

Outlook: Volatility, oil and interest rates

William Davies, Global Chief Investment Officer

Market volatility has been elevated this year, and particularly so since the invasion of Ukraine. And as investors, we do look at the impact of that, but we must highlight the human tragedy that is taking place in Ukraine presently, and our hearts and minds go out to the people who are so brave and so adversely affected during these times.

But as investors, we need to interpret the events which are which are going on. The volatility has been manifested in energy prices, with the oil price rising. But it's also manifested itself in terms of equity prices in terms of volatility we've seen there.

We have seen the oil prices rise. And so as oil prices rise, you'd think, OK, so inflation starts to rise. So does that mean there's an even bigger impact on interest rates? And will they rise further than we thought before? My impression is exactly the opposite. I think that the rising commodity prices and the oil price in particular acts as a deflationary impact on economies in as much as growth is going to be lower than we previously predicted. And yes, the supply side pressures lead to prices rising faster immediately. But inasmuch as that takes money out of consumers' pockets, that leads to lower growth as we move forward. And with that in mind, I think central banks will be wary about raising rates as high or as fast as previously they were expected to do.

One of the very important things in terms of investing at the moment is we have to recognize this is a dynamic environment. Change is taking place quickly and the changes which are taking place are significant. For instance, in terms of commodity prices that we've seen, in terms of credit spreads widening, in terms of pressures on equity prices, when that occurs, opportunities arise because there are some price moves which as active investors, we believe they may be the correct moves. There'll be others where we believe they are absolutely incorrect and we should take advantage by either investing or divesting from those particular securities. So the greater the degree of volatility, the greater the opportunities which do arise. Don't get me wrong, that doesn't mean it's easy given the increased volatility, but it does mean that there are a greater number of opportunities for the active investor.

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