SIGNIA TALKING POINTS

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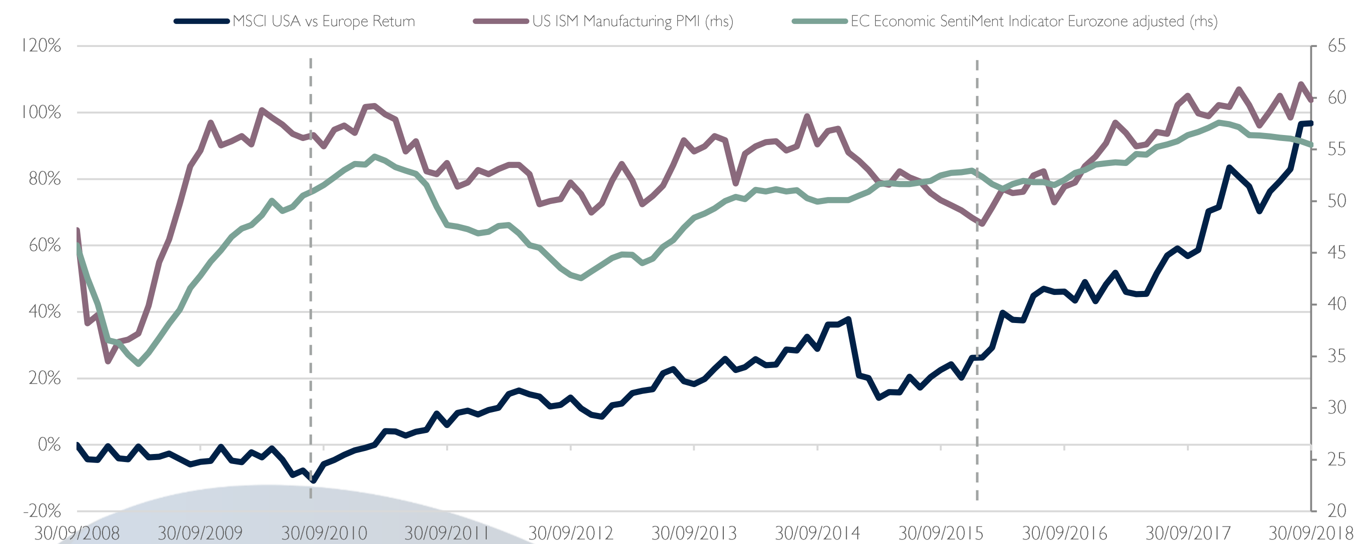
SIGNIA

10 Years On from the Lehman Default

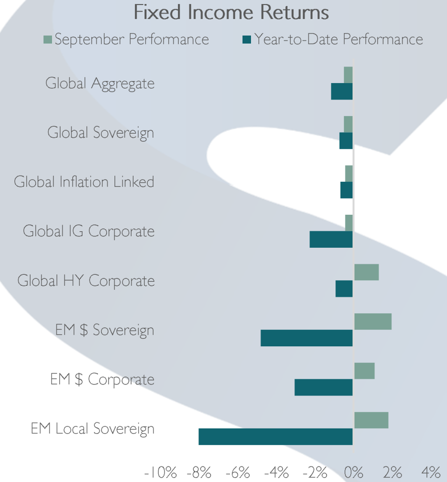
On 15 September 2008, the "Global Financial Crisis" was written into history when Lehman Brothers filed for Chapter 11 bankruptcy with over $600bn in assets, the largest filing in history. The subsequent reverberations across the global financial system were pervasive and cataclysmic, pushing multinational companies into bankruptcy and countries into recession. Rebuilding the trust of investors, regulators, and the public, has been a long and arduous process for the banking sector, and rightly so after decades of excess and recklessness. With strengthened regulation, more robust balance sheets and better liquidity management, banks no longer present a major systemic risk in most advanced countries, especially in the U.S. Not every country or bank is safe, but the financial system as whole is no longer the Achilles' heel of market-based economies.

