

SIGNIA: IN TUNE WITH YOU



SIGNIA TALKING POINTS

JULY 2022

Phone

+44 (0)20 7298 6060

Online

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

The Euro's Electric Slide to Parity

Mario Draghi: “The ECB is ready to do whatever it takes to preserve the euro. Believe me, it will be enough.”

In July 2012, in the depths of the Eurozone sovereign debt crisis, the then president of the European Central Bank, Mario Draghi, came to the rescue of the Eurozone and its prized single currency by uttering these now infamous words. It stemmed the systemic panic spreading across the regional bloc that soaring government bond yields for the heavily indebted southern member nations of Italy and Greece were leading to an end of the Eurozone project.

The ECB went on to rapidly expand its balance sheet by trillions of euros from under €2 trillion before the debt crisis to nearly €9 trillion today, including purchases of billions of euros of peripheral government debt from 2015 when Greece became the first developed nation in history to miss a loan payment of €1.6 billion owed to the IMF, triggering another collapse in the value of the Euro. Despite the extremes reached by this stress test of the Eurozone's resilience, Euro weakness did not result in parity with the US Dollar, which would have been psychologically destructive for Eurozone policymakers. It had looked to have been permanently averted until it was ultimately reached in July this year, reviving memories of its difficult early noughties period soon after its formation,

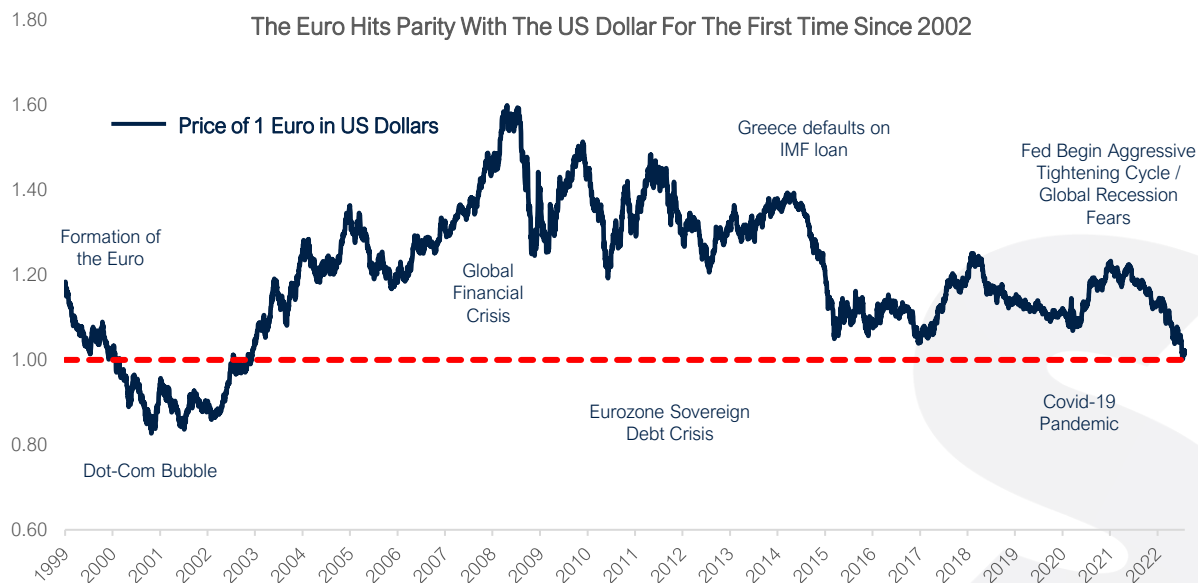
when it fell so low traders dubbed it the “toilet currency”. But why now, why again?

