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TALKING POINTS

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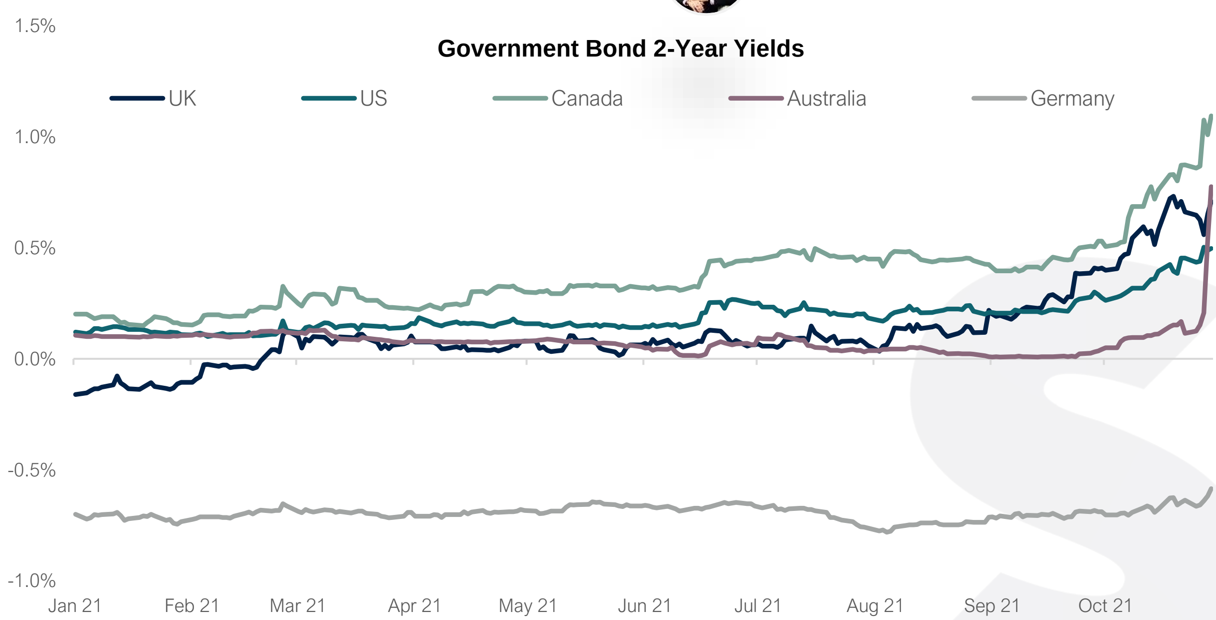
Is the Zero Interest Rate Party Coming to an End?

Not too long ago, back in the troughs of Covid, a global synchronisation occurred with central banks rallying to support the integrity and structure of financial markets. The eventual transition back to normality was expected as mass vaccinations enabled Covid to become less of a threat to society and global economies to reopen. However, what remained uncertain was the pace of withdrawal from record low interest rates and unprecedented quantitative easing that have seen central banks' balance sheets rocket to record highs. Recent speculation on the speed of this withdrawal has caused volatility in global bond markets and a spike in government bond yields, especially shorter-term yields which tend to be more sensitive to near-term central bank interest rate policy paths.

