

“NOISE” – WE’VE BEEN THROUGH THIS BEFORE

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On a daily basis, dramatic headlines are drafted and spread across the world more rapidly than ever before. These headlines, I agree, don't make for pleasant reading, as they usually focus on the negatives and not the positives.

Currently, you are reading about inflation, interest rates, Covid and the war in the Ukraine. Once again, I agree, unsettling but we have been here before. Are we just going through a phase of normalisation? For example, in developed markets, investors were experiencing a negative 10-year bond yield. So simply put, if you invested your hard-earned money in a 10-year German government bond, you were “earning” a negative interest rate – surely, this isn't normal.

Increasing interest rates are going to place more pressure on consumers, especially those with debt like bonds, car repayments, etc. Looking specifically at South Africa, however, the prime interest rate is still well below pre-Covid levels, so context is important.

Are rising interest rates bad for equity markets? A quick look at the data that is readily available out of the US confirms that a rising interest rate environment is not necessarily bad news for equity markets. Looking at the last five interest rate “hike” cycles in the US, equity markets in general provided positive returns, so it's not per se all doom and gloom.

Lastly, equities trend up. Yes, it can be a bumpy ride, but over time the general theme is that equity markets increase in value. The graphic below summarises events that you and I have experienced together over the past decades. You will notice the upward trend despite the speed bumps.



SOURCE: REFINITIV DATASTREAM/OLD MUTUAL MULTI-MANAGERS

In closing, within the PWM Wealth Management strategies, we have been proactive in these volatile times. We have been buying into the global equity volatility as the market has become cheaper. The strategies we manage and that your financial planner uses to underpin your financial plan are diversified. You have exposure to many different companies, governments, asset classes and countries across the world. The key thing for all of us to do, is to stay committed to our investment strategies.

