SIGNIA: IN TUNE WITH YOU

SIGNIA
TALKING POINTS

SEPTEMBER 2021

Phone

+44 (0)20 7298 6060

Online

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

Do Central Banks Think the Pandemic is Over?

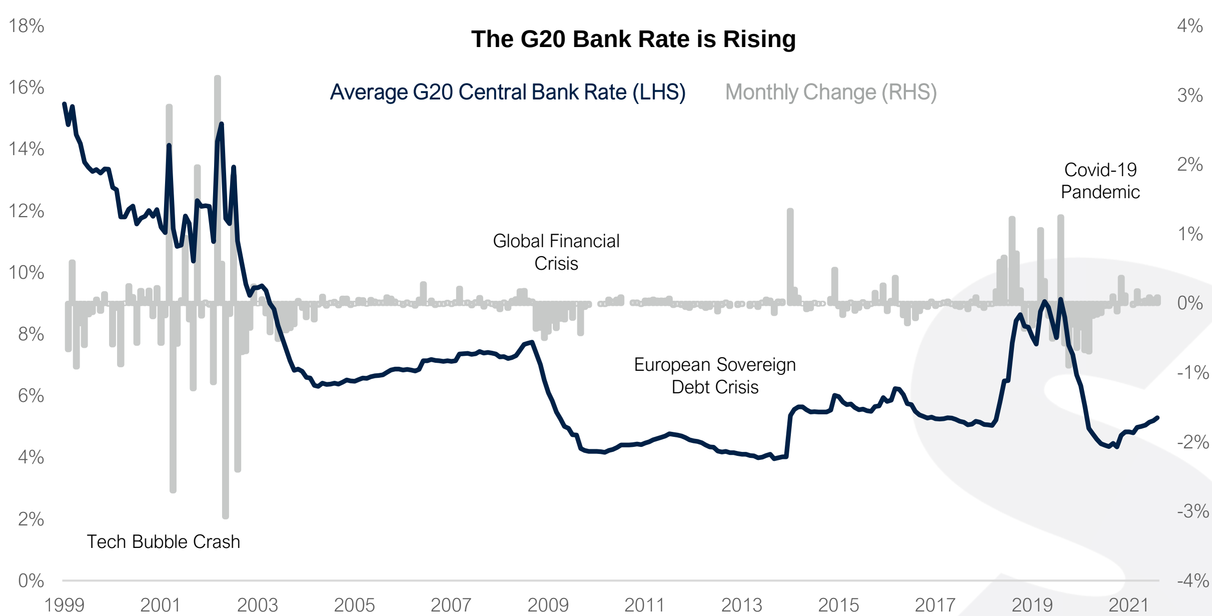
These days it seems that everyone is waiting for the US Federal Reserve to end its emergency pandemic QE program of $120bn asset purchases each month and start hiking its Fed funds interest rate… everyone that is except other central banks.

The Norges Bank of Norway became the first major western central bank to increase interest rates after the Covid-19 pandemic in September. The bank hiked its rate by 0.25% from its record low of zero, citing economic activity that was above its pre-pandemic level and the need to counter a build-up of financial imbalances. More recently this month, the Reserve Bank of New Zealand joined the club by also raising its cash rate for the first time in seven years by a quarter of a percentage point to 0.5%. Both countries share something in common, they have managed to avoid the worst of the coronavirus pandemic and consequently their economies have recovered quickly from their 2020 recessions.

