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TALKING POINTS

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Expanding Expansions

They say that economic expansions don't die of old age, instead economists tend to blame central bank policy errors or exogenous shocks to an economy. Australia, for example, has gone 27 years without a recession, defined as two consecutive quarters of negative economic growth or gross domestic product (GDP). Arguably, Australia is a special case, helped by it's abundant supply of natural resources to the world during the 90s and 00s commodity super cycle and to China's substantial multi-year fiscal expansion following the 2008 global financial crisis.

Back to current times and July was a landmark month for the American economy, which notched up its 121st consecutive month of GDP growth since the current expansion began over a decade ago in June 2009 after the global financial crisis in 2008. Prolonged by unprecedented amounts of fiscal spending and quantitative easing, it surpassed its previous 120-month record streak encompassing the dot-com bubble from 1991 to 2001.

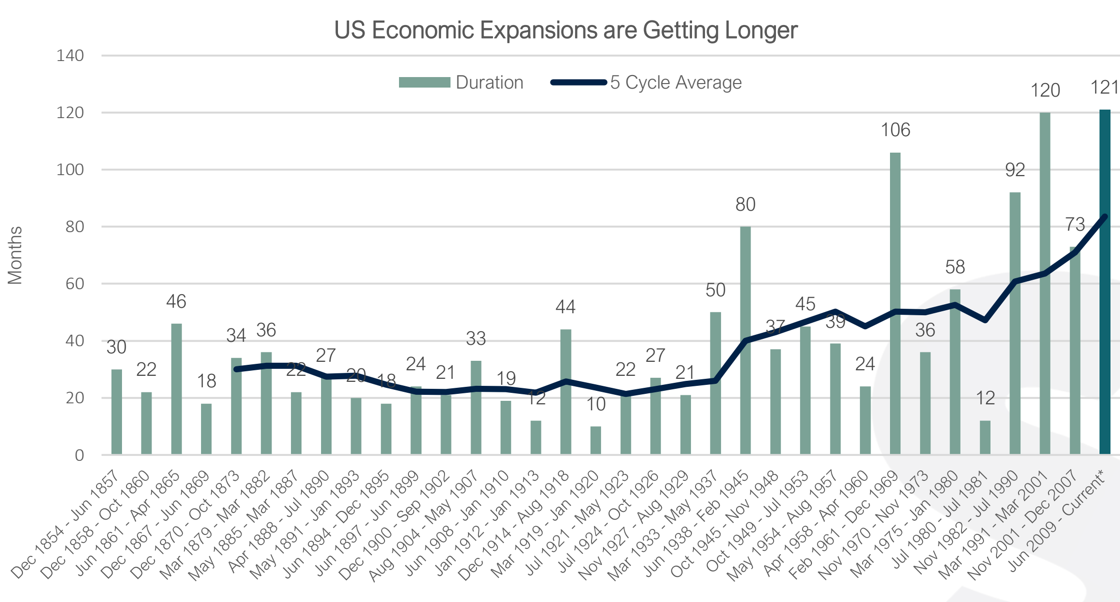
Quite discernibly both of these record expansions have occurred in the last three economic cycles. However, one of the shortest expansions of all time lasting only one year occurred in the 1980s – so is there a trend forming or has the last three decades been an aberration?

Looking back over the last 165 years reveals the average duration of American economic cycles has indeed been expanding. The trailing five-cycle average has risen steadily from 20 months at the start of the twentieth century to 84 months today.

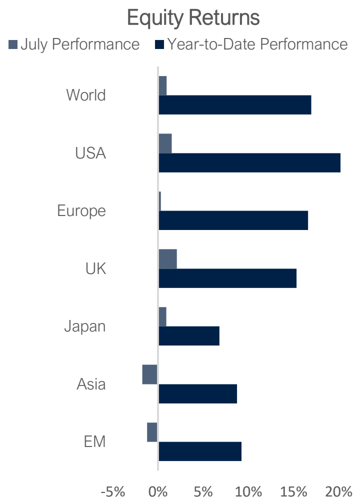
But the current economic expansion has been slower than previous periods of economic growth, growing at an average rate of 2.3 percent per year since 2009. In comparison, the economy grew 3.6 percent per year during the 1990s. A combination of unskilled workers and an aging population has likely contributed to the lower growth rate. Around 10,000 baby boomers are retiring each day, and employers have struggled to replace those workers.

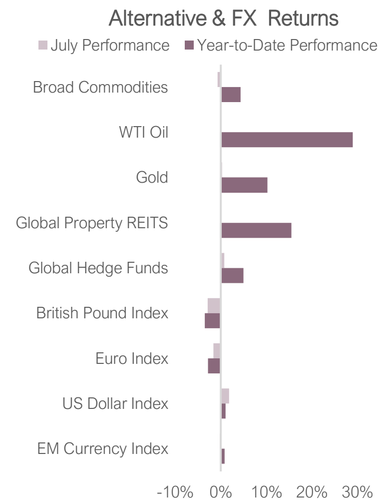
Nonetheless, the current expansion has added 21 million jobs to the economy and 17 trillion dollars to the market cap of the S&P 500 stock market, which unsurprisingly hit another all-time high in July. So the trillion dollar question remains: this expansion is unquestionably growing long in the tooth, but if age isn't going to kill it, what will?

Robert Lee
Co-Head of Multi-Asset Investments



*As of July 2019 and ongoing
Source: Bloomberg, Signia Wealth. Data as at 31/07/2019.





