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TALKING POINTS

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UK – Anything to be bullish about?

There's plenty to be pessimistic about in the various economies around the world. Many of the issues are the same with inflation, a slowdown in growth and an expected raising of interest rates affecting most economies. In this respect it is difficult to single out a specific country but by many measures Britain does stand out as the worst of a bad bunch.

At 9.1%5 the UK's inflation rate is amongst the highest compared to other major economies. This compares to 8.6% in the US and 8.1% in Europe. Forecasted inflation is also expected to be higher with the Bank of England expecting inflation to hit 11% in the Autumn. Whilst inflation is not solely a UK problem, it is interesting to note inflation in China is 2.1% and in Japan is 2.5%.

Although inflation is afflicting other developed economies, it is not the only issue the UK is currently facing. Added to inflation are a confluence of other economic and political headwinds.

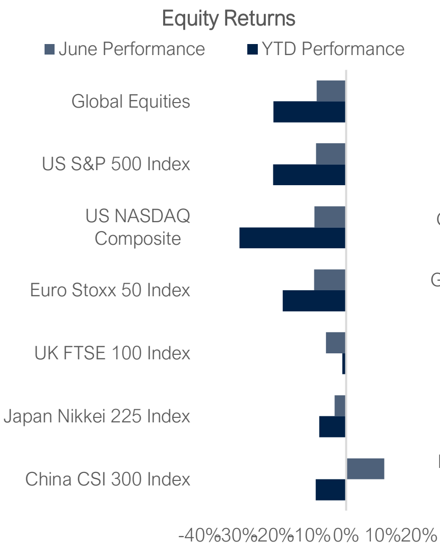
Starting on the economic front, the UK has for some time had both a current account deficit and fiscal deficit. This means that the UK both imports more than it exports and spends more than it brings in from tax receipts. Both measures have however recently been deteriorating. On top of that foreigners' ownership of UK assets have come to greatly exceed foreign assets held by UK entities. This net international investment position fell to -32% of GDP (having been close to flat in 2017).

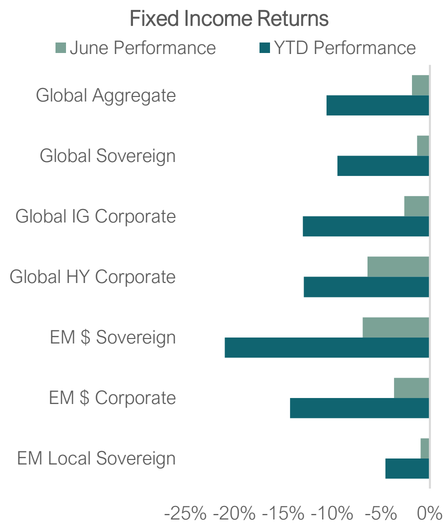
Staying on economics, a perennial issue with the UK economy has been poor (or no) productivity growth. Broader economic growth has always come from currency depreciation which is currently adding to the inflationary woes, especially so given the worsening current account position. Now having left the EU with no deal on services it makes it more difficult for more productive sectors like professional services to compete.

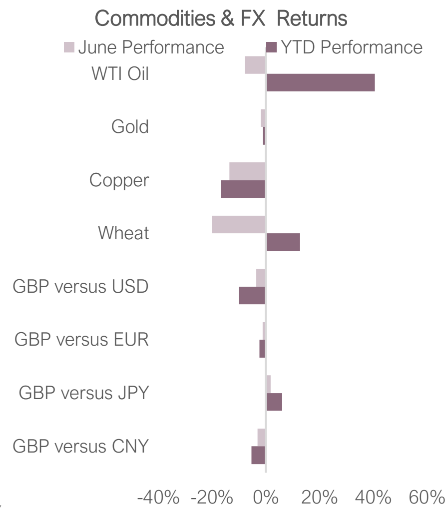
Adding to the economic pressures there is unlikely anything to add on the political front that hasn't already been written regarding Boris Johnson's domestic woes but with a new leader in the wings, the cliché about there being great uncertainty ahead has never rung more true.

Ammalan Annalingam
Co-Head of Multi-Asset Investments

Source: Signia, Bloomberg. Data as at 30/06/2022.







Source: Signia, Bloomberg. Data as at 30/06/2022.

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

- Heightened fears surrounding inflation, recession and aggressive interest rate hiking by the Federal Reserve resulted in US equity markets suffering another brutal month as the S&P 500 experienced its second largest monthly drop of the year falling 8.3%, meaning the index saw its largest H1 decline in 60 years, falling 20%.
- Asian markets fared better as the Shanghai Composite and Hang Seng gained 7.5% & 3% respectively. This was as a result of Covid restrictions easing and economic data starting to improve.

