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Cakeism in a Post-Pandemic World

Boris Johnson: "My policy on cake is pro having it and pro eating it."

It was a key Brexit doctrine that propelled Boris Johnson to Prime Minister of the UK in a landslide general election victory for the Conservative Party in 2019 – 'cakeism'. It meant Britain could retain the benefits of EU membership without any obligation to European law. It meant leaving a trading bloc without jeopardising trade or the integrity of the United Kingdom. It meant taking back control of Britain's borders and immigration policies without causing labour shortages or stoking inflation pressures. Indeed, as is often the case with empty words and broken promises, the cakeism bluster that put Mr Johnson into Number 10 Downing Street is now precisely the trait uncovered by the Partygate scandals that has led him to a Tory no confidence vote and what is likely the beginning of his own demise.

Whilst many in the UK were spending their extended bank holiday weekend recently celebrating the Queen's Platinum Jubilee by eating lemon and amaretti trifle (Britain's official Jubilee pudding), Tory MPs were busy serving up their own slice of redemption for the Prime Minister. On the following Monday, 41% of Mr Johnson's own Conservative MPs voted against him, worse than the 37% that voted against his predecessor, Theresa May, before she subsequently resigned under pressure and he came into power. Have we reached peak cakeism? Most certainly. As the UK cost of living crisis worsens, so are the Prime Minister's problems.

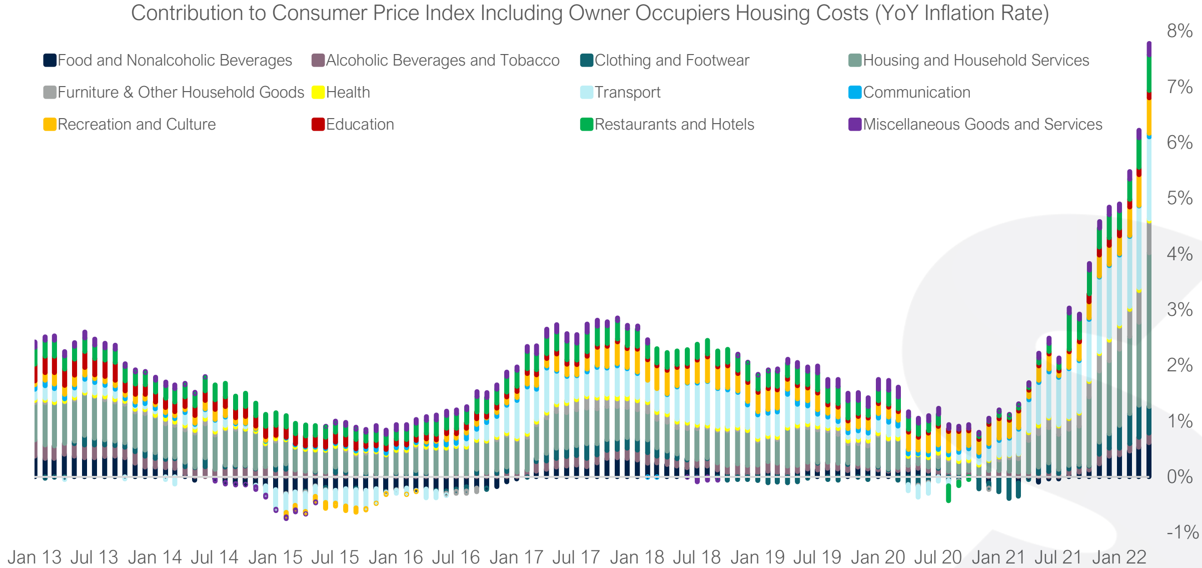
The consumer prices index including owner occupiers' housing costs – the most comprehensive measure of inflation that includes a measure of the costs associated with owning, maintaining and living in one's own home – has hit a 30 year high inflation level and is now just shy of 8%, driven by a surge in food & beverage, energy, and transport costs. There are not enough foreign workers to keep airport luggage moving and heavy goods vehicles on the roads, and it now costs the average British driver £100 to fill their car for the first time as petrol prices spiral. According to the Food Standards Agency, more than one in five Britons (22%) are in food poverty and one in six are using food banks.

Sadly, the cost of living crisis has only just begun and is expected to last many more years as it did in the 1970s. Back then, as is the case today, very few consumer prices escaped sharp and sustained price rises, and yes unfortunately for Mr Johnson that also includes the cost of cake.

