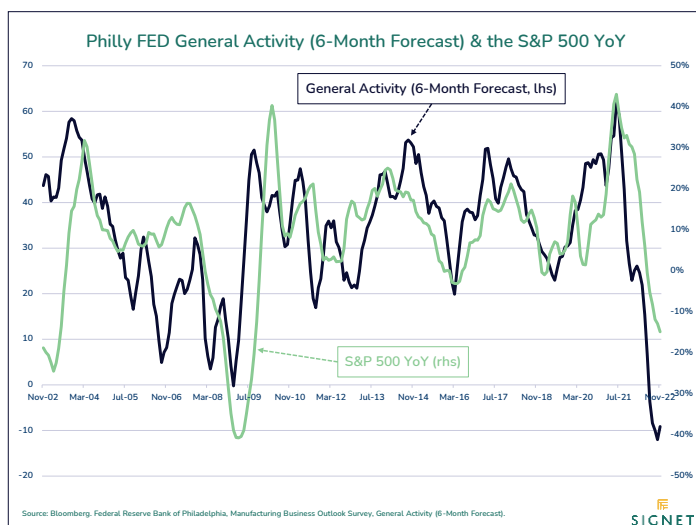
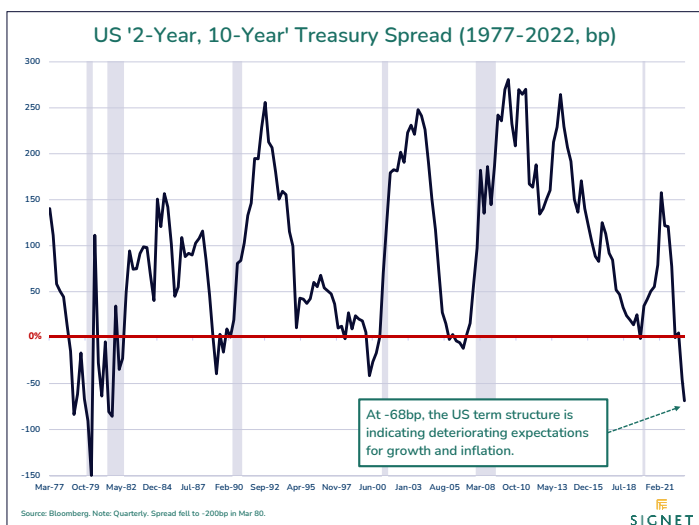


Leading Indicators Advocate Caution

- US third quarter (Q3) GDP came in positive and ahead of expectations at 2.6%, which followed on from the surprise negative prints of Q1 and Q2. Much like Q3, the Q4 GDP estimates, evaluated by 'nowcasting' analysis, currently appear stronger than originally expected. Lagging indicators, such as unemployment (duration of), loans, inventories and labour costs, are improving and are up 3.7% over the last six months, according to The Conference Board. These indicators often grab the headlines leading to talk of "recovery."
- However, the Conference Board's *leading* indicator index has fallen for eight consecutive months and is now down 3.2% over the last six months. Talk of some recovery is probably misplaced and misunderstood; the global economy is weakening rapidly, with the possibility that the US and other developed economies experience recessions in the near term. Further, China cannot be expected to 'bail out' the global economy this time around either; it has serious structural economic problems of its own to address.
- Chart 1 (left) highlights the difference between the 2-year and 10-year Treasury yields (spread) and is a useful leading indicator of recession. Specifically, an inversion indicates receding growth and inflation expectations, and often signals a market 'top' for risky investments. This looks pessimistic and suggests the Fed is tightening too far and too fast. Chart 2 (right) is another leading indicator, mapped against the YoY return of the S&P 500 (green). The Philly Fed Survey is a respected release and has a useful component looking at the expectations for general business activity in six months' time. The indicator has already breached the lows of 2008, and abruptly as well, and its trend might be associated with further weakness in the ISM data, earnings and – ultimately – asset (risk) prices.



- The Fed appears to be draining liquidity, via the monetary base, in phases. While this can lead to periods of market recovery in the core areas, and investor complacency perhaps, we maintain that the trajectory of 'liquidity' remains lower, especially as inflation expectations remain elevated. That's bearish. The initial impact of the draining of liquidity can clearly be seen in some of the more speculative corners of the markets: crypto assets, the new-age technology sector and residential property. Elevated commodity prices and the strength of the dollar only compound this liquidity problem, especially for emerging markets. While there is evidence of inflation beginning to roll over, the inflation dynamic remains uncomfortable for central bankers and – therefore – we remain cautiously positioned.

Therefore:

- Remain defensively invested. Fixed Income: there are opportunities to target quality and liquidity.
- Equities: target quality but there's no rush. Commodities: target precious metals.

Research Report Disclaimer: This communication and all the information provided is marketing material. The views and opinions contained herein may not necessarily represent views expressed or reflected in other communications and/or strategies of Signet Capital Management Ltd. (the "Company"). Therefore, this material is intended to be for information purposes only and is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Please read our Marketing Communication Disclaimer for further assistance.

Marketing Communication Disclaimer: The content of this material is a marketing communication and does not constitute any form of independent investment advice and/or recommendation and/or research. The material is for general information purposes only (whether or not it states any opinions). Nothing in this material is (or should be considered to be) legal, financial, investment and/or other form of advice and/or recommendation on which reliance should be placed. No opinion given in the material constitutes a recommendation by Signet Capital Management Ltd. (the "Company") or the author that any particular investment, security, transaction or investment strategy is suitable for any specific person. Although the information set out in this marketing communication is obtained from sources believed to be reliable, the Company makes no guarantee as to its accuracy or completeness. All information is indicative and subject to change without notice and may be out of date at any given time. Neither the Company or the author of this material shall be responsible for any loss that you may incur, either directly or indirectly, arising from any investment based on any information contained herein. This material may include charts displaying financial instruments' past performance as well as estimates and forecasts. Any information relating to past performance of an investment does not necessarily guarantee future performance. Please seek independent advice.