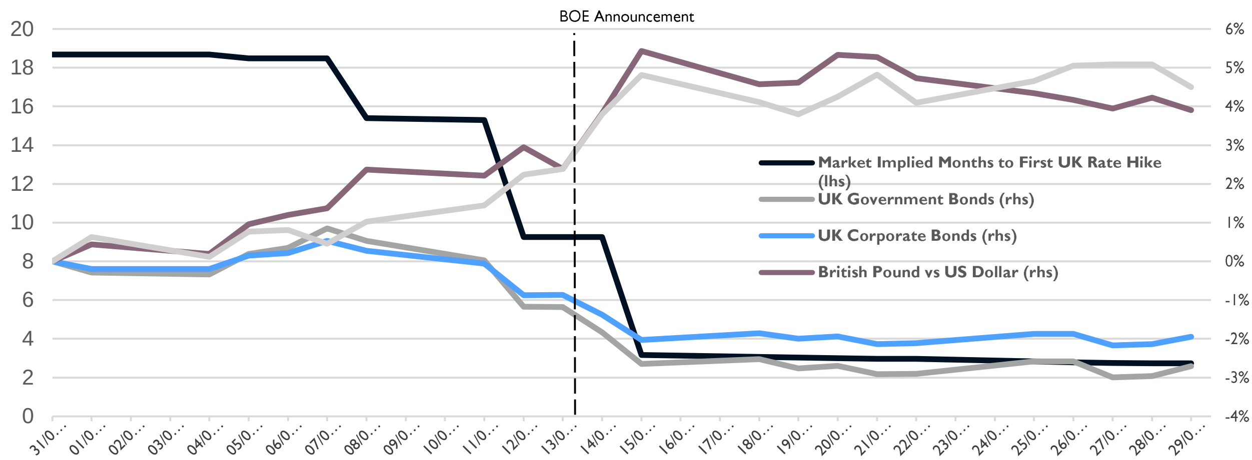
## Keep Calm and Carry Bonds

For the first time in ten years the Bank of England ('BoE') did something unexpected, it turned 'hawkish' – by signaling in its Monetary Policy Committee ("MPC") statement that the "majority" of committee members would support a rate hike in the near term if the economy performs in line with expectations; and that "all members" agree that rates are likely to rise more than the market is pricing. Two days earlier, the UK consumer price index (CPI) beat expectations by showing UK inflation had accelerated sharply to 2.9% year-on-year, far exceeding the BoE's 2% target, due to imported inflation from a weak domestic currency and pick up in fuel inflation. This regime shift in BOE policy brought forward expectations for the first rate hike from February 2019 to December 2017, causing UK bonds to decline and the British Pound to rally. However, if the BOE begins unwinding its unprecedented level of monetary accommodation then the question investors should be asking themselves is, how fast? If the MPC follow the Federal Reserve's slow path, then UK bonds should still generate positive healthy returns above the UK cash interest rate.

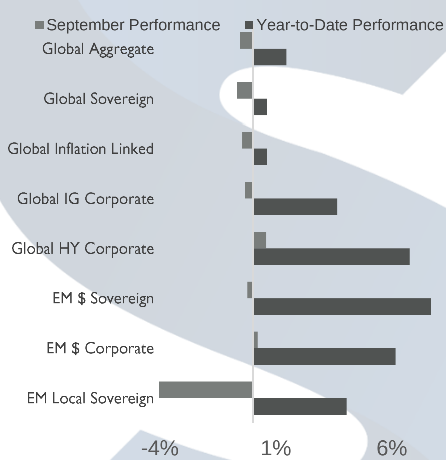
**Performance of UK Bonds and British Pound in September**



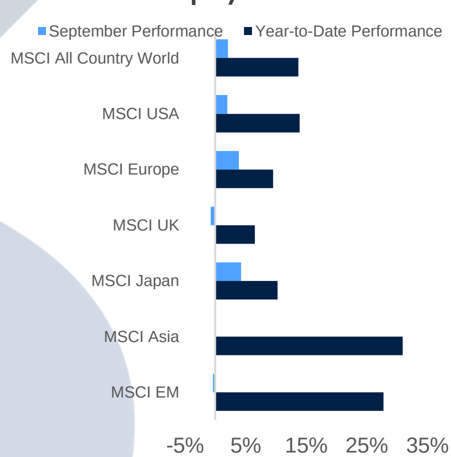

Market Implied Months to First UK Rate Hike: Morgan Stanley Months to 1st Rate Hike UK Region; UK Government Bonds: Bloomberg UK Govt All Bonds Total Return Index; UK Corporate Bonds: Bloomberg Sterling Corporate Total Return Index. Source: Bloomberg.

## Market Returns

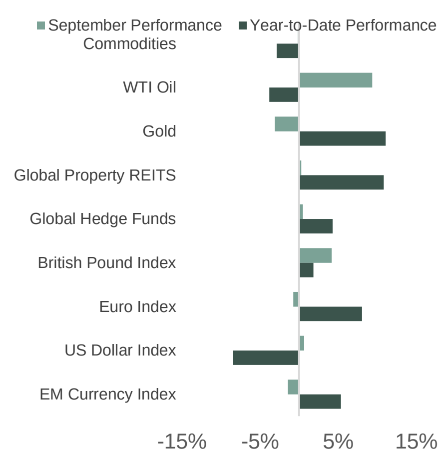
**Fixed Income Returns**




**Equity Returns**




**Alternative & FX Returns**




Global Agg: Bloomberg Global Aggregate TR Hedged GBP; Global Sovereign: Bloomberg Global Treasury TR Hedged GBP; Global IL: Bloomberg World Govt Inflation Linked Bonds 1-10Y TR Hedged GBP; Global IG: Bloomberg Global Corporate TR Hedged GBP; Global HY: Bloomberg Global High Yield TR Hedged GBP; EM$ Sov: Bloomberg Emerging Markets Sovereigns TR Hedged GBP; EM% Corp: Bloomberg EM USD Corporate 10% Cap Hedged GBP; EM Local Sov: Bloomberg EM Local Currency Govt TR Unhedged GBP; Equities: MSCI indices reflect net total returns in local currency, except Asia and EM in USD; Commodities: Bloomberg Commodity TR Index; Global Property REITS: FTSE EPRA/NAREIT Global Index; Global Hedge Fund: HFRX Global Hedge Fund Index; British Pound: Bloomberg British Pound Index; Euro: Bloomberg Euro Index; US Dollar: Bloomberg US Dollar Index; EM Currency: JP Morgan Emerging Market Currency Index. Source: Bloomberg. Data as at 30/09/2017.

## Fixed Income

- The US Federal Reserve appeared more hawkish as it revealed plans to reduce its balance sheet by tapering the amount of maturing holdings it reinvests into the Treasury and Mortgage Backed Securities market, helping push US treasury yields higher
- High yield spreads are at multi-year lows but continued to grind tighter on the back of strengthening economic indicators and investor demand, contributing to positive performance from the asset class
- Emerging Market debt suffered slightly on the month as the prospect of a US rate hike in December priced-in after the Trump administration unveiled their long-awaited tax plan. The asset class is still supported by improving global growth and a weak US dollar and still continues to outperform all other major fixed income asset classes on a year-to-date basis

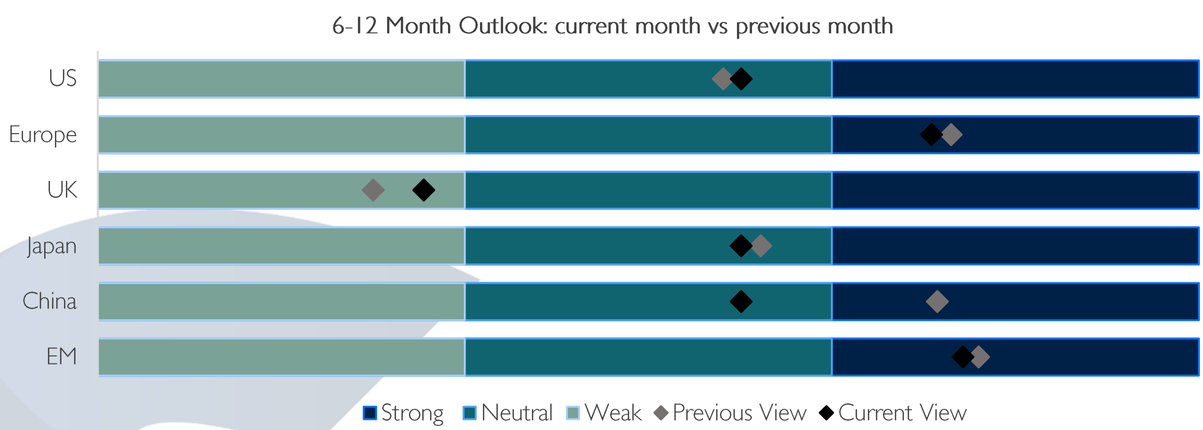
## Equities

- Global equities rose over the month as growth across the world remained strong
- Emerging Markets and Asia fell slightly as the US Dollar Index (DXY) rose for the first time since February
- US Equities were unfazed by the hurricanes that swept through the area and ended higher on strong manufacturing data.
- UK equities fell slightly, as sterling strengthened against USD and EUR after hawkish comments from MPC members
- Europe had a strong month benefiting from a continued pickup in growth across the region and a pause in Euro strength

## Alternatives & FX

- Despite oil prices continuing to fall, commodities moved higher as industrial metals performed well (+10%)
- Gold price was also up this month on the back of its safe haven appeal and rising tensions in North Korea
- Broad based US dollar weakness continued, supporting Emerging Market currencies and the euro - the Euro's 9% rise this year has been driven by strong Eurozone growth and rising inflationary pressures

## Signia Macroeconomic Outlook




Source: Signia Wealth. **Data as at 30/09/2017**

- We remain most positive on the strength of the economic recoveries in Europe and Emerging Markets, hold a neutral stance in the US, Japan and China, and a negative outlook for the UK
- In the US, we acknowledge a growing political impasse for President Trump's policy and economic reform agenda in congress, which is greatly needed for an economy that is approaching its late cycle phase after an 8 year expansion. The European economic recovery is more mid-cycle but faces potential headwinds from a less dovish European Central Bank and strengthening domestic currency
- Our UK economic outlook remains weak amidst Brexit uncertainties, a weakening political situation post general election, declining household real incomes, and a slowing growth trajectory for the UK economy
- Emerging market growth remains in recovery mode and is expected to outperform developed markets following five years of deceleration, currency depreciation, fiscal adjustment and structural reforms

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