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TALKING POINTS

MARCH 2022

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Back to inflation

The first quarter of 2022 has been highly eventful. January's market turbulence was caused by an increasingly hawkish Federal Reserve (the Fed) and February's was caused by geopolitically induced volatility due to the conflict in Ukraine. March was a mixed month with most equity markets rallying but with typical flight to safety assets such as sovereign bonds struggling.

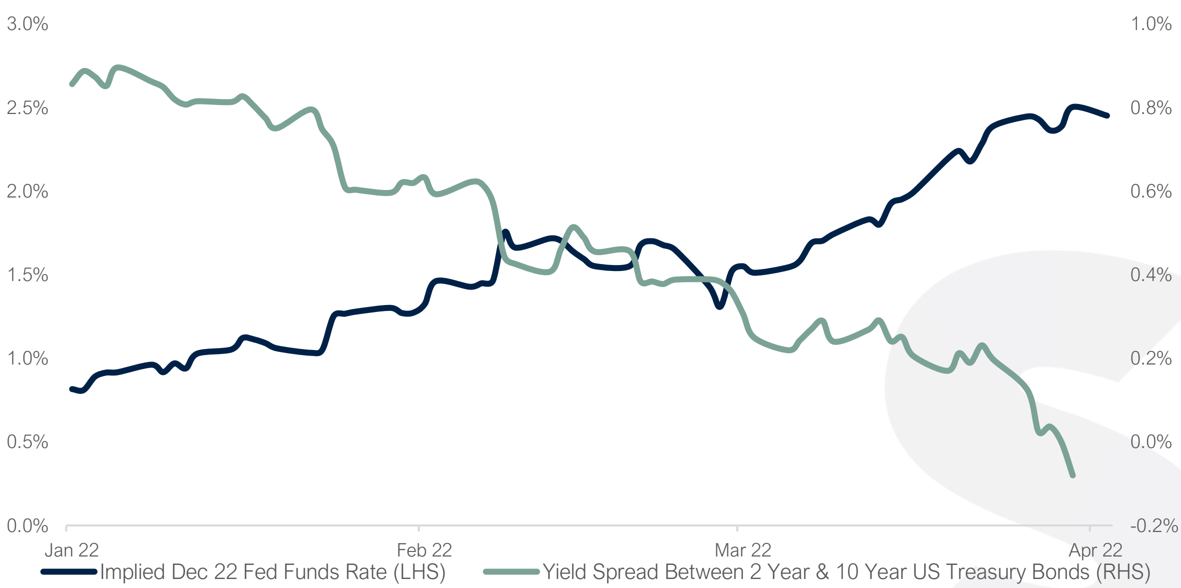
What all three months of the quarter to date have in common is the continued acceleration in CPI inflation which, as of the last print, stands at a 40 year high of 7.9% in the U.S. This compares to the Fed's target inflation rate of 2%. Admittedly the Fed tends to track PCE which usually runs lower than CPI but even this is 6.4%. Whatever inflation measure one uses the picture is the same. This is not just a U.S. problem, inflation in the Euro area stands at 5.9%, the highest since the formation of the single currency.

Markets have been taking stock of this accelerating inflation and pricing in ever aggressive tightening of Fed policy. As can be seen from the graph below this is captured in the implied December 2022 Fed Fund Rate. This shows what the market expects the base U.S. interest rate to be in December 2022. As can be seen, at the beginning of the year this was forecast to be 0.8% and is now just below 2.5%

