SIGNIA: IN TUNE WITH YOU

SIGNIA TALKING POINTS

SEPTEMBER 2019

Phone

+44 (0)20 7298 6060

Online

Email: info@signiawealth.com
Website: www.signiawealth.com

Evaluating Value Stocks

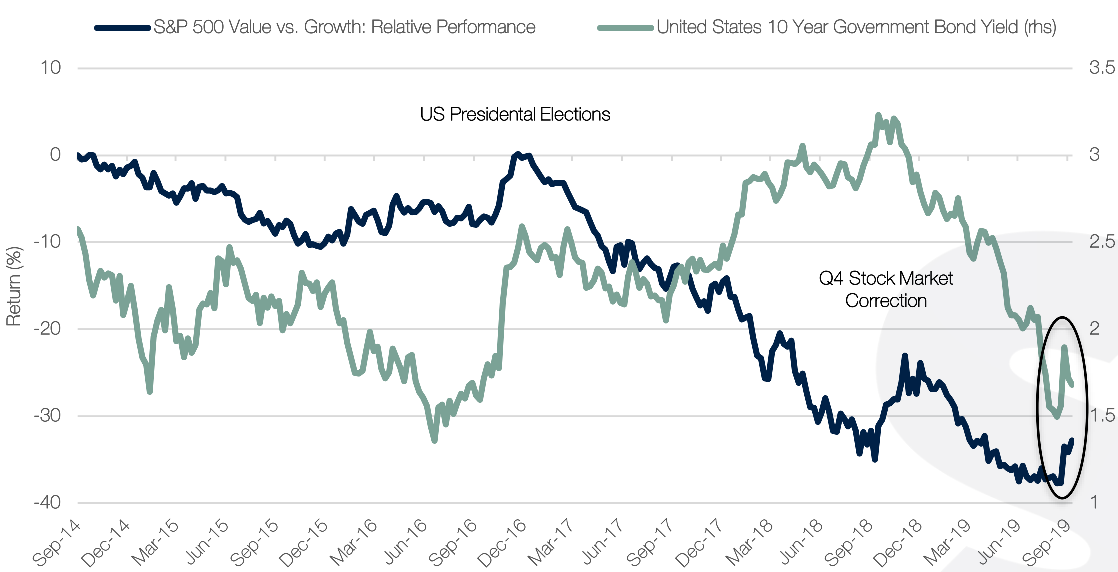
"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1". When Warren Buffet, who is probably the most renowned value investor in modern history uttered these infamous words, even he would not have foreseen the decade-long stretch of suffering that has been weathered by value stocks since the 2008 global financial crisis.

Traditionally, value stocks in sectors such as banking, oil & gas and mining, tend to be more sensitive to the underlying economy given the cyclicality of their businesses and volatile nature of their earnings, which often leaves them trading at a discount to the broader market. In the US, value stocks have underperformed growth stocks (typically in technology and healthcare sectors) by a staggering 135% since 2008, but even over the last five years as the wounds from both the US subprime crisis and Eurozone debt crisis have largely healed, value stocks have continued their slump. So why are we witnessing this?

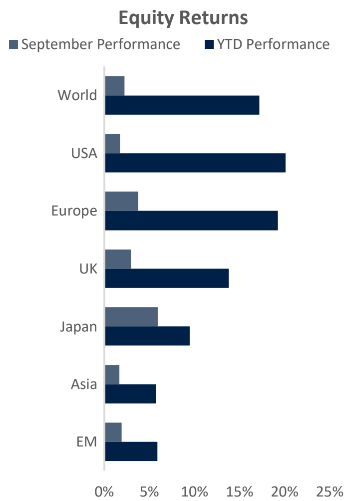
As always the answer isn't straightforward but requires a harsh dose of reality. Despite US equity markets trading near all-time highs and most financial markets providing investors with very handsome gains over the last ten years, global economic growth momentum has in fact been surreptitiously shifting into a slower structural gear. Levels today are becoming quite disconcerting and are historically inconsistent with a healthy global economy. Leading the slowdown has been the Chinese economy, whose official year-on-year growth numbers (which are widely accepted as artificially inflated) have declined from 14% in 2007 to 6% this year, with 2019 due to be the slowest year since 1990. Alongside a stagnant Japanese economy and stalling European economy, this has contributed to a decline in demand growth for commodities, and with it a decline in global inflation levels and bond yields.

