, expectations for higher economic growth in 2021 and beyond are rising.

United Kingdom

The UK suffered a worse economic and humanitarian fate relative to the Eurozone after being slower to introduce Coronavirus containment measures that were amongst the strictest in Europe. December brought with it stricter lockdowns reminiscent of the initial March 2020 lockdown but a No Deal Brexit was avoided with a deal agreed on goods. UK's predominant services industry was largely omitted from the deal so there remains plenty of uncertainty.

Japan

In his first months of leadership Prime Minister Suga has so far successfully navigated his country through the ongoing pandemic, avoiding any runaway second wave of infections in Japan in contrast to many of its northern hemisphere winter counterparts. Domestic economic growth indicators for 2020 are also outpacing most G10 counterparts. There is massive policy support but a vaccine-sceptic population may slow a return to economic normality.

China

China is one of very few global economies that has avoided an economic recession this year by growing an impressive 4.9% year-on-year in the third quarter after quickly returning economic operating capacity back to pre-pandemic levels. Chinese GDP is expected to continue its solid growth path and rebound to its long-term historical growth rate of 8% in 2021. China's recently announced new five-year economic plan elevates its self-reliance in technology into a national strategic pillar, most likely as a direct result of growing competitive tensions and trade wars with the US. Additional market risks surround the concept of an open economy as the government ordered a halt to the Ant IPO after the controlling shareholder, Jack Ma, was critical of certain public bodies.

Emerging Markets

Emerging economies, mostly outside of Asia, are still feeling the full economic and humanitarian impact from the Coronavirus crisis. Economic performance has been mixed this year with commodity producers Brazil and Russia suffering from a collapse in prices, India as a net importer of commodities benefitting from price declines but suffering badly from a protracted and damaging first wave on infections; and Taiwan and South Korea feeling less economic pain due to successful virus containment measures and buoyant trade tailwinds with China.

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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.

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

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