Quick thoughts

Navigating uncertainty in a rapidly changing world

June 6, 2022

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The recent volatility across capital markets is challenging established norms around how the path forward may unfold. Here are some key thoughts:

- **Inflation is rising globally, but the pace of acceleration depends on where you are.** The US consumer price index (CPI) has risen by over 8% in the past year, similar to Europe's 7.4% increase. These are the highest levels since the early 1980s. China sits at approximately 2.1%, which has been increasing slowly but still near multi-decade lows.[1]
- **Gross domestic product (GDP) growth is expected to decelerate globally, with emerging markets recovering before developed markets.** The International Monetary Fund (IMF) forecasts US GDP growth to slow in 2022 relative to 2021, and then slow again in 2023 relative to 2022.[2] China is expected to also slow in 2022 but then re-accelerate in 2023. These two economies account for 42% of total global GDP.[3]
- **Expectations for future inflation are leading to diverging central bank action globally.** In the US, higher retail gasoline prices have historically led to higher expectations of inflation, leading to higher actual inflation. The Federal Reserve is on a path of monetary tightening. Meanwhile, China's zero-COVID policy has impacted demand, which has muted inflation. This has allowed for China's policymakers to have flexibility in maintaining or lowering rates.
- **Fears of recession are rising.** Even with positive factors such as elevated consumer savings, rising wages across sectors and increased corporate capital spending, capital markets are increasingly concerned about slowing economic growth globally.
- **Volatility has increased at an accelerated rate in traditionally safer fixed income sectors.** Historically, government bonds have a negative correlation to stocks, providing a diversification benefit in volatile times[4]. This year, fixed income has been as or more volatile than equities. Globally, stocks are down roughly 6% year-to-date, while bonds are down about 13%.[5] Longer-duration fixed income and growth stocks have seen the largest declines.
- **Maintain strategic asset allocation.** The current volatility may be an opportunity to reallocate your portfolio holdings toward your long-term allocation targets. Over the longer term, this strategy has had the effect of helping to "buy low and sell high."
- **Higher volatility can also provide opportunity to reset allocations.** Going forward, achieving a diversified portfolio may include both a wider array of alternative assets and a more creative re-allocation of traditional assets. We also believe adjusting exposure to forces such as shifting geopolitics, changing demographics and accelerating innovation will likely have an outsized impact on portfolio returns over the next decade and beyond.

Endnotes

1. Source: US Bureau of Economic Analysis, China National Bureau of Statistics, Eurostat, Macrobond.
2. Source: IMF, as of April 2022. There is no assurance any estimate, forecast or projection will be realized.
3. Source: World Bank as of 2020 using current US dollars.
4. Diversification does not guarantee profit nor protect against the risk of loss.
5. Global stocks are defined as the MSCI All Cap World Equity Index and global bonds are defined as ICE BofA Developed Markets Sovereign index as of May 31,2022. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.**

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