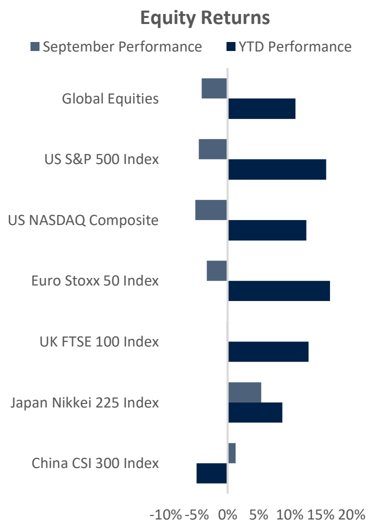
Whilst both Norway and New Zealand are major developed economies, neither are part of the G20. In fact, it has been the emerging economies in the G20 that have been leading the way with interest rate increases, albeit each for their own idiosyncratic reasons. Astonishingly, the Central Bank of the Republic of Turkey was the first to unexpectedly hike its benchmark interest rate last year in September 2020 by a staggering two percentage points from 8.25% to 10.25%, following a surge in economic growth driven by a near doubling of lending by state banks to face down the initial wave of the coronavirus. However, this cheap supply of credit stoked already high double-digit inflation, piling pressure on the Lira and forcing the central bank to act. The CBRT bank rate is now 18.0% and the second highest in the G20 behind Argentina, whose economy is grappling with similar issues and whose central bank also hiked interest rates last year. Since then, Russia, Brazil, Mexico and South Korea have joined the hiking cycle and started raising their interest rates.

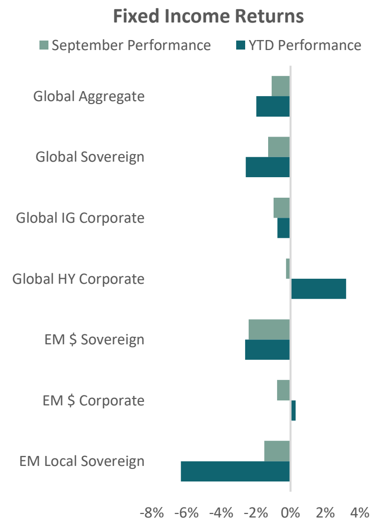
All of this is in stark contrast to the Euro Area and Japan where central bank rates have been negative for years and were undisturbed by the pandemic, stuck at -0.5% and -0.1%, respectively. It is difficult to see anything changing any time soon with these monetary policy pariahs. Which brings us back to the Fed, who are still caught in emergency pandemic mode despite rising inflation risks, but whose September dot plots have hinted at the prospect of a Fed funds rate lift off in 2022 or 2023. So the waiting game continues but we are edging ever closer to this elephant in the room joining the G20 rate hiking party.

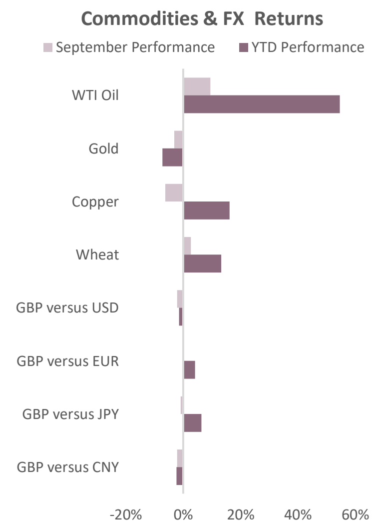
Robert Lee
Co-Head of Multi-Asset Investments



G20 countries: Argentina, Australia, Brazil, Canada, China, Euro Area, India, Indonesia, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States
Source: Bloomberg, Bank for international Settlements, Signia Wealth. Data as at 30/09/2021.







Source: Signia Wealth, Bloomberg. Data as at 30/09/2021.

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 fell the most over the course of September, as rising bond yields and the potential for tighter monetary policy triggered sharp sell-offs in higher valued assets, such as large-cap technology names.
- European markets also fell but to a lesser extent than the US, however UK and Japanese markets delivered flat to positive returns owing to their higher proportion of better value, less interest-rate-sensitive companies.
- Chinese equities also achieved small positive returns, as further monetary stimulus, somewhat quieter regulatory news, and cheaper valuations attracted investors into the space.