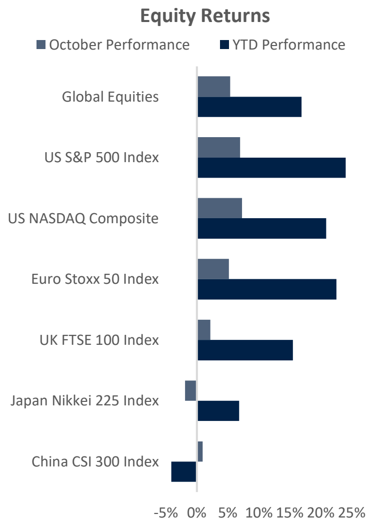
This jump in global bond yields has been a result of central banks beginning to edge closer to unwinding their historic support. The Federal Reserve (the "Fed") announced it will begin to reduce its asset purchase programme by $15 billion a month from $120 billion, but stated it was too soon to begin raising interest rates. The Bank of England ("BOE") caused quite the stir in global bond markets as they originally stated they will raise interest rates in order to combat rising inflationary pressures, but unexpectedly kept rates on hold recently. The Bank of Canada abruptly ended its bond buying programme and stated they could raise rates faster than expected to combat inflation. The Reserve Bank of Australia caused excessive levels of volatility in its domestic bond market as the yield on its government bond maturing in April 2024 jumped as high as 0.8% when the Bank failed to defend its 0.1% yield curve control target after a hotter than expected inflation report. However, not all central banks are in a rush - the European Central Bank ("ECB") stands strong on the fact that policy will remain accommodative and rates are far from rising, with President Lagarde insisting rates will not rise in 2022, contrary to market expectations.

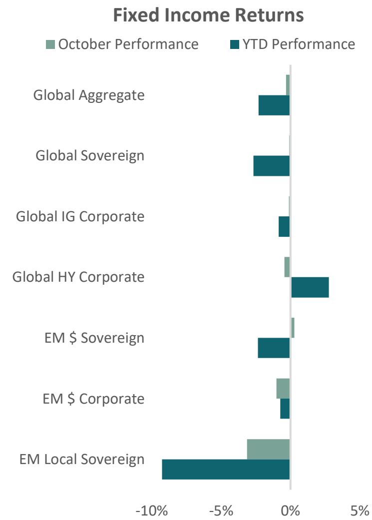
Record stimulus and low rates have helped many equity markets rally to all-time highs, thus the unwinding of support has had many question what will happen when these loose financial conditions tighten, especially at a time where growth expectations are declining alongside growing worldwide supply disruptions. Interestingly, global yield curves have begun to flatten as longer-term yields have remained quite, indicating that market participants are expecting a moderation in longer-term economic growth and the potential for a policy error, whereby central bankers may have to retrace their steps in order to stimulate their economies once again if they struggle to handle upcoming increases in borrowing costs.

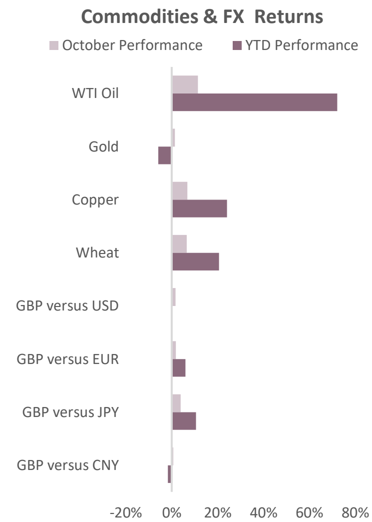
Harry Elliman
Investment Analyst



Source: Bloomberg, Financial Times, Signia Wealth. Data as at 31/10/2021.







Source: Signia Wealth, Bloomberg. Data as at 31/10/2021.

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

- US equities outperformed all other markets during October, with growth stocks, particularly in the technology space, seeing strong investor demand due to a flatter yield curve
- European and UK markets were the next best performers amongst developed markets, however Japanese indices lagged owing to political uncertainty and doubts as to future economic stimulus
- Chinese equities enjoyed a relatively calmer month to record a small positive return, driven by attractive valuations and increased investor capital

