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TALKING POINTS

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Moving dots plot the path for earlier Fed rate hikes

They might look like a bunch of dots stacked neatly on top of each other but these now infamous dots are watched by market participants worldwide as they communicate the most likely future policy path of the world's most influential central bank, the US Federal Reserve. Each quarter the Federal Open Market Committee (FOMC) – the body that sets the central bank's monetary policy – recalibrates its economic outlook and publishes its 'Dot-Plots', which were introduced in 2012 as an effort by the Federal Reserve to be more transparent regarding its policies. Each FOMC participant (currently 18 members) submit their assessments of the appropriate target range for the federal funds interest rate required to foster outcomes for economic activity and inflation that best satisfy his or her individual interpretation of the Fed's statutory mandate to promote maximum employment and price stability.

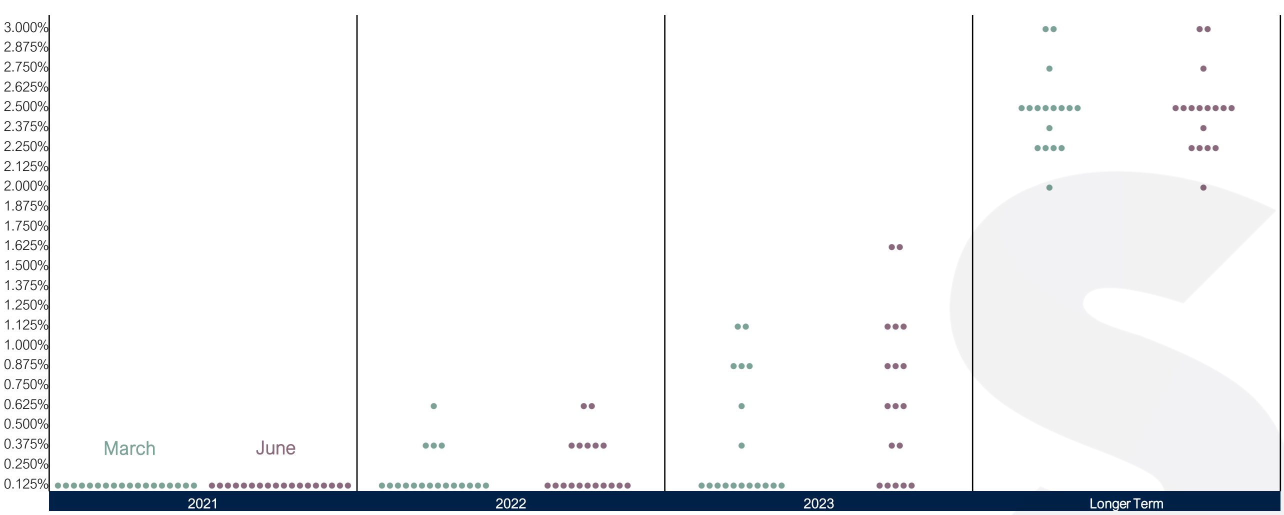
On 16th June the Fed released its latest dot-plot update since March which surprised the market, causing bond yields to decline and equity markets to wobble. It showed a clear move by the FOMC towards starting earlier interest rate hikes than the previously communicated. The median dot level in 2023 had moved from the current range of 0-0.25% to 0.5-0.75%, implying two 25 basis point rate hikes in 2023 in contrast to previously showing no hikes until 2024. This may not seem like a big move, and one that's at least 18 months away, but it was the signal of intent by the Fed to react to building inflationary pressures in the US economy that caught many people off-guard.

Up until now the Fed's message to the market was one of ample liquidity and accommodative policies for many years to come in order to fight any economic scaring from the pandemic and tolerate consumer price inflation overshooting its 2% average target level for an extended period of time. The FOMC Chair, Jerome Powell, is one of the more dovish members and has emphasised many times that the committee deems the current inflation overshoot as 'transitory' in nature, and that the Fed would not hike rates pre-emptively. However, the dots don't lie and show a Fed that are willing to move earlier than expected as inflation risks start to tilt towards the upside.