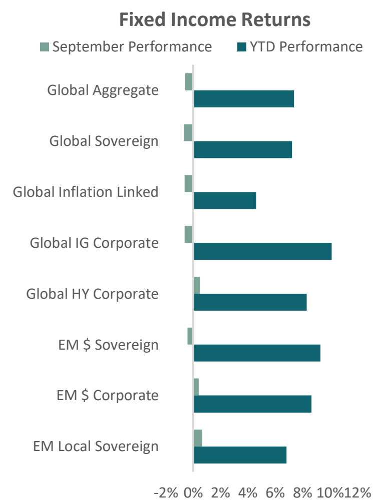
The September snapback in global equity performance saw a retracement of most of the August losses. However, this month there was a difference, with a spike in bond yields and strong rotational undercurrent seeing value stocks start to outperform growth stocks for the first time this year. Could September be the start of a change in style leadership? Given economic growth remains subdued and bond yields still historically low, it may seem unlikely for this outperformance to last, but with a now sizeable performance and valuation discount on the value sector's side, anything is possible.

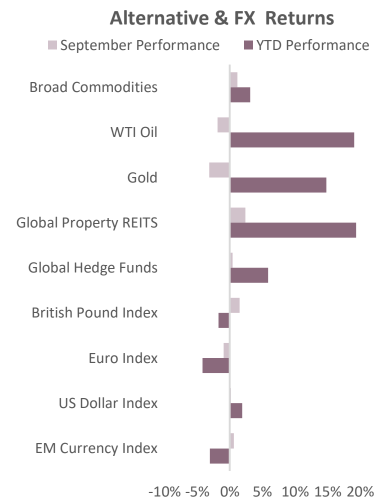
Robert Lee
Co-Head of Multi-Asset Investments



Source: Signia Wealth, Bloomberg. Data as at 30/09/2019.







Source: Bloomberg, Signia Wealth. Data as at 30/09/2019.

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. 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.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. JP Morgan Emerging Market Currency Index.

Equities

Jack Rawcliffe
Senior Equity Fund Analyst

- Japanese equities rose the most in September, as improving economic data globally buoyed investors
- European bourses were next best, with economic data and central bank policy helping to drive returns
- UK and US indices achieved more modest gains, with the latter underpinned by continued policy easing by the Federal Reserve
- Asian and emerging market equities were the laggards during the month, though did still achieve marginally positive returns

Fixed Income

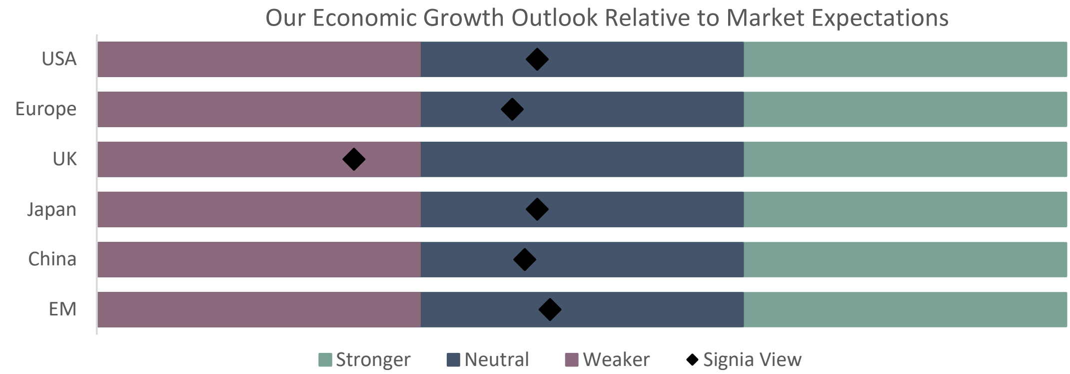
Grégoire Sharma
Fixed Income Fund Analyst

- Global sovereign bonds were down in September as the US Federal Reserve lowered the target range for the funds rate by 25bps whilst the ECB delivered a package of monetary easing measures
- Global Investment Grade credit declined as global growth fears continued worrying investors
- EM debt was mixed: hard currency sovereigns posted negative returns with the launch of the Trump impeachment inquiry adding more uncertainty to the US/China trade war, whilst EM corporate debt and local sovereigns generated positive returns

Alternatives & FX

Thomas Sollis
Investment Analyst

- Commodities were up slightly but volatile. Oil fell -1.9% on global growth concerns after initially spiking on Iran attacks to Saudi Arabian oil facilities
- Gold fell -3.2% as global yields jumped after several months of declines
- The Japanese Yen weakened as risk on currencies such as the Mexican Peso (+1.7%) and South Korea Won (+1.3%) performed well. The British Pound rose 1.1% as Boris Johnson's plans to suspend parliament were deemed unlawful by the Supreme Court



Source: Signia Wealth, Bloomberg. Market Expectations are represented by the Bloomberg Contributor Composite. Data as at 30/09/2019.

