

HOW IS THE CURRENT MARKET VOLATILITY IMPACTING YOUR PENSIONS & INVESTMENTS?

WEBINAR

THOMAS GOLDIE
SENIOR ADVISER

HOXTON
CAPITAL MANAGEMENT

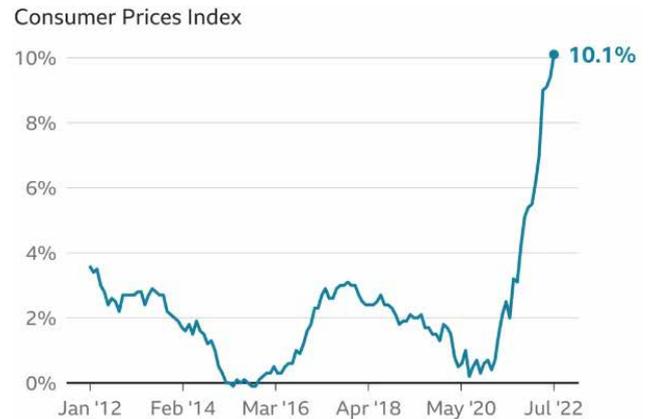
What is inflation?

Definition: A general increase in prices and a fall in the purchasing value of money.

Percentage change in US consumer prices, year-on-year



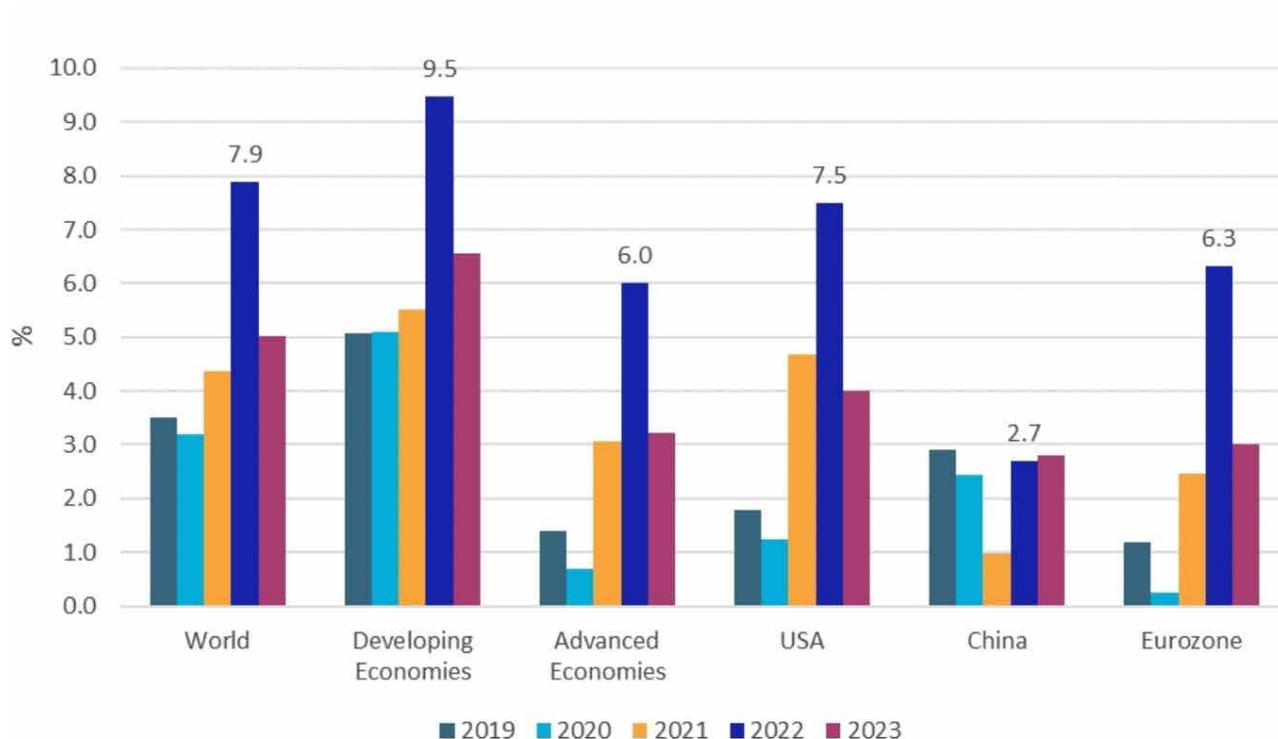
UK inflation passes 10%



How has inflation impacted Australia

- In Australia: The Reserve Bank of Australia and most central banks are in a serious predicament.
- Either increase interest rates further and risk having a deeper recession or let inflation run.
- The rate has been increased from 0.1% to 1.85% per annum and with inflation predicted to exceed 7.5% this year, there are likely to be more interest rate hikes in the near term. The below **chart** shows advanced economies (Australia) expected to rise in 2023.
- Since the majority of inflation is contributed by supply-side factors, a further increase in interest rates are unlikely to have a profound effect.

How inflation differs between countries



Why is this situation different from previous recessions?

- The current situation differs from previous recessions: In previous recessions, the economic downturn resulted from issues in financial markets, oil prices, or monetary policy.
- The current recession was caused by a public health crisis and somewhat a self-induced recession.
- While the effects of Covid-19 on the economy were deep, the overall economy is in good shape and poised for a sharp bounce back.
- Company earnings appear to be resilient while unemployment remains **lower** than expected.

What should you do?

✓ DO

Invest while markets are low – Periods of low returns are usually followed by periods of high returns.
Hold a well-diversified portfolio – Exposure to different sectors and countries due to the variation in inflation

✗ DON'T

Avoid holding large amounts of cash – Erodes real value of money. Avoid taking on any new debt – High-interest rates increase costs

REMEMBER

- Recessions are a natural part of the business cycle. Below is a **chart** of the S&P 500 showing the different years of bull & bear markets. Here you can see how short each recession lasts.
- There have been 15 recessions in the last 100 years
- Time to invest – Markets are generally undervalued
- Markets have always recovered
- Recessions on average last 15 months

Bull vs Bear

The historical performance of the S&P 500 Index during the US bull and bear markets

The bold numbers calculate the duration of months for the market either being bull or bear and the percentages cover the total return for the time period.¹



Summary

Stay optimistic - Things are not as bad as they seem, We have had similar instances over the last 100