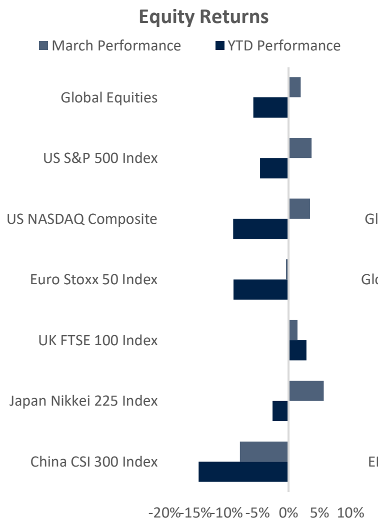
Even before the Ukrainian conflict, inflation was becoming a problem with the Fed dropping the word "transitory" when referring to inflation late last year. The conflict has just added further fuel to the fire with commodity prices spiralling as markets fear significant supply constraints. Some of these constraints are not necessarily short term either; for example Ukrainian farmers have to start planting various agricultural crops shortly for next year's harvest. Clearly this Spring's planting season will be disrupted leading to shortages next year.

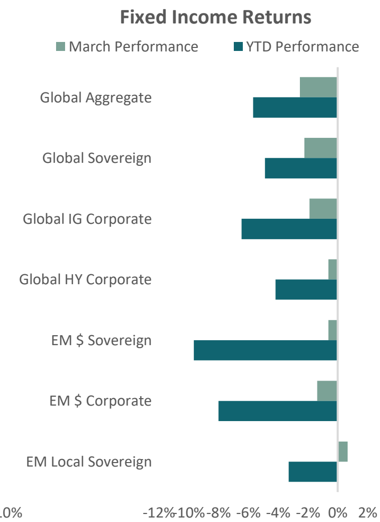
As well as the implied Fed Funds Rate, another key metric investors look at is the steepness of the U.S. yield curve, that is, the difference between short term interest rates and longer term interest rates. One such metric is the so called 2s 10s, the difference between the yield on a 2 year US Treasury bond and a 10 year Treasury bond. When the 2 year yield is higher than the 10 year yield, many investors see this as a predictor of a recession. It's important to bear in mind that historically the average period between this occurring and a recession has been 18 months but nevertheless this is an ominous sign for the years ahead.

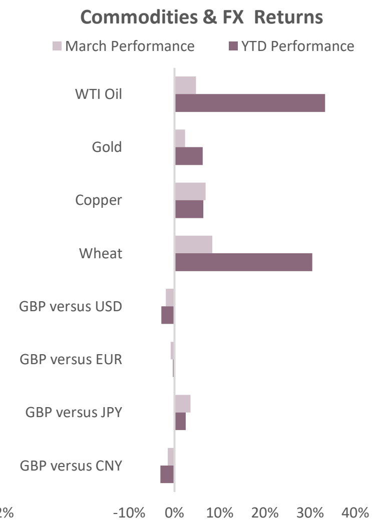
Ammalan Annalingam
Co-Head of Multi-Asset Investments



Source: Bloomberg, Signia Wealth. Data as at 31/03/2022.







Source: Signia Wealth, Bloomberg. Data as at 31/03/2022.

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

- In what was a positive month for equities Japanese markets rose the most, driven by a reiterated pledge by the Bank of Japan to provide extra stimulus in its support of the economy.
- US and UK equities also rose in value, with the former helped by its minimal exposure to the war in Europe as well as investors favouring large-cap growth names in the second half of the month.
- European and Chinese equities fell, however, with the latter affected by fresh lockdowns in major cities to control COVID-19 infections, which heightened concerns around China's rate of economic growth.