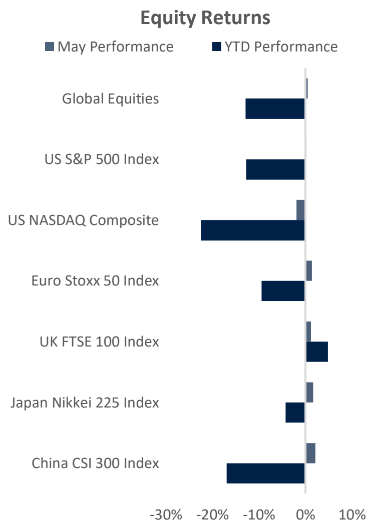
Robert Lee
Co-Head of Multi-Asset Investments

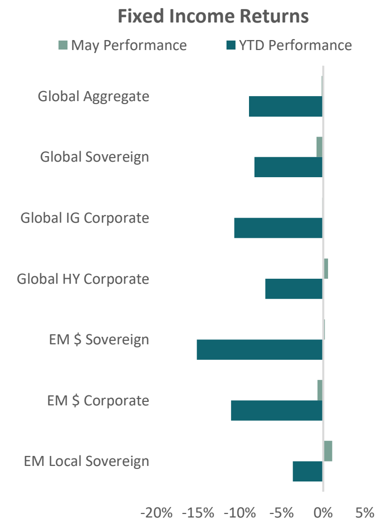
The UK Cost of Living Crisis

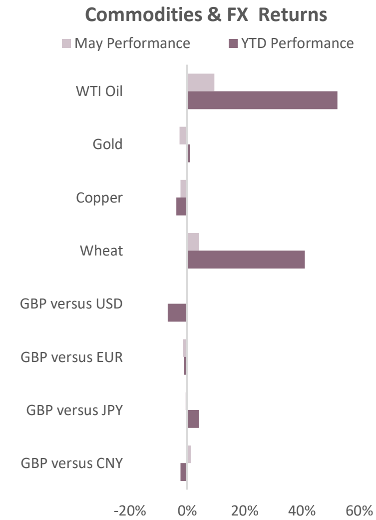
Contribution to Consumer Price Index Including Owner Occupiers Housing Costs (YoY Inflation Rate)



Source: Signia, Bloomberg. Data as at 31/05/2022.







Source: Signia, Bloomberg. Data as at 31/05/2022.

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

- The S&P 500 managed to post its second positive month (+0.2%) in 2022 on expectations the Federal Reserves will be less aggressive in raising interest rates, however, the tech based Nasdaq fell over 2% as increasing rates continue to pressure valuations and investors threat over prospects of recession.
- The FTSE 100 rose 1.1% as investors favour the exposure to commodity and financial based companies that are benefitting in a rising price & yield environment.
- Chinese markets continue to struggle as economic activity moderates and Covid restrictions, despite easing, are still lingering.

Fixed Income

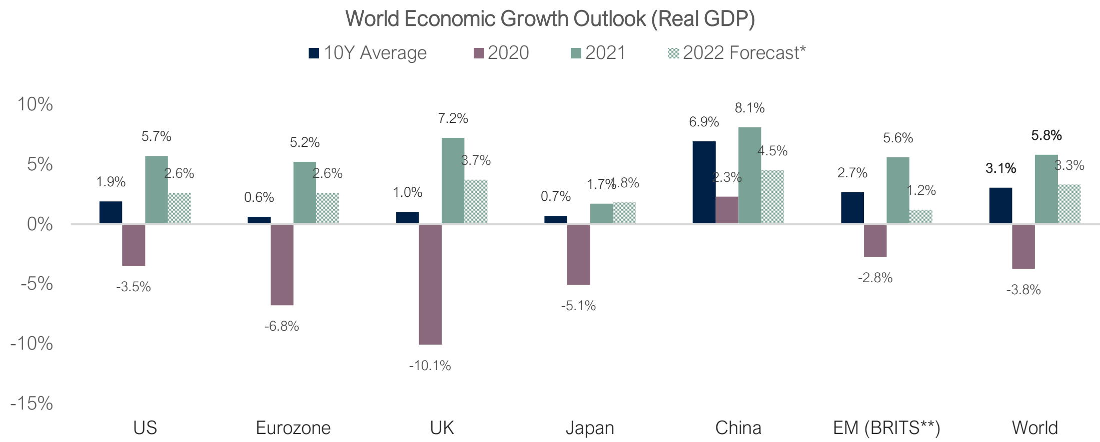
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds finished the month down as worries over rising inflation and market expectations of more restrictive monetary policy globally saw European and UK yields rise whilst US yields remained rangebound.
- Global corporate credit indices were mixed in May as US investment grade and high yield credit saw positive total returns, outperforming European investment grade and high yield credit which declined on the back of widening spreads.
- Emerging market (EM) debt indices also saw mixed results as EM corporate credit indices underperformed EM sovereign indices. EM local currency indices generated positive total returns on the back of rallying EM currencies, in particular Latin American commodity exporters, with the US dollar broadly weaker on the month.

Commodities & FX

Harry Elliman
Investment Analyst

- The British Pound posted its first positive month of 2022 as a result of a weakening US Dollar. The Pound has struggled this year on expectation that the Bank of England won’t raise rates as aggressively as previously thought, and on concerns that the current cost of living crisis in the UK will weigh on consumers and induce a recession.
- Equity volatility, measured by “The VIX”, receded in the month of May (-22.6%) as concerns surrounding how aggressive the Fed rate hike path will be eased, alongside companies reporting favourable earnings.



*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 recorded a current account deficit for the first time 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 9.0% year-on-year, the highest level since 1992, 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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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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PRIVATE CAPITAL

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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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