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TALKING POINTS

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Nooovember! Omicron and Powell spoil the party

What a difference twelve months make to market sentiment. Exactly one year ago the MSCI All Country World Equity Index gained an astonishing +11% in November 2020 after the ground breaking announcements from leading vaccine producers that effective help against the Covid crisis was on the way. Fast forward to the last few weeks of November 2021, world equities have just suffered a sharp -5% peak-to-trough drawdown and WTI crude oil prices have plunged -21%, but why?

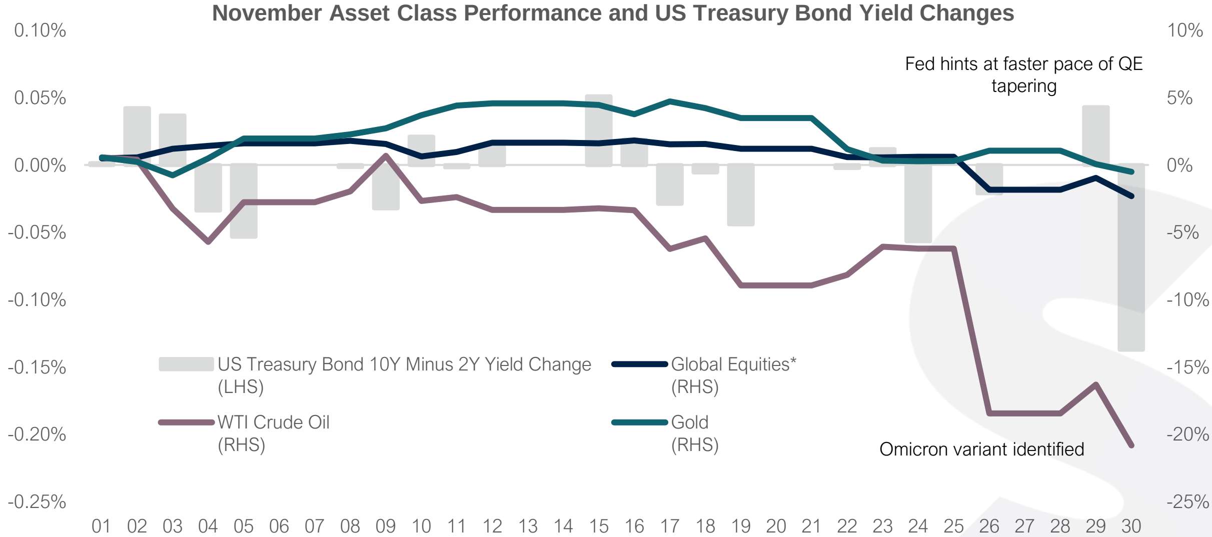
Unsurprisingly, it was another twist to the pandemic saga that began moving markets with the announcement of a new Covid variant of concern, Omicron. The virus has been spreading rapidly, at least twice as fast as the Delta variant, and has formed over 30 mutations on its spike protein that have the potential to reduce the effectiveness of the world's current stock of vaccines. Indeed, market sentiment quickly turned from a positive 2022 outlook for a continued global economic recovery, to a very uncertain one as Moderna announced its existing vaccines wouldn't be as effective against the new variant and Regeneron announced its early analysis indicated that its Covid antibody drug may not be as effective in treating Omicron.

Then, towards the end of the month, the US Federal Reserve Chair, Jerome Powell, gave testimony to the Senate Banking Committee, where for the first time he explicitly hinted towards an accelerated tapering of the central bank's hugely significant emergency quantitative easing program, that has been supporting financial markets and the economy throughout the pandemic: "It is appropriate to consider wrapping up a few months sooner." The Fed Chair made a forceful case for a faster taper despite the new Omicron uncertainties, noting inflation is likely to stay elevated, the labour market has improved without a commensurate increase in labour supply (many workers are still side-lined due to Covid and a meaningful portion are likely to stay there), and household spending has remained strong. Powell even took pains to stress the risk of higher inflation, going so far as to retire the use of its increasingly controversial term 'transitory' when describing the current rising inflation outlook.

