SIGNIA: IN TUNE WITH YOU

SIGNIA
TALKING POINTS

JANUARY 2022

Phone

+44 (0)20 7298 6060

Online

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

The Hawks Spread Their Wings

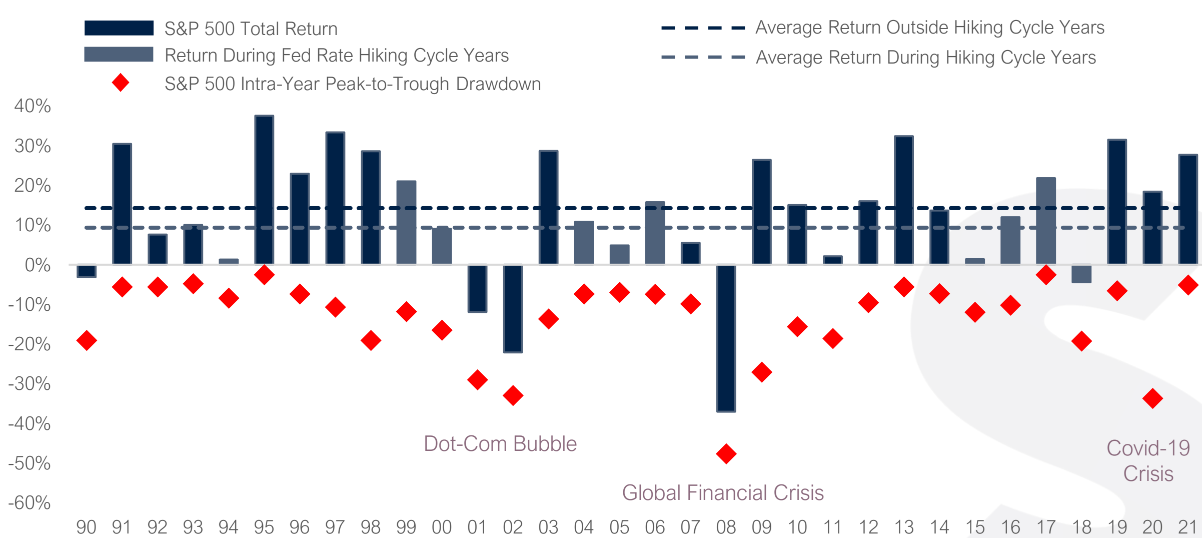
Things can change very quickly in financial markets these days. Only last summer most G20 central banks were still in emergency pandemic easing mode, more worried about Covid risks and economic recoveries than the threat of rising inflation that was deemed 'transient'. Both the US Federal Reserve ("the Fed") and markets held a benign outlook for inflation and a sanguine stance for accommodative financial conditions, pricing in a slow tapering of the Fed's quantitative easing programme this year and no rate hikes until 2024. Now, it seems the debate has moved to 3-5 rate hikes and quantitative tightening in 2022!

Most of this re-pricing has occurred over the last three months with the 1-Year US Treasury Bond yield rising a staggering 65 basis points from 0.12% at the end of October to 0.77% at the end of January. With the recognition of growing inflation pressures becoming more persistent, and the abandonment of the mantra that rising consumer prices were merely a temporary cyclical spike above its mandated 2% target level, the Fed has laid the grounds for a series of rate hikes starting in March, completing its hawkish (albeit rushed and disorderly) pivot. Joining them has been the Bank of England, who announced this month a second consecutive increase to its Bank Rate by 25 basis points to 0.5%, marking the first back-to-back rate hike for the Bank since 2004 and hinting there's more to come in 2022. However, the biggest shock to markets and investors came just last week, the European Central Bank's President Lagarde brought the prospect of higher Euro interest rates into view for the first time since 2011, noting "unanimous concern" about upward inflation surprises and not repeating her previous remarks that a 2022 rate hike was unlikely. This was almost unfathomable only a few weeks ago.

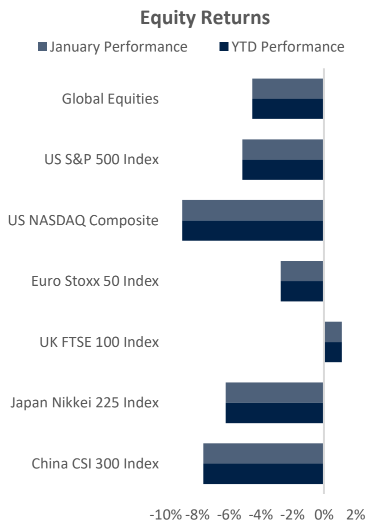
All of this has translated into turbulence in financial markets, but whilst most participants have long been prepared for volatility in the fixed income markets, it's the turbulence in the equity markets that have got investors asking questions about the resilience of the mighty US bull market. After all, 2022 has already seen many global equity indices drop between 5-10%, and also the biggest drop in market capitalisation of any stock in history with Meta declining -26% in one day, wiping out an eye-watering $237bn in value. Whilst concerning, all is not doom and gloom. A closer look at the last 30 years of US equity returns amidst 4 Fed rate hiking cycles reveals that equities have generated positive returns in each hiking cycle, albeit with a lower average return, but most interestingly without any significant drawdowns akin to previous crisis events.