United States of America

The Federal Reserve is in easing mode to combat declining growth indicators, a benign inflation outlook, and rising external risks from a prolonged trade war. Healthy wage growth is supporting domestic consumers and household balance sheets, but labour market momentum is slowing. In the corporate sector, profit margins have peaked and leverage is rising. Despite an inverted yield curve a recession over the next twelve months remains unlikely but possible.

Europe

Growth and inflation indicators continue to weaken below long-term trends, led by German and Italian slowdowns, whilst heightened economic uncertainty has caused a decline in real investment and business expectations. The ECB increased stimulus in September by cutting interest rates, launching a third longer-term refinancing operation, and re-starting its quantitative easing programme. Brexit risks are rising again as the latest deadline on 31 October approaches.

United Kingdom

The economy remains in a very delicate state despite a healthy jobs market, with monetary policy tied to a Brexit outcome. Profit growth is declining as Brexit uncertainty weighs heavily on business confidence and the value of the British Pound. Boris Johnson is committed to Brexit on 31 October, “no ifs no buts” and the probability of a snap general election is rising. The economy could already be in a technical recession, defined as two consecutive quarters of negative growth.

Japan

Despite a still accommodative Bank of Japan (BoJ), economic growth remains anaemic. Wage growth and consumer sentiment indicators are now also deteriorating, with a recent consumption tax hike further hurting the outlook for businesses and the Japanese economy. The Bank of Japan could follow the ECB into more quantitative easing as the economy stalls and inflation expectations remain weak.

China

As the trade war with the USA weighs on economic growth, authorities have reaffirmed their support to stimulate the economy and contain any slowdown in order to achieve its GDP growth target of 6%-6.5% for 2019, which is looking tenuous. After an initial surge in the first quarter, total social financing (broad money supply) has stagnated with potentially negative implications for economic momentum. In addition to the trade war, Hong Kong protests are weighing on sentiment.

Emerging Markets

Easier financial conditions from a dovish pivot by the US Fed this year in its rate cycle has struggled to provide a meaningful boost for emerging market asset prices in the face of slowing global growth and a stronger US Dollar. Drawn out US-China trade tensions have caused a drop off in Chinese demand and Asian trade activity.

Important Information

The information set out in this document has been provided for information purposes only and should not be construed as any type of solicitation, offer, or recommendation to acquire or dispose of any investment, engage in any transaction or make use of the services of Signia. Information about prior performance, while a useful tool in evaluating Signia's investment activities is not indicative of future results and there can be no assurance that Signia will generate results comparable to those previously achieved. Any targeted returns set out in this document are provided as an indicator as to how your investments will be managed by Signia and are not intended to be viewed as a representation of likely performance returns. There can be no assurance that targeted returns will be realised. An estimate of the potential return from an investment is not a guarantee as to the quality of the investment or a representation as to the adequacy of the methodology for estimating returns. The information and opinions enclosed are subject to change without notice and should not be construed as research. No responsibility is accepted to any person for the consequences of any person placing reliance on the content of this document for any purpose.

No action has been taken to permit the distribution of this document in any jurisdiction where any such action is required. Such distribution may be restricted in certain jurisdictions and, accordingly, this document does not constitute, and may not be used for the purposes of, an offer or solicitation to any person in any jurisdiction were such offer or solicitation is unlawful. Signia Wealth is authorised and regulated by the Financial Conduct Authority.

FOCUSED
AND SPECIALISED

Signia is a private investment office that finds fresh but secure ways to manage money so that entrepreneurs can enjoy their wealth.
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.

MULTI-ASSET
INVESTMENT

We think long-term – that achieves the best results. So we manage long-only investment portfolios and we stick to guidelines agreed with you.

HEDGE FUND
INVESTMENT

If you seek attractive risk adjusted returns, we use our expertise to consistently deliver this for you.

CASH MANAGEMENT
& DEBT

Cash and debt need to be managed well. We consider both alongside your other investments.

PRIVATE
CAPITAL

Intellectual capital can be just as important as investment. Our clients appreciate that we bring them together to make the best deals.

SIGNIA: IN TUNE WITH YOU

LETS START THE CONVERSATION

We can help you to administer your global wealth; from managing your investments to setting a cross-border strategy for your current and future generations or investing for a social impact.

Whatever your needs we will work with you to find a solution, call us on +44 (0)20 7298 6060.

Phone

+44 (0)20 7298 6060

Online

Email: info@signiawealth.com
Website: www.signiawealth.com