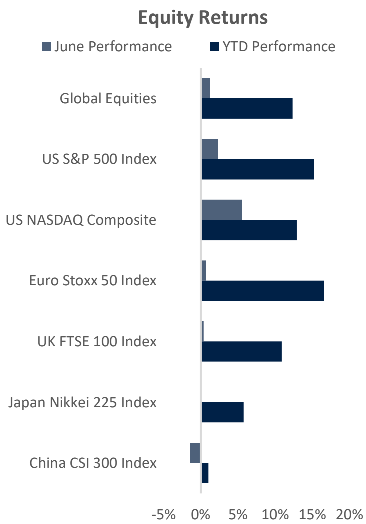
So why have US Treasury yields shifted lower in response to higher expected interest rates? This is a question that investors are still getting to grips with three weeks later. We suspect the market is pricing in a series of pre-emptive rate hikes by the Fed that will ultimately derail the global economic recovery. We disagree with this, and see a more patient and inflation-tolerant Fed, led by Powell, that supports financial markets over the medium-term.

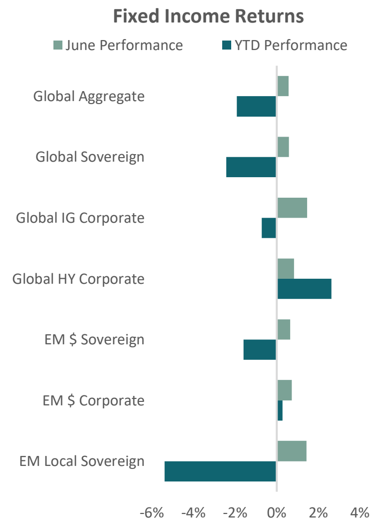
Robert Lee
Co-Head of Multi-Asset Investments

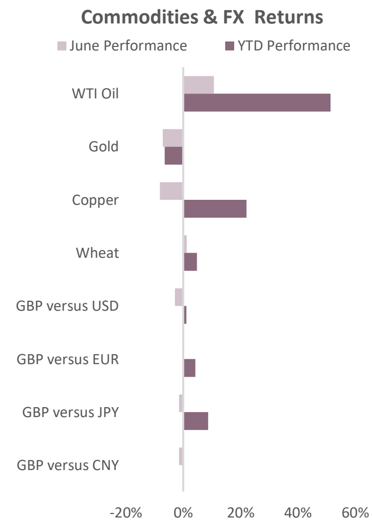
US Federal Reserve Dot-Plots for the Fed Funds Rate, March 2021 vs June 2021



Source: Signia Wealth, US Federal Reserve, Bloomberg. Data as at 30/06/2021.







Source: Signia Wealth, Bloomberg. Data as at 30/06/2021.

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 outperformed their developed market counterparts in June, with higher-growth stocks performing particularly well due to lower bond yields and renewed concerns around the Delta variant of COVID.
- European and UK markets delivered more modest, albeit positive, returns whilst Japan was marginally down, as the greater cyclical exposure of all three indices weighed on returns.
- Chinese equities fell during June, with deteriorating economic data, continued monetary policy concerns, and more cases of COVID in the Asian region all affecting sentiment.

Fixed Income

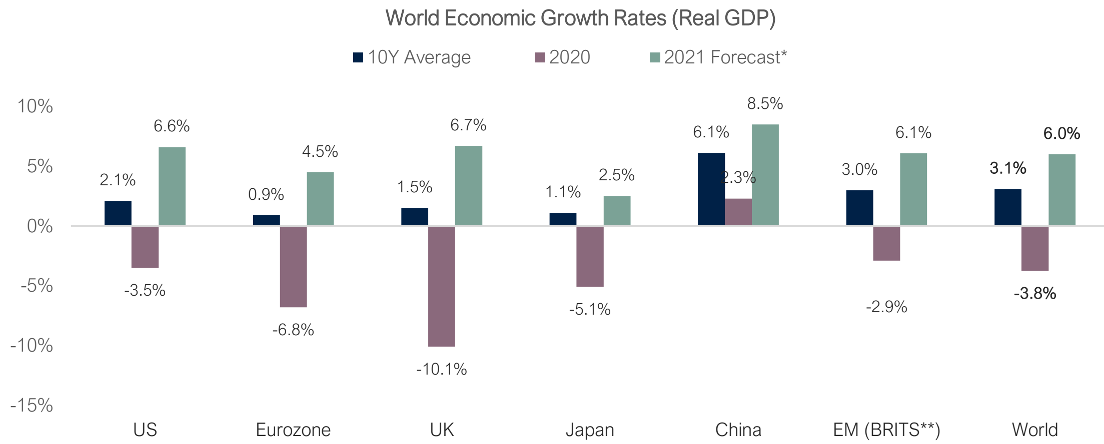
Grégoire Sharma
Fixed Income Fund Analyst