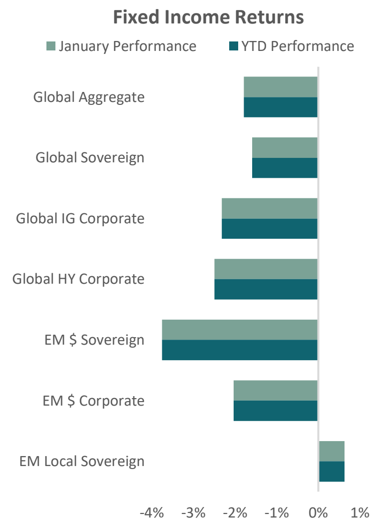
Robert Lee
Co-Head of Multi-Asset Investments

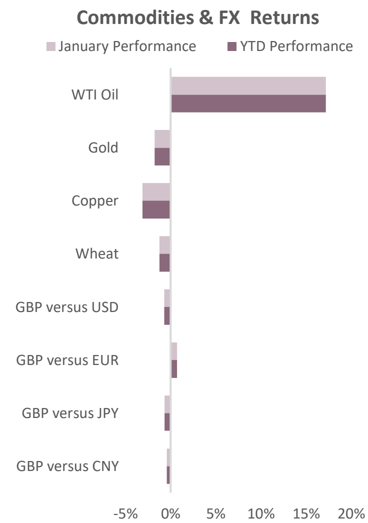
Equity Market Returns During US Federal Reserve Rate Cycles



Source: Bloomberg, Signia Wealth. Data as at 31/01/2022.







Source: Signia Wealth, Bloomberg. Data as at 31/01/2022.

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

- Faced with the prospect of tighter monetary policy most equity markets fell during January, with high growth companies in the US the hardest hit owing to their higher valuations
- Wider US equities and those in Japan also fell significantly, however European and UK markets performed better due to their greater exposure to value-orientated stocks
- Chinese equities endured a difficult month, as the risk-off sentiment prevailing in markets and continued economic growth concerns weighed on returns

Fixed Income

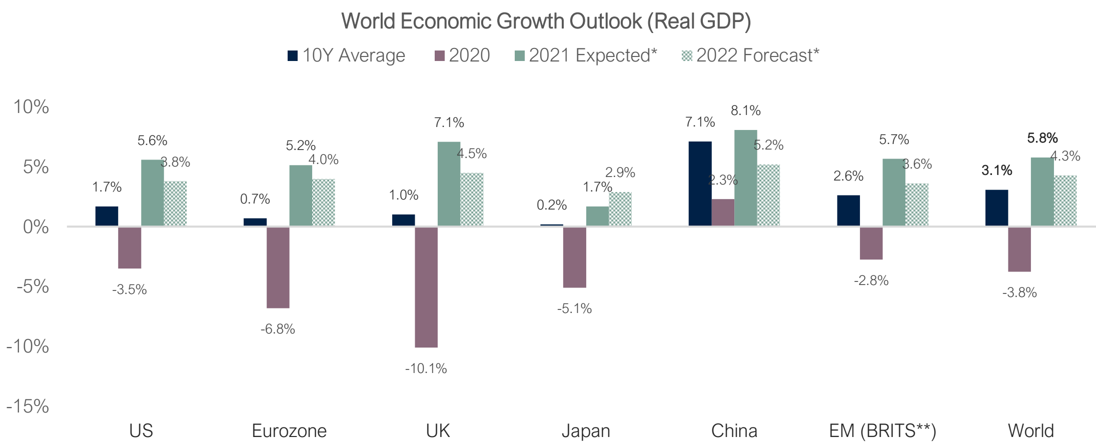
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds finished the month in negative territory as high inflation data and market expectations of more restrictive monetary policy from the Fed saw bond yields rise significantly in January
- Corporate credit indices suffered over the month on the back of elevated market volatility as earnings releases disappointed and US bond yields priced-in tighter-than-expected US monetary policy which should slow down the economy
- Emerging market USD sovereign debt registered the worst performance in January due to the strengthening US dollar and risk off sentiment as rising US bond yields and geopolitical tensions led to heightened market volatility

Commodities & FX

Harry Elliman
Investment Analyst

- After rising 55% in 2021, WTI Crude oil saw its strongest gain in 11 months as it rose 17.2% in response to consistent and persistent inflation, and the growing geopolitical risk arising between Russia and the Ukraine. A reduction in concerns surrounding the Omicron variant also raised prospects of demand to continue to recover.
- The rise in US yields on the expectation of five rate hikes in 2022 from the Fed, enabled the US Dollar to hit an 18 month high, outperforming its major peers in the G10.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 31/01/2022.

United States of America

The economy is decelerating from its unprecedented pandemic recovery speed but is still expected to expand at roughly twice the pace of its long-term average growth rate in 2022. Wage and employment cost growth have also accelerated to the highest levels in the post-Global Financial Crisis era. The labour force participation rate continues to rise slowly but is still notably below its pre-pandemic level, despite nearly 2 million young workers entering the workforce. The Fed is expected to raise interest rates between 4-7 times this year and start reducing the size of its balance sheet.

Eurozone

The economy slowed down late last year on the back of supply disruptions and covid restrictions and is facing two contradictory forces in 2022: a strong job market and unspent accumulated savings, versus elevated inflation levels. Consumer sentiment remains resilient relative to other regions and savings should provide a meaningful buffer. The largest inflation component is energy which should stabilise this year, albeit remain expensive. Geopolitical risks remain as Russian military forces build on Ukraine's borders despite calls from NATO to deescalate and desist.

United Kingdom

The IMF expects the UK to grow the fastest in the industrialised G7 economic bloc this year but surging inflation and energy bills, and higher taxes, are expected to hurt disposable household incomes and may cause a cost-of-living crisis, potentially taking the steam out of the economic recovery. The BOE announced its second consecutive interest rate increase, the first time it's done back-to-back hikes since 2004.

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

The economic growth slowdown is moderating as the credit and aggregate financing cycle is bottoming and tax cuts are being implemented. Infrastructure investment rising and the property sector liquidity is easing. The Winter Olympics is under way and the highly significant 20th Communist Party Congress is due this year. The People's Bank of China is the only major central bank that has cut interest rates and eased financial conditions 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 in the US and Europe where policy support has been greater.

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