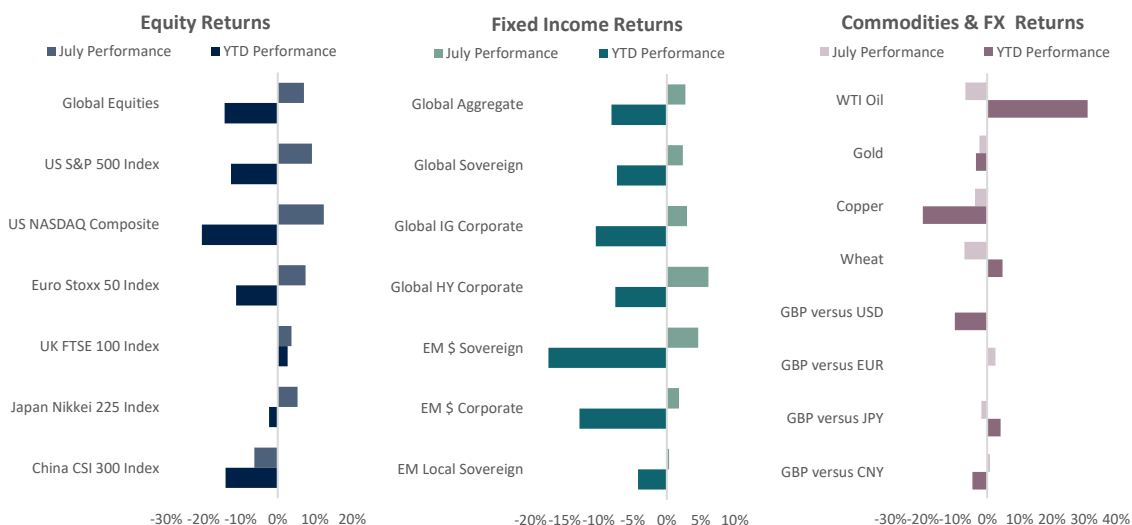
Much like the infectious line dance moves set to Marcia Griffiths and Bunny Wailer's song, Electric Boogie, that can have you ‘electric sliding’ all night, the Euro has been on its own perpetual slide against the US Dollar since its pre-Global Financial Crisis peak in 2008. More recently, however, this 37% depreciation over the last 14 years has been driven by a culmination of higher risk premiums associated with the war in Ukraine and Russia's longer-term strategic intentions, combined with a very strong period for the US Dollar as the Federal Reserve embarks on a historically aggressive financial tightening cycle to tackle elevated inflation levels and an overheating labour market.

Whatever the plight of the Eurozone and its single currency, it makes up a fifth of global foreign exchange reserves and a quarter of global bond issuance, so it can no longer be written off as flush-away waste. However, with a widening gulf between the long-term economic prospects of the US and the Eurozone, investors should consider that parity with the US Dollar may not be the end of this story, and perhaps further weakness may lie ahead.



Robert Lee
Co-Head of Multi-Asset Investments





Source: Signia, Bloomberg. Data as at 31/07/2022.

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



Harry Elliman
Investment Analyst

- Global developed equity markets rallied in July as a result of expectations that moderating economic conditions would result in a dovish pivot by the Federal Reserve who have been aggressively hiking rates this year to combat decade high inflation. Notably, the tech heavy Nasdaq rose 12.4% positing its best month since April 2020.
- Chinese equities struggled with the Shanghai Composite falling 3.1% as covid & economic growth concerns rose again, and further scrutiny was placed on Chinese technology stocks.