This month and one decade later, the U.S. Federal Reserve (Fed) marked the 10 year anniversary with a rate hike, its eighth in 33 months for this interest rate cycle, averaging a 25 basis point increase approximately every 4 months. With policymakers at the Fed moving at a slow and steady pace, whilst becoming increasingly more optimistic about a strengthening domestic economy, the applecart remains unperturbed and it is no wonder that U.S. equities have been the belle of the ball for three years running. The MSCI USA equity index has outperformed its European counterpart by +38% in local currency terms over this period and by nearly 100% since the Lehman Brothers default. Economic indicators (U.S. PMI vs Eurozone SentiMent) have been improving more for the U.S. economy over the European economy since January 2016, coinciding with this recent spell of market outperformance, and with major structural, political and fiscal headwinds on the Eurozone horizon growing ever more evident by the month, the case for further desynchronization is rising.

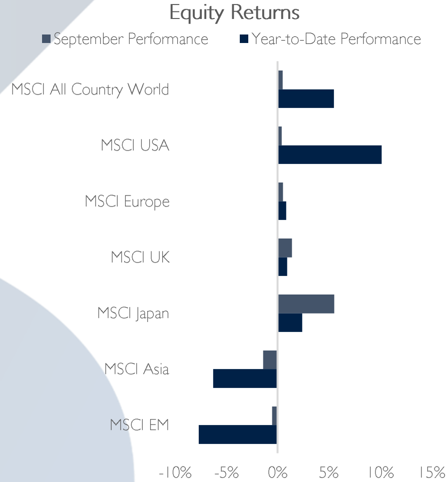
USA versus Europe



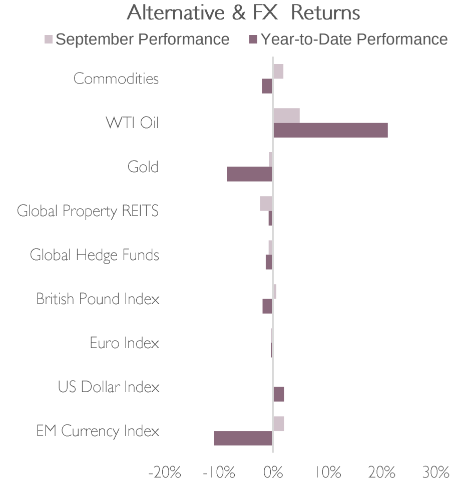
Fixed Income Returns



Equity Returns



Alternative & FX Returns



Source: Bloomberg, Signia Wealth. Data as at 31/08/2018.

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 USD; 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.

Fixed Income

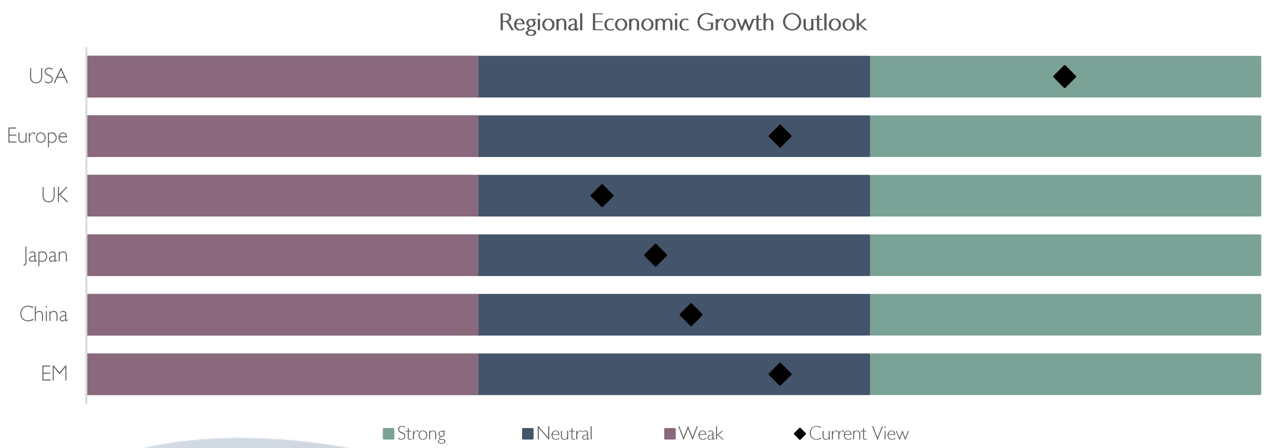
- It was a mixed month for fixed income in September, as the Global Treasury Index posted negative results on the back of continued monetary policy tightening from the U.S. Federal Reserve and another rate hike, whilst political issues in Italy caused some risk-off sentiment
- It was a good month for High Yield credit as the sector, both in the US and Europe, benefitted from continued issuers' credit fundamentals improving, strengthening economic growth, coupled with benign default activity. Investment grade corporate credit however suffered from rising sovereign yields and a pickup in new issuance
- Emerging market debt posted positive returns in the hard currency sovereign and corporate space but negative returns in the local currency space as idiosyncratic stories in Brazil and Turkey amongst others, continued to affect the broader currency complex