Fixed Income

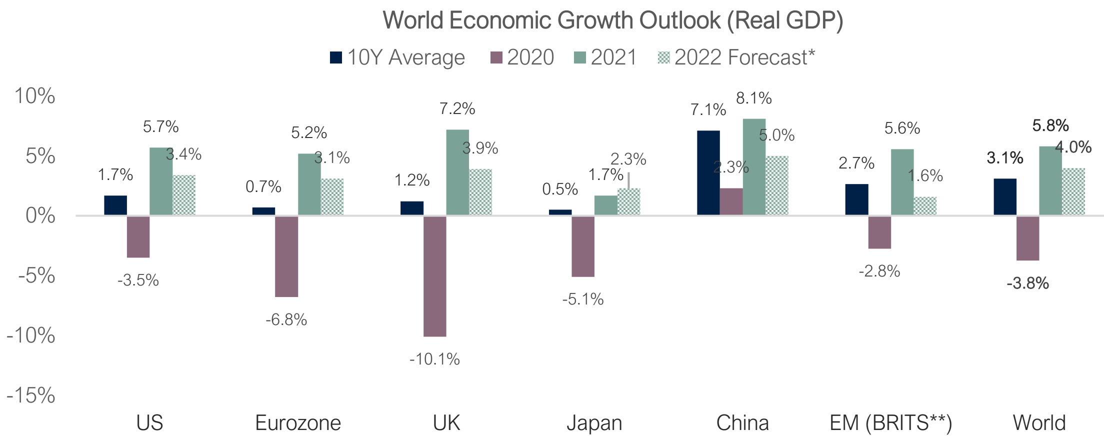
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds finished the month down sharply as the Fed raised the target rate by 0.25% and market expectations of more restrictive monetary policy saw bond yields continue to rise in March.
- Corporate credit indices suffered over the month on the back of elevated market volatility as US bond yields priced in tighter-than-expected US monetary policy and recession fears.
- Emerging market debt indices suffered due to heightened market volatility on the back of Russia's invasion of Ukraine which, in addition to the tragic human toll, has dire repercussions on global growth and inflation from elevated energy and food prices.

Commodities & FX

Harry Elliman
Investment Analyst

- Gold returned 5.9% in Q1, with a 1.5% gain in March as investors demanded inflationary hedges and safety as a result of the on-going geopolitical tensions between Russia and the Ukraine. This was despite headwinds such as US treasury yields rising from 1.8% at the end of February to 2.3% at the end of March, and the US Dollar sitting at its highest level since early 2020.
- WTI Crude Oil rose 33.3% in Q1, with a 4.8% gain in March as Russia's invasion of Ukraine has helped push prices above $100 a barrel as a result of Russia's role as a primary oil exporter and the on-going global supply chain issues being seen.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 31/03/2022.

United States of America

The economy is decelerating from its unprecedented 2021 pandemic recovery speed but is still expected to expand in 2022 at twice the pace of its long-term trend growth rate. Wage and employment cost growth have also accelerated to the highest levels in the post-Global Financial Crisis era, whilst consumer price inflation is at a 40-year high. However, consumers, corporations, and banks are cash rich, and remain in a good position to withstand higher borrowing costs as the Fed prepares to increase interest rates to tame inflation. The labour force participation rate continues to rise slowly but is still notably below its pre-pandemic level, despite 2 million young workers entering the workforce during the pandemic.

Eurozone

Economic growth expectations for 2022 are decelerating quickly as sanctions on Russia and escalating commodity prices bite. Consumer sentiment remains resilient relative to other regions and savings should provide a meaningful buffer. Consequently, Eurozone inflation expectations are converging towards US inflation expectations as the Ukraine crisis worsens, translating into an energy crisis. French President Macron is the clear frontrunner for re-election in April.

United Kingdom

Rising consumer price inflation has now hit the highest level since 1992, caused in part by surging energy bills. A triple whammy of rising inflation, increasing interest rates, and higher taxes are expected to hurt household disposable incomes and could cause a cost-of-living crisis, potentially pushing the British economy into stagflation.

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

Chinese property curbs and zero covid policy have substantially constrained credit demand from the property and consumption sectors. However, the broader economic slowdown is moderating as the credit and aggregate financing cycle is bottoming and tax cuts are being implemented, a sign of policymakers’ determination to stabilise the economy and boost consumption growth. Unlike most global economies, inflation pressures are low and still retreating in China, resulting in the PBoC being the only major central bank to cut interest rates 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 where policy support has been greater and vaccination programmes have been more widely available.

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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 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.

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