Fixed Income

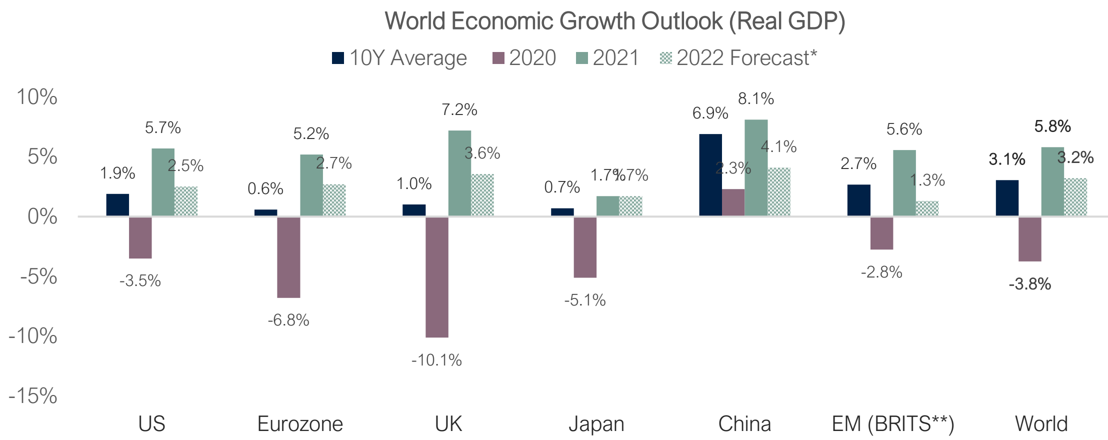
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds finished the month down as yields rose on the back of market worries over rising inflation and expectations for tighter monetary policy in response.
- Global corporate credit indices were down this month with high yield credit underperforming investment grade credit as spreads widened significantly due to risk-off sentiment.
- Emerging market (EM) debt indices were down in June, with EM external debt suffering its worst month in decades on the back of increasing global inflation and developed economies' central banks rising rates in response, thereby increasing borrowing costs.

Commodities & FX

Morgan Davies
Investment Analyst

- The British Pound struggled in June, declining 3.4% against the US Dollar. This comes as investors are becoming increasingly concerned about a near term recession that could hit a fragile UK economy, with inflation already at it's highest rate in 40 years.
- The Bloomberg Commodity Index had its largest drop since March 2020, as inflation expectations have begun to moderate with signs that input prices and supply bottlenecks are slowly easing.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia, Bloomberg, IMF. Data as at 31/05/2022.

United States of America

The economy is decelerating quickly from its unprecedented pandemic recovery speed but is still expected to expand in 2022 at a pace above its long-term trend growth rate. Wage and employment cost growth remain elevated and are contributing to the highest consumer price inflation in 40 years. However, consumers, corporations, and banks are cash rich and remain in good financial health to withstand an aggressive Fed tightening cycle and potential for a cyclical recession in 2023.

Eurozone

The Euro Area has now recorded two consecutive current account deficits, the first deficit since the 2012 Eurozone Debt Crisis as manufacturing activity slows, especially in Germany, reflecting weak auto production, a sharp drop in trade with Russia and renewed Covid restrictions in China. That said, Eurozone unemployment continues to improve and has hit a new record low after the bloc's labour market weathered the initial fallout from Russia's invasion of Ukraine, emboldening unions to intensify their push for higher wages.

United Kingdom

Rising headline consumer price inflation is running hot at 9.1% year-on-year, the highest level since 1982, caused in part by surging energy bills and rising food and transportation costs. A triple whammy of high inflation, increasing interest rates, and higher taxes are hurting household disposable incomes and causing a cost-of-living crisis, likely pushing the British economy into a recession over the next 12 months.

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 continues to deteriorate with the property market experiencing its worst period on record (property sales and new housing starts), 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, inflation pressures have remained low and benign in China, resulting in the People's Bank of China being the only major central bank to cut interest rates in 2022.

Emerging Markets

Economic growth in the BRITS bloc has been substantially revised down this year, predominately due to a severe invasion-induced recession to the Russian economy which is expected to contract by more than 10% in 2022, four times as worse than its -2.7% contraction in 2020.

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AND SPECIALISED

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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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