- June saw a continuation of the global economic rebound where risk assets outperformed safe havens. Despite rate hike expectations being brought forward to 2023, US 10 year yields finished the month lower leading the global treasuries index to rise slightly.
- Turning to global credit, the investment grade index outperformed the high yield index due to higher interest rate sensitivity. High yield credit generated positive returns mainly on the back of higher commodity prices.
- In Emerging market debt, hard currency sovereign and corporate indices ended the month in positive territory whilst the local debt index generated negative returns due to the negative performance of EM FX.

Commodities & FX

Harry Elliman
Investment Analyst

- Gold endured its worst month in June since 2016, falling 7.2% after the Federal Reserve indicated a more aggressive stance towards raising interest rates in the coming years. This helped the US Dollar rise 2.9% for the month.
- WTI Crude Oil rose nearly 10.8% in June as expectations of a return to economic normality would stimulate demand. This takes its 2021 return to nearly 55%.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 30/06/2021.

United States of America

The economy is expected to grow in 2021 at its fastest pace since the 1980s as the country's vaccination programme progresses quickly, pent-up consumer demand from record levels of savings boost consumption, and as fiscal impulse from Biden's multiple trillion-dollar fiscal packages are deployed. Housing affordability is falling sharply as house prices reach all-time highs above 2007 levels, whilst the labour force is still c.4m workers short of pre-pandemic level.

Eurozone

After a slow start European COVID-19 vaccinations are picking up as infection rates decline, leading to the re-opening of the economic bloc this summer. Member countries will soon benefit from European Recovery Fund stimulus spending, and together with continued ECB stimulus support via the Pandemic Emergency Purchase Programme, expectations for a stronger economic rebound this year and beyond are growing. However, southern economies are suffering another summer of disappointing tourism activity as international travel restrictions largely remain in place.

United Kingdom

British households have used long winter lockdowns and government furlough schemes to strengthen their finances and become net savers in anticipation of the end of all COVID-19 restrictions in July and subsequent summer spending spree following a successful vaccine rollout programme this year. Infections are on the rise as the country unlocks but hospitalisations remain low thanks to effective vaccines. The Bank of England said Britain's economy would grow by the most since World War Two as it raised its estimate for UK GDP growth in 2021 to 7.25%, above market expectations.

Japan

Japan is struggling to control a third and prolonged coronavirus infection wave ahead of hosting the Summer Olympic Games after a very slow COVID-19 vaccination programme. Despite substantial policy support, a vaccine-sceptic population may hamper a significant economic rebound in 2021. Inflation levels are rising, albeit from a negative base and are still significantly lower than across other G10 economies.

China

Chinese economic growth is expected to rebound above its trend growth rate of around 6%, to between 8-9% this year. However, being the first economy to recover from the pandemic last year means that the Chinese recovery is ageing and beginning to slow from its peak, whilst the world economy is accelerating. China's vaccination programme is picking up pace after a slow start, whilst headline consumer price inflation remains low and relatively benign.

Emerging Markets

Emerging economies have found themselves lagging the global vaccine rollout programme with most of the poorest EM populations currently largely unvaccinated. Despite the outlook for a more synchronised global growth backdrop in 2021 as broad economic momentum gathers pace and reflation policies take hold, key economies in Brazil, India, Russia and Turkey are still fighting elevated COVID-19 infection rates, increasing the risk of new and deadlier global virus variants.

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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.
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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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