Source: Bloomberg, Signia Wealth. Data as at 31/07/2019.

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Equities

Jack Rawcliffe
Senior Equity Fund Analyst

- US equities rallied in July, as the Federal Reserve cut interest rates at the end of the month
- Asian and emerging market equities were the worst performers due to a stronger US dollar and weaker trade data
- European bourses were also impacted by weaker growth but ended the month slightly positive as bond yields continued to fall
- UK and Japanese equity markets were also higher, with the former helped by a materially weaker sterling, supporting large cap stocks

Fixed Income

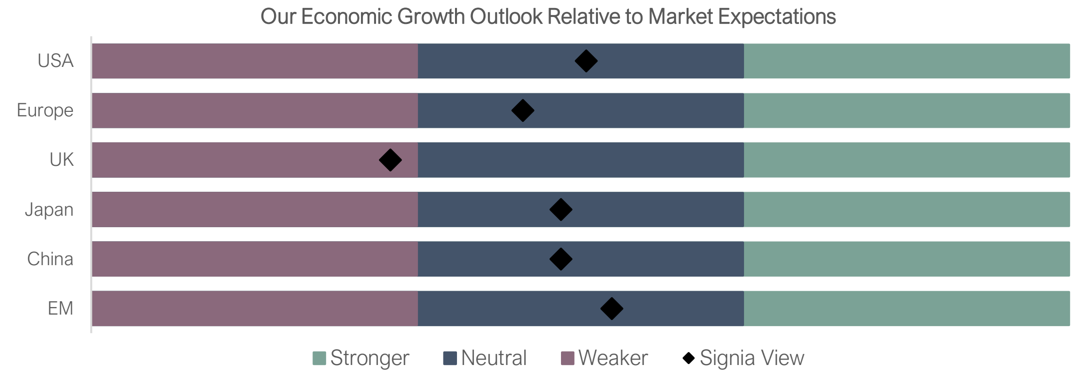
Grégoire Sharma
Fixed Income Fund Analyst

- It was a good month for global sovereign bonds as investors favoured safe-haven assets, having digested a raft of disappointing PMI data, central bank dovishness, and a generally risk-off mood following the Federal Reserve's 25 basis point rate cut
- Global investment grade and high yield credit finished the month in positive territory on the back of better-than-expected earnings releases, central bank dovishness, and a good technical backdrop with low relative issuance on a year-on-year basis

Alternatives & FX

Thomas Sollis
Investment Analyst

- Commodities fell slightly, as copper weakened on global growth concerns
- Gold continued its strong run, as investors positioned for easier monetary policy by major central banks
- The US Dollar strengthened against most currencies, especially Sterling as the market probability of a no-deal Brexit increased



Source: Signia Wealth, Bloomberg. Market Expectations are represented by the Bloomberg Contributor Composite. Data as at 31/07/2019.

United States of America

The Federal Reserve reduced its benchmark interest rate by 25 basis points to a range of 2-2.25% to combat declining growth indicators, a softening inflation outlook and rising external risks from a prolonged trade war. Healthy wage growth is supporting domestic consumers and household balance sheets. However, in the corporate sector profit margins have peaked and leverage is rising. Despite a partially inverted yield curve a recession in 2019 remains unlikely.

Europe

Growth and inflation indicators continue to weaken below long-term trends, whilst heightened economic uncertainty has caused a decline in real investment and business expectations. The ECB stands ready to increase stimulus and is most likely preparing to cut interest rates and re-start its quantitative easing programme. Brexit risks are rising again as the EU prepares to re-start negotiations with new PM Boris Johnson of the UK.

United Kingdom

The economy remains in a very delicate state despite a strong jobs market, with monetary policy tied to a Brexit outcome. Profit growth is declining as Brexit uncertainty weighs heavily on business confidence and the British Pound, with the weak currency helping the manufacturing sector by boosting export demand. Boris Johnson was elected Prime Minister by the Conservative membership and has committed to a Brexit on 31 October, “no ifs no buts”.

Japan

Despite a still accommodative Bank of Japan (BoJ), economic growth remains anaemic. With wage growth and consumer sentiment indicators now also deteriorating, and a consumption tax hike on the way in October, the outlook for businesses and the Japanese economy remains depressed for 2019 in the absence of additional BoJ or government stimulus. A trade war with South Korea intensified as both countries removed each other from preferential trade lists.

China

As the trade war with the USA weighs on economic growth, authorities have reaffirmed their support to stimulate the economy and contain any slowdown in order to achieve its GDP growth target of 6%-6.5% for 2019. After an initial surge in the first quarter, total social financing (broad money supply) has stagnated with potentially negative implications for economic momentum. An African swine flu epidemic is putting upward pressure on both Chinese food and broad inflation.

Emerging Markets

Easier financial conditions and a benign US Dollar from a recent dovish pivot by the US Fed in its rate cycle has struggled to provide a meaningful boost for emerging market asset prices. A re-escalation of US-China trade tensions has caused a drop off in Chinese demand and Asian trade activity.

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FOCUSED AND SPECIALISED

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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.

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We think long-term – that achieves the best results. So we manage long-only investment portfolios and we stick to guidelines agreed with you.

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Cash and debt need to be managed well. We consider both alongside your other investments.

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Intellectual capital can be just as important as investment. Our clients appreciate that we bring them together to make the best deals.

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THE CONVERSATION

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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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