Fixed Income

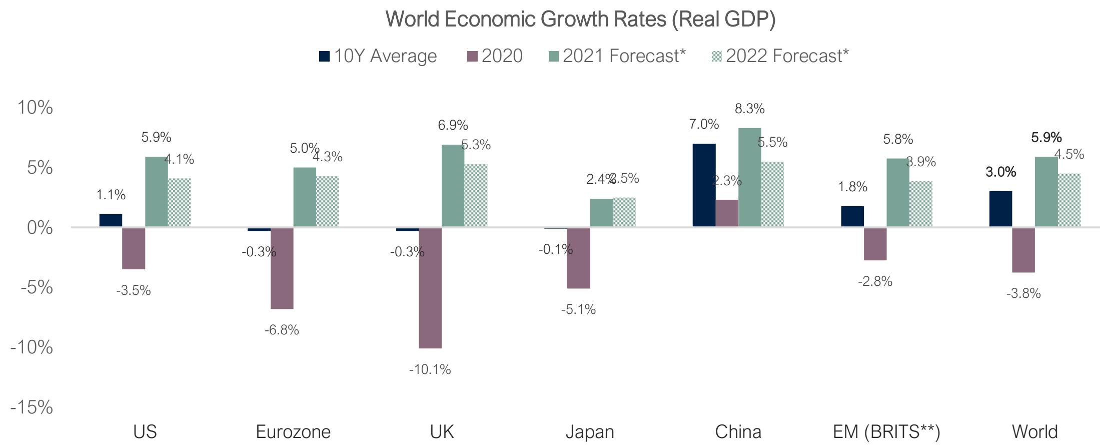
Grégoire Sharma
Fixed Income Fund Analyst

- Sovereign bond yields were higher on the month on the back of rising inflation expectations. Given bonds' inverse relation between yields and prices, the asset class generated negative returns on the month.
- Investment grade and high yield credit indices were mixed on the month as despite credit spreads widening for both, the interest rate sensitive nature of the former led to negative performance.
- In Emerging Market Debt, the index of sovereign bonds issued in dollars finished the month in negative territory due to its high correlation with US treasury bonds.

Commodities & FX

Harry Elliman
Investment Analyst

- The US Dollar Index continued its 2021 gain by climbing 1.7% in September, as a risk off sentiment hit markets, with treasury yields rising in response to the Federal Reserve announcing preparations to start tapering its $120bn treasury and MBS purchase programme.
- WTI Crude Oil rose 2.6% on the back of supply disruptions and a surge in demand. The recent dramatic rise in natural gas prices has also made oil a relatively cheaper alternative for power generation. WTI is now up 57% in 2021.



*Bloomberg Contributor Composite Forecasts, except IMF WEO for India. **Brazil, Russia, India, Taiwan, South Korea.
Source: Signia Wealth, Bloomberg, IMF. Data as at 30/09/2021.

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. Employment gains have slowed recently with the Leisure & Hospitality sector stalling in August from the spread of the Delta variant.

Eurozone

Inflation is now trending above the ECB's 2% target and is not showing any signs of peaking yet, spurred by rising energy prices, supply chain bottlenecks, and the end to a temporary German pandemic-relief VAT rate cut. Despite this, the ECB is maintaining a dovish and accommodative stance. The economic rebound has gathered momentum as the bloc's covid-19 vaccination programme surpasses many other leading countries including the UK.

United Kingdom

The UK is displaying similar inflation trends to Europe but higher energy prices and an HGV driver shortfall on supply chains are hitting consumer prices harder after Brexit. Fuel supply issues have caused a run on petrol stations. BOE is turning more hawkish and indicating the prospect for rate hikes to begin next year if inflation trends persist/worsen, despite peaking economic growth albeit from a high base. Daily coronavirus infections remain high, but hospitalisations remain low thanks to a largely immunised population.

Japan

Japan is struggling to control a prolonged coronavirus infection wave driven by the spread of the Delta variant and in the wake of the Summer Olympic Games which has exacerbated the problem, causing Prime Minister Suga to resign from his post meaning a general election must be held before the end of November. Despite substantial monetary and fiscal policy support, a vaccine-sceptic population has thus far prevented a significant economic rebound in 2021. Consumer price levels are struggling to recover from their deflationary territory and are significantly lower versus G10 counterparts.

China

Chinese economic growth has rebounded strongly to between 8-9% this year, far ahead of any other major economy, but it is now decelerating quickly driven by declining retail sales, a struggling property sector, and a current Delta variant endemic. The 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 the global vaccine rollout programme with most of the poorest EM populations currently 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 slower pace than their developed market counterparts in the US and UK where policy support has been greater.

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