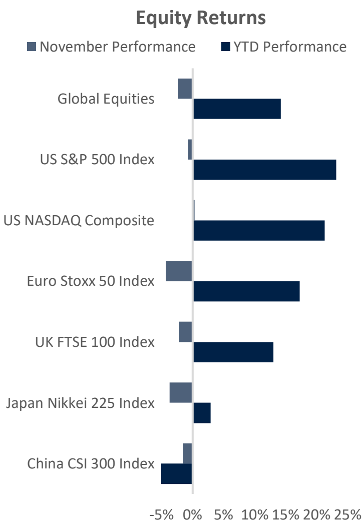
Potentially removing the QE punchbowl too early and derailing the economic recovery caused the US Treasury Bond yield curve to flatten by a staggering 14 basis points on the last day of the month, as 10-year yields declined by -6 basis points on these concerns whilst 2-year yields increased by +8 basis points in anticipation of rate hikes starting earlier than expected. Will the bond market's concerns be proved right or will the more recent announcement by Pfizer/BioNTech that three doses of their vaccine neutralises the Omicron variant rescue the outlook for 2022? The world is holding its breath, and according to the scientists, we should know with some certainty by the turn of the year.

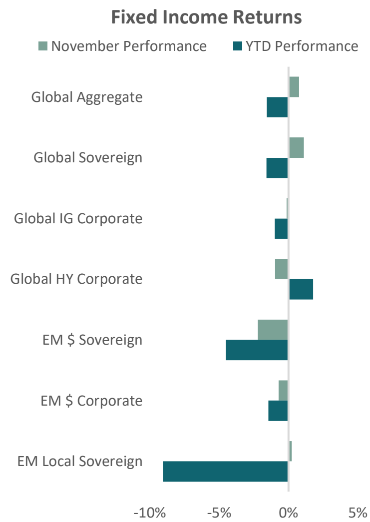
Robert Lee
Co-Head of Multi-Asset Investments

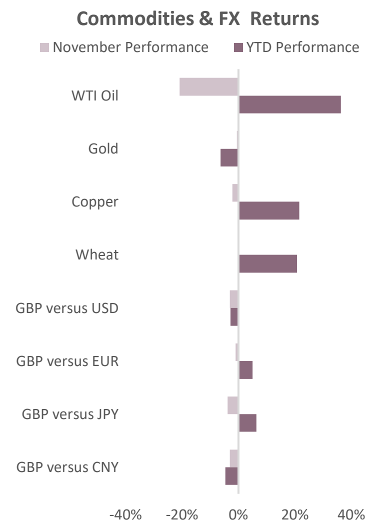
November Asset Class Performance and US Treasury Bond Yield Changes



*Global Equities: iShares MSCI ACWI ETF
Source: Bloomberg, Signia Wealth. Data as at 30/11/2021.







Source: Signia Wealth, Bloomberg. Data as at 30/11/2021.

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

- Though they fell in absolute terms US equities outperformed during November, with investors flocking to the perceived safety of large-cap technology stocks after the emergence of the Omicron variant of Covid-19
- European, Japanese, and UK markets all performed significantly worse, falling further in light of the new variant as they all have a greater proportion of companies more exposed to the global economic cycle
- Chinese equities also fell during the month, however their cheaper valuations and lower correlations to Western markets resulted in a more measured sell-off

