A Fine Balance

Omnis Investment Perspective

Central banks around the world are trying to tame inflation by increasing interest rates. What are the likely implications for the global economy, financial markets and investment returns?

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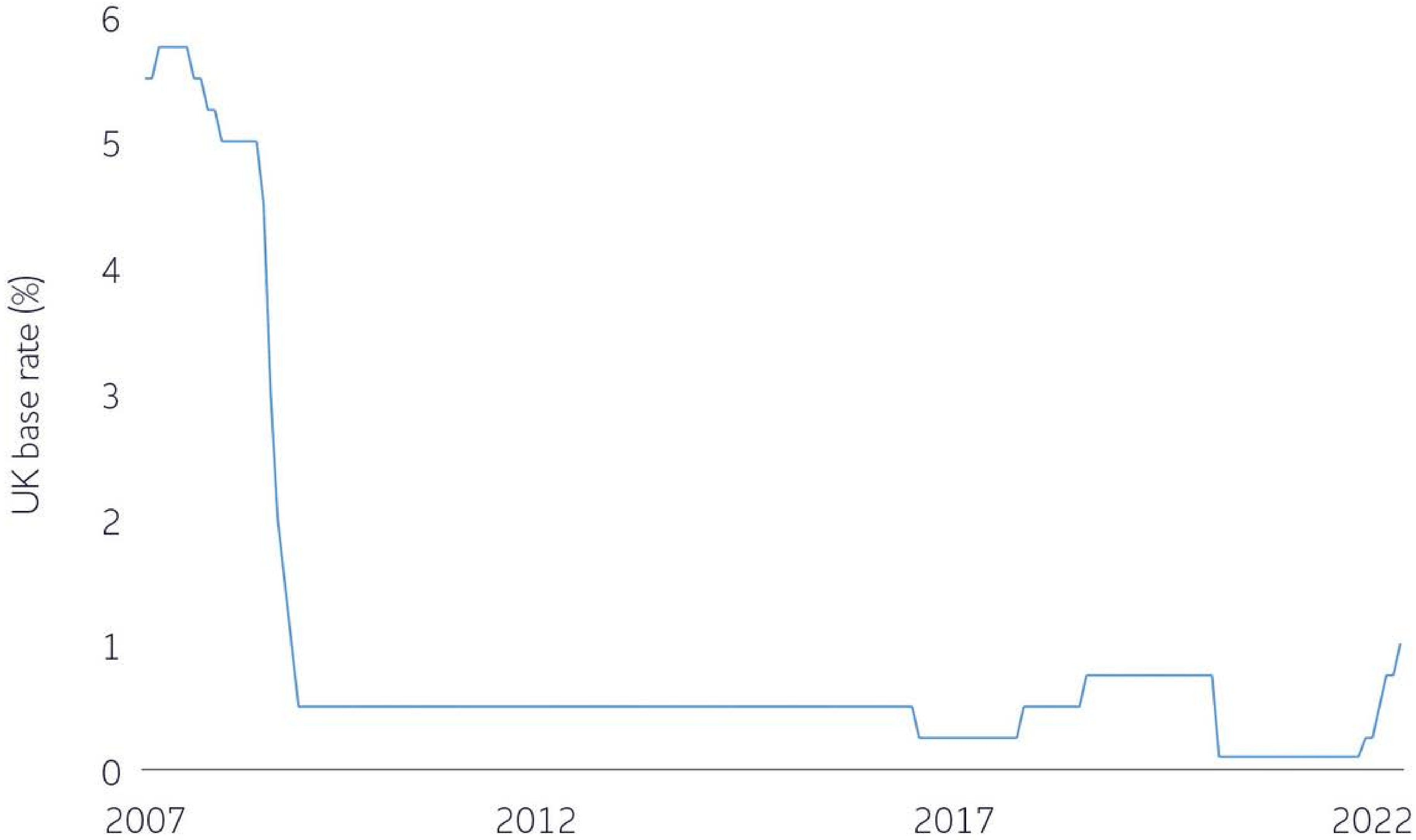
1

Interest rates in the UK are now the highest they have been since before the Global Financial Crisis of 2007/2008

Household energy bills have doubled for many of us and our weekly supermarket bills are rising too, so central banks are raising interest rates to try and bring the rate of high inflation down.