Fixed Income



Grégoire Sharma
Fixed Income Fund Analyst

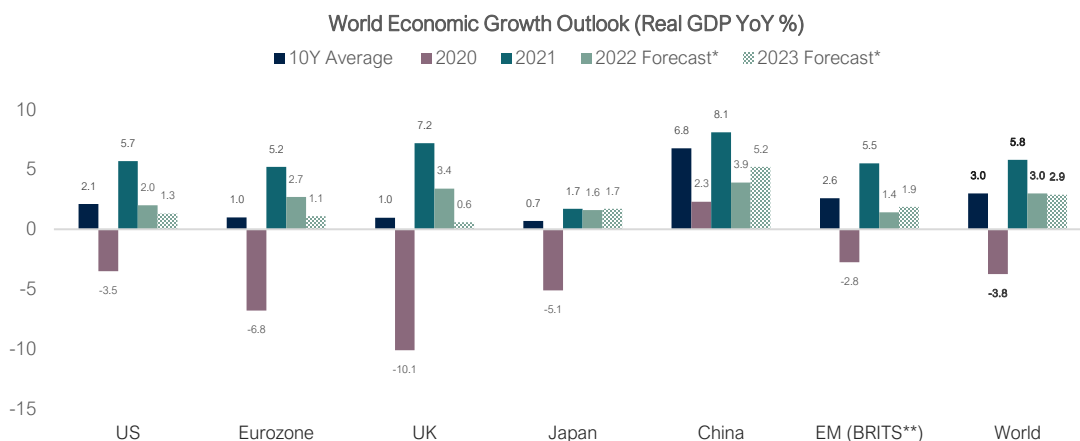
- Global sovereign bonds finished the month in positive territory as lacklustre data releases in July suggest the Federal Reserve will not hike rates as aggressively as was expected.
- Global corporate credit indices ended June in the black as increased recession risk saw markets price-in less aggressive central bank rate hike paths and lower terminal rates than previously expected which was positive for risk assets.
- Emerging market debt indices also recorded positive results this month on the back of increased risk-on sentiment thanks to prospects of a less hawkish Federal Reserve.

Commodities & FX



Morgan Davies
Investment Analyst

- Commodities prices fell in July as they were impacted by the prospect of slower global growth and an impending recession in both Europe and US impacted.
- The pull back last month in commodity prices such as oil, copper and wheat is also expected to reduce pricing pressures and ultimately inflation.
- The British Pound was mostly flat against other major currencies as the upcoming UK conservative leadership election moves into full swing.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia, Bloomberg, IMF. Data as at 31/07/2022.

United States of America

Economic data continues to moderate in the US, raising fears that the probability of recession over the next 12 months is becoming likely. This is accompanied by strong inflationary pressures that are broad based. Both factors are weighing on the Federal Reserve as investors debate the pathway of the central bank despite the Fed setting their hawkish narrative as they prioritise lowering inflation at all costs.

Eurozone

The ECB achieved lift off in July, lifting its main deposit facility interest rate out of 8 years of negative territory and back to zero. Recession risks in Europe are primarily geopolitically driven. High gas prices and elevated uncertainty are already exerting a toll on the Eurozone. Base effects should bring energy inflation down across Europe in the months ahead, but contribution of energy to headline consumer price inflation will remain elevated. Markets are now discounting a faster pace of ECB rate hikes over the next several quarters.

United Kingdom

Easing supply chain pressures and robust construction helped prop up May's UK GDP data, however, a weak consumer and business services picture remains. A widening trade deficit is on course for the biggest annual contraction on record. Inflation to remain high on supply chain disruptions and higher energy prices, adding pressure on the Bank of England to pick up the pace in tightening financial conditions despite the negative effects on the UK economy. Conservative leader candidates Liz Truss and Rishi Sunak will battle it out to become the next prime Minister, with the former holding a comfortable lead in the polls.

Japan

Japan's economic recovery has lagged behind other major economies, but its long-term trend growth rate is amongst the lowest in the G20. Yen weakness worries some policymakers with headline inflation hitting 8-year highs, but the Bank of Japan has signalled a lack of concern since wage pressures remain contained. The central bank is significantly out of step with its counterparts in North America, Europe, and Australasia where tighter monetary policies are in motion.

China

Chinese economic data is showing tentative signs of improvement, but the property market is experiencing its worst period on record, all exacerbated by the government's zero Covid policies. Monetary (rate cuts) and fiscal (wider deficits and VAT rebates) stimulus continues. Unlike in most global economies this year, domestic inflation pressures have remained below target, leaving the People's Bank of China as the only major central bank to cut interest rates in 2022.

Emerging Markets

North Asian economies would benefit hugely from improving Chinese growth, joined by Brazil and Argentina. A big driver of EM performance and overall economic conditions in general is the strengthening US Dollar, which has contributed to 16 emerging market countries registering as severely distressed (Credit Default Swap spreads > 1000 bps), the highest since 2010.



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 where 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