Fixed Income

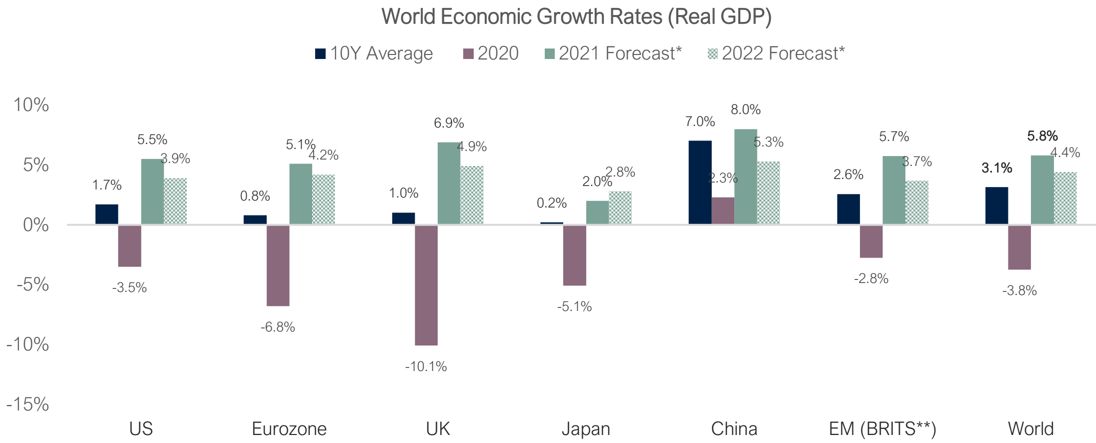
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds were flat on the month as persisting inflation pressures on bond yields were mitigated by investors seeking save haven assets on the back of news of the Omicron Covid-19 variant mutation spreading.
- Corporate credit indices were mixed in November as investment grade credit outperformed high yield credit thanks to its higher interest rate sensitivity as interest rates fell due the increased demand for safe haven assets.
- Emerging market USD sovereign debt suffered this month on the back of the strengthening US dollar and general risk-off sentiment which followed the virus mutation development.

Commodities & FX

Harry Elliman
Investment Analyst

- WTI Crude oil tanked nearly 21% in November as a result of global supply and demand imbalances, but also as a result of the new Omicron variant which originated in South Africa. This has raised concerns of falling demand and further Covid-19 restrictions being installed across the globe.
- The US Dollar Index rose 2%, this was on expectation of the Federal Reserve increasing the pace of withdrawing its historic quantitative easing programme, and therefore raising interest rates sooner than expected.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 30/11/2021.

United States of America

The economy is expected to grow in 2021 at its fastest pace since the 1980s as pent-up consumer demand from record high levels of savings boost consumption, trillion-dollar fiscal stimulus packages work their way through congress and the economy, and as the Fed maintains its accommodative stance, albeit it has now started tapering its emergency QE program. Fed Chair Powell was renominated for another 4-year term. Inflation risk is a growing concern, there are upward pressures from rising wage costs, a record quits rate, and labour supply shortages.

Eurozone

Europe has enjoyed a period of strong recovery; there are still positive aspects, but headwinds are building. The latest PMI data was unexpectedly strong, households appear in good shape, and federal stimulus from the Next Generation Recovery Plan is yet to be drawn down. However, global pressure on supply chains is hurting Europe more than most, especially Germany. Inflationary pressures and a fourth Covid wave are likely to constrain the outlook going into 2022.

United Kingdom

The UK is displaying similar inflation trends to Europe but a more pronounced energy crisis and HGV driver shortfall on supply chains are hitting consumer prices harder after Brexit. The BOE is preparing to hike its Bank rate from an all-time low of 0.1% to combat these growing inflation concerns, however, declining real household incomes may slow its hiking cycle. The UK government have been forced into re-introducing restrictive measures to contain the spread of the new Omicron variant.

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 inflation is accelerating from low levels, but core inflation has fallen back deeper into deflationary territory.

China

Consumer price inflation has diverged lower relative to other major economies, and whilst producer price inflation is surging rising input costs have not passed-through to consumers. Exports have remained robust, whilst retail sales have been relatively positive, although declining commodity consumption is reflective of moderating economic conditions. The People's Bank of China is expected to ease liquidity conditions and potentially cut interest rates. Credit impulse levels are near cyclical trough and could prompt policymakers to further boost economic and credit stimulus.

Emerging Markets

Most emerging economies have found themselves lagging global vaccine rollout programmes with the poorest EM populations left largely unvaccinated. Despite a buoyant global economic recovery in 2021 as broad economic momentum gathers pace, the BRITS economies are still expected to grow at an even pace relative to their developed market counterparts in the US and Europe where policy support has been greater.

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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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