Source: Bloomberg

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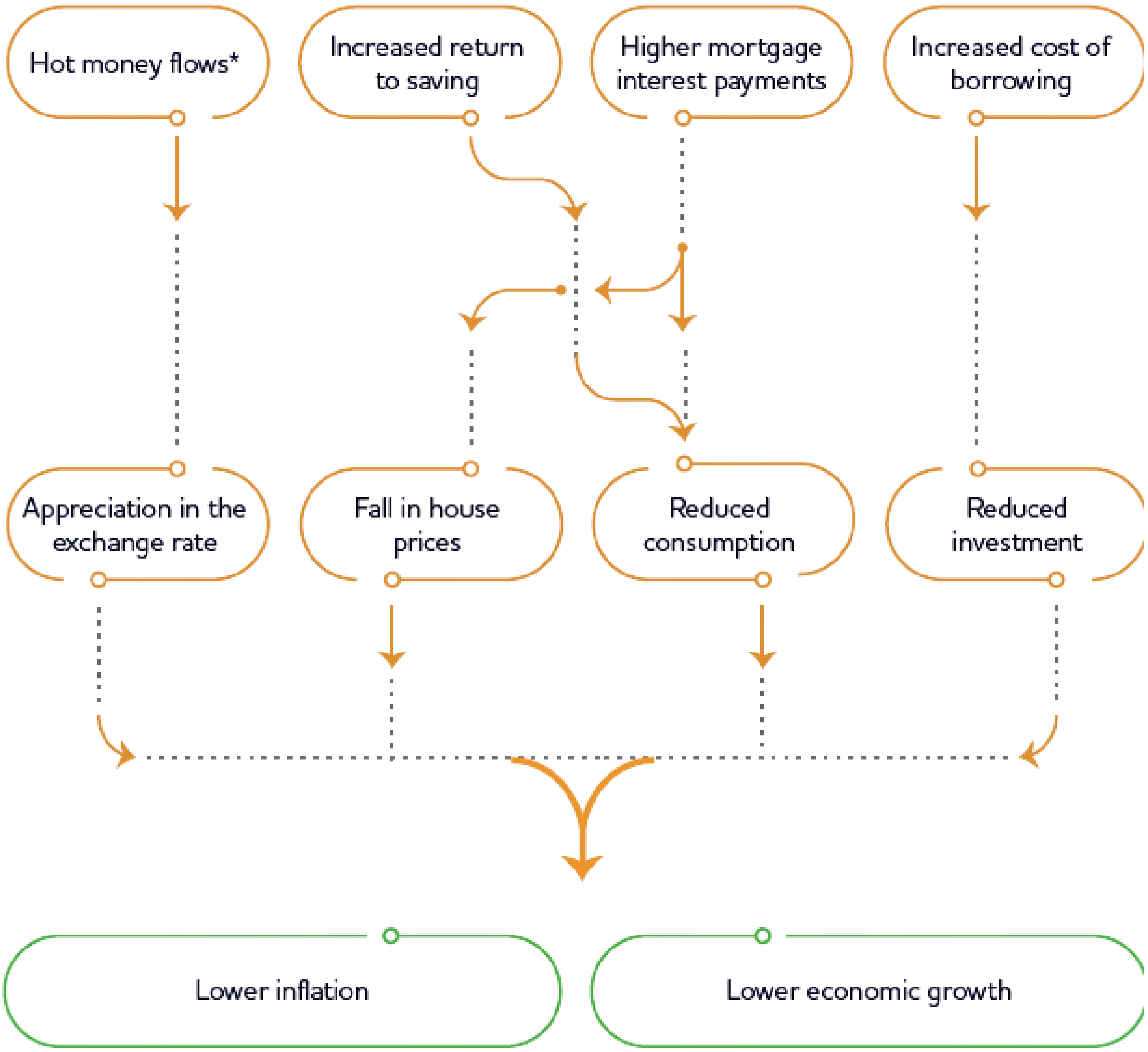
2 Effect of higher interest rates