Fixed Income

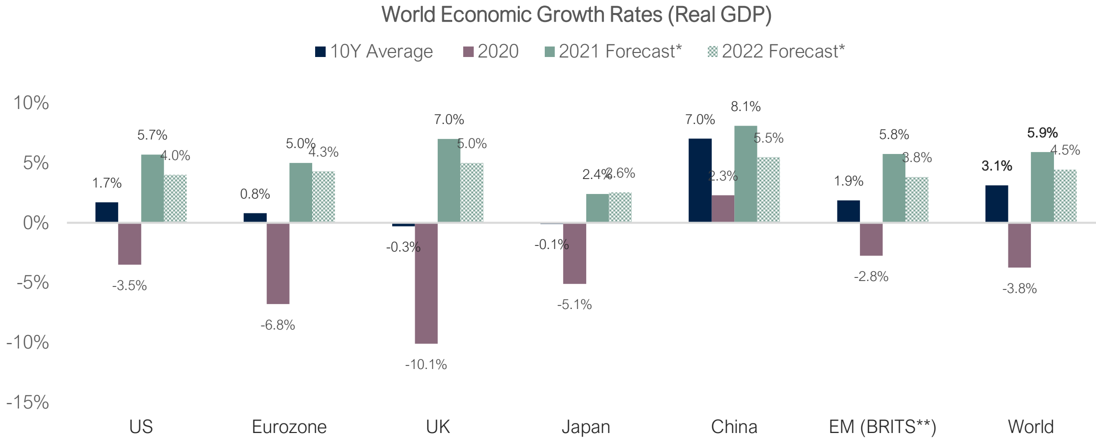
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds generated negative returns in October on the back of elevated levels of persistent inflation pressures and markets expectations for sooner-than-expected removal of central bank accommodative monetary policy.
- Corporate credit indices were flat to slightly negative for investment grade and high yield rated bonds respectively. The effects of increased interest rate volatility this month were mitigated by largely positive corporate earnings releases.
- Emerging market local currency sovereign debt suffered this month as the confluence of the sharp decline in EM currencies and disappointing growth from China weighed on sentiment and performance.

Commodities & FX

Harry Elliman
Investment Analyst

- Gold had its first positive month since July rising over 1.4% as a result of inflation appearing stickier than expected as US Consumer Prices remained elevated above 5% for 5 consecutive months, challenging the Feds “transitory” narrative.
- Interestingly, the equity market volatility index, the “VIX”, dropped 29.7%, whilst the US treasury market counterpart rose over 23.5% after markets priced in faster than expected rate hikes globally, and withdrawals of quantitative easing.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 31/10/2021.

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. The labour market continues to recover to the point where the Fed has decided to start tapering its emergency quantitative easing program.

Eurozone

Consumer price inflation is now trending above the ECB's 2% target and is not showing any signs of peaking yet, rising to its July 2008 all-time high of 4.1% on a year-on-year basis in September. Despite this, the ECB is maintaining a dovish and accommodative stance. The economic rebound has gathered momentum as social and economic restrictions were broadly loosened in the summer, but Covid-19 cases are rising fast as the Eurozone has once again become the global epicentre for the spread of the Delta variant.

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. Daily coronavirus infections remain high, but hospitalisations remain low thanks to a largely immunised population.

Japan

New Prime Minister Fumio Kishida declared victory for his ruling Liberal Democratic Party in October's general election after his predecessor Yoshihide Suga quit after just a year in office. The prospects for the Japanese economy are brightening as Kishida looks to add new fiscal stimulus and a rapid summer Covid-19 vaccination program leaves the vast majority of the adult population fully vaccinated. Consumer price levels are rising again but struggling to recover from deflationary territory and are still significantly lower versus G10 counterparts.

China

Chinese economic growth has rebounded strongly to around 8% this year, far ahead of most major economies, but it is now decelerating quickly driven by declining retail sales, a struggling property sector, and a current Delta variant endemic. The People's Bank of China ("PBOC") 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 a broadly even pace to their developed market counterparts in the US and Europe where policy support has been greater.

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AND SPECIALISED

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We enjoy working with successful people, creating and managing global investment portfolios.
Our clients are entrepreneurs who value independence.

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By meeting your needs, by being serious about your money, we establish good relationships. We think you'll enjoy working with us.

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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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