Equities

- Japanese equities were the strongest performer in September, as political concerns eased and economic data stabilised
- UK equities were the next best performer, though wider European markets were flat as Italian fiscal risk resurfaced
- US equities posted modest positive returns to conclude a subdued month, with few market-moving events
- Asian and emerging markets both recorded negative returns, as trade-related concerns continued to weigh on sentiment

Alternatives & FX

- Commodities rebounded, as oil resumed it's rise (+5%) due to renewed investor focus on tightening supply
- Gold struggled to gain traction despite continued negative sentiment surrounding Italy, Brexit and trade tensions
- Despite the Argentina Peso and Indian Rupee showing continued weakness, the Turkish Lira rebounded strongly as the central bank increased interest rates



- **USA**: Tailwinds from tax cuts, expansionary fiscal easing and deregulation are supporting consumer and business sentiment and has extended the second longest US economic expansion in history (112 months), now in the latter stages of its cycle but still running strong. Rising trade war risks with China are becoming a concern but have yet to make a meaningful economic impact. Despite rising interest rates, a recession in 2019 remains unlikely

- **Europe**: Economic momentum continues to struggle against several key headwinds: a less accommodative European Central Bank due to finish its asset purchase programme by year end, an Italian budget standoff with the EU, and populist uprisings across the continent. Declining industrial production and real money growth is a concern for future economic growth, however, the labour market, inflation and wage growth are all in a healthy state

- **UK**: Stubbornly sticky consumer price inflation above the Bank of England's 2% target prompted a 0.25% hike in August to 0.75%, the highest since February 2009 and at a time when the economy remains in a delicate state. At least one further hike in 2019 is likely. Profit growth is declining and risks remain to the downside as intensifying Brexit uncertainty weighs significantly on business investment and the British Pound.

- **Japan**: The policy mix in Japan is changing. Fiscal stimulus is increasing to help the Bank of Japan in its monetary fight against structurally low consumer price inflation, which continues to defy rising wages and a tight labour market. Foreign workers continue to drive the replacement of the shrinking domestic labour force as immigration policies are relaxed. Prime Minister Abe won his party's leadership election in September for a new 3-year term

- **China**: Beijing is to end the winter curbs on coal power and steel production designed to tackle air pollution. Whilst a major environmental negative, this should boost economic growth alongside recent income tax breaks in an attempt to head off an escalating trade war with the USA. The People's Bank of China is trying to balance stimulating the economy to counter this threat and slowing credit growth, with curbing high and rising property prices.

- **Emerging Markets**: Healthy economic growth is being tested by the strengthening resolve of the USA and its resilient currency in pressuring Trump administration targets – China (trade war), Turkey (political war), and Russia (fake news cold war). Stable commodity prices and continued above-trend global economic growth remain a fillip to the broader EM complex, whilst the path for Fed policy and the US Dollar remain key market drivers.

Important Information