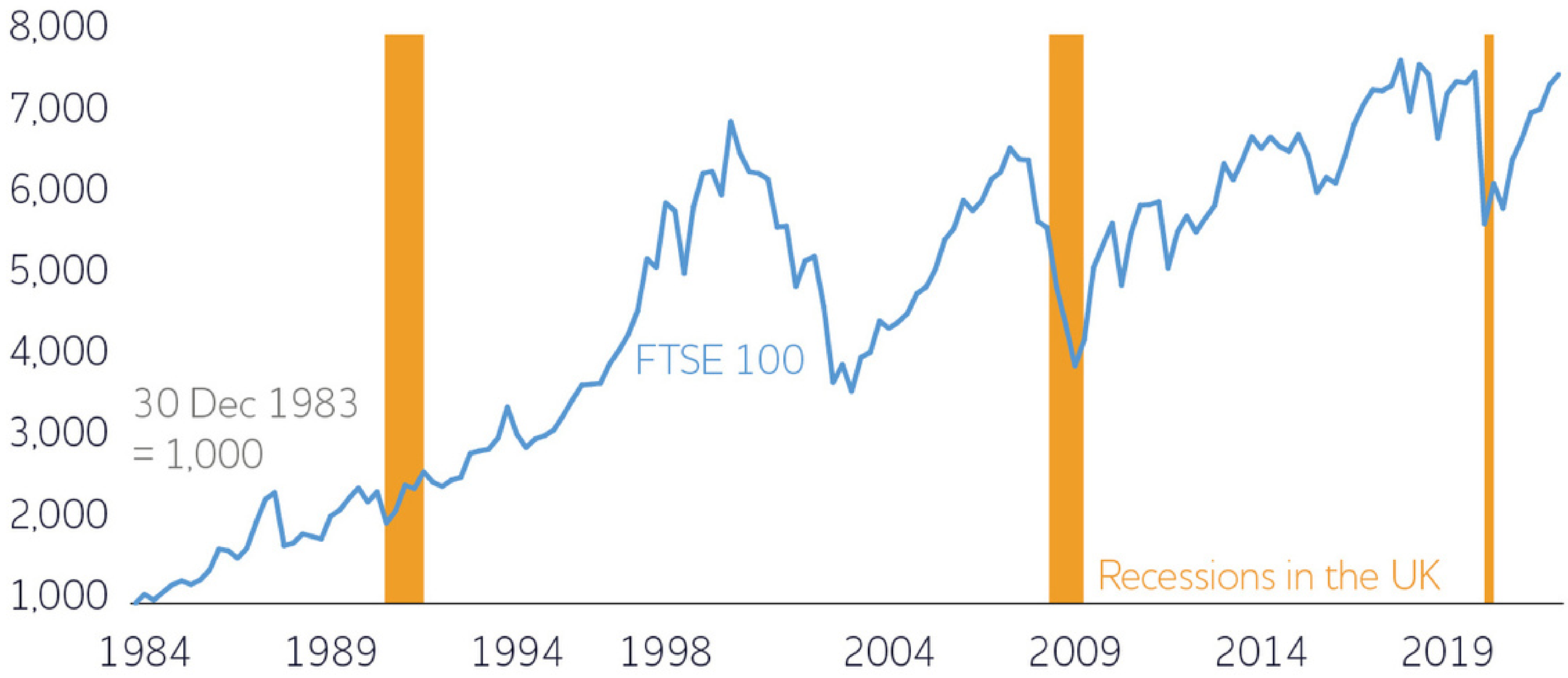
The theory is that by increasing interest rates, central banks can take some heat out of the economy, which should in turn cool inflation.



Source: www.economichelp.org

3 Equity markets tend to begin falling ahead of a recession and often recover promptly whilst we remain in a recession

During a recession the stock markets tend to fall and conditions can be volatile. Yet investment opportunities always remain, even when it can be challenging.



Source: Bloomberg

* When interest rates are increased, you get better returns on UK savings accounts and as a result money flows into the UK, likely from areas where the interest rate is lower. This increases the demand for Sterling leading to an appreciation in the value of the Sterling Pound.

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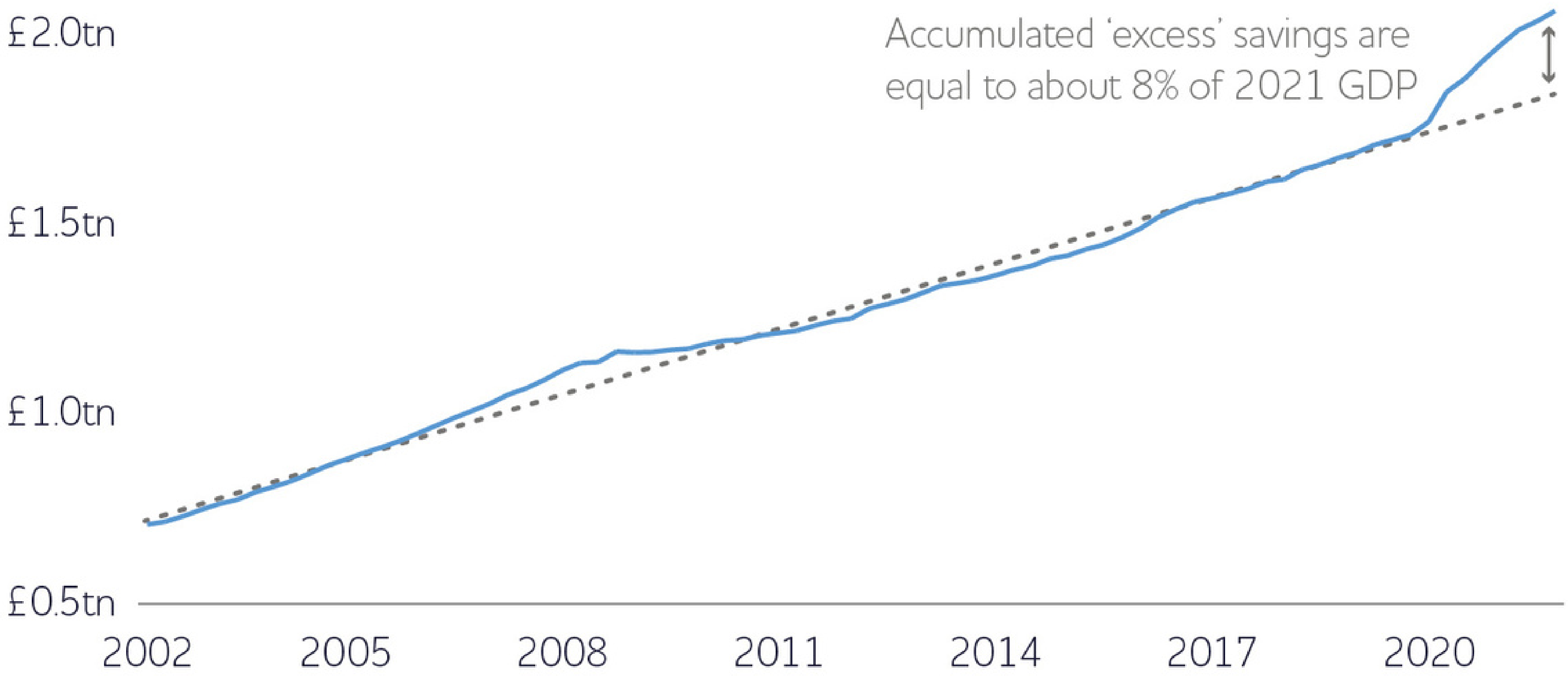
4

The UK consumer holds a golden ticket. The economy could benefit from households releasing the almost £180bn worth of excess' savings built up during the pandemic

A side-effect of the lockdown has meant many of us have excess savings as a result of not being able to go out and spend,



Source: Bloomberg

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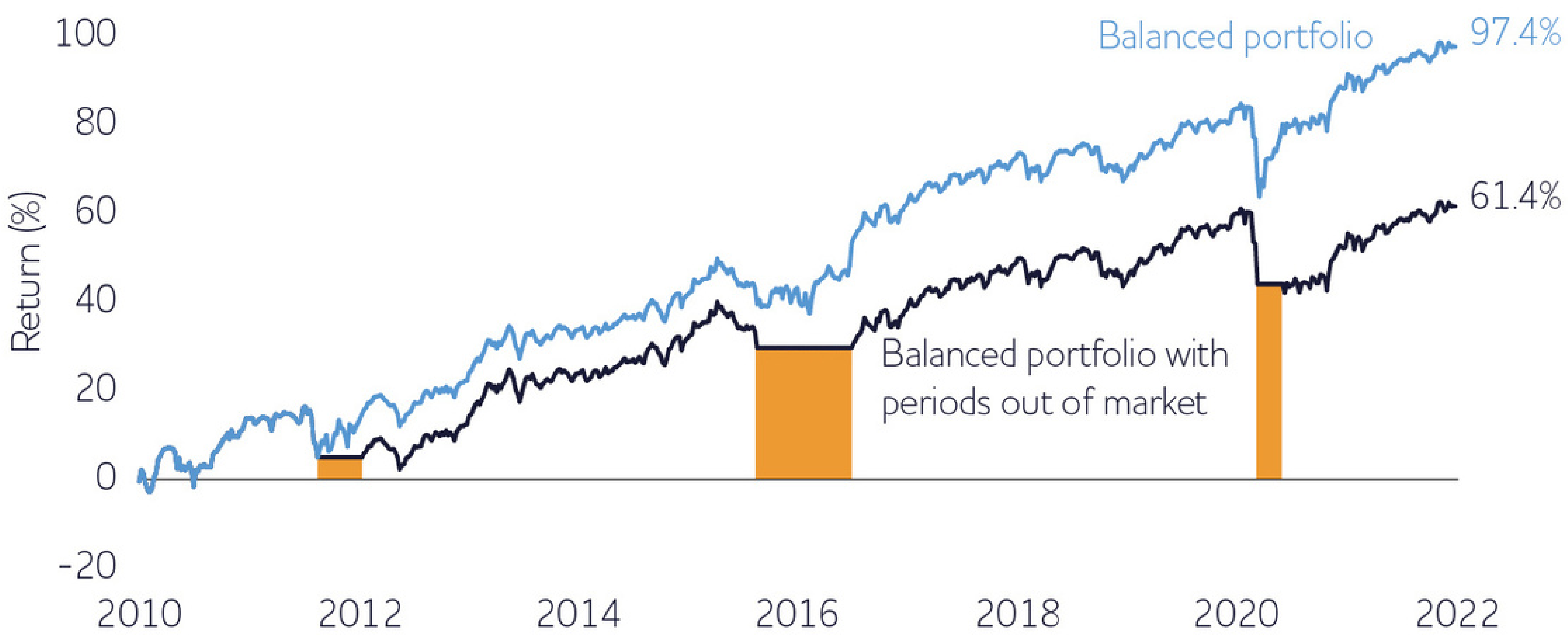
5 The cost of getting it wrong. Missing out recoveries can be very costly for long term investors

History shows that patience and commitment tends to be a winning strategy, which is why its important to remain invested with your risk profile even when conditions are challenging.



Source: FE fundinfo. 1 January 2010 – 31 December 2021.
* Using Graphene C2 Balanced Index Equivalent for Balanced Portfolio. Assumes investments are withdrawn when market falls 10% and reinvested when market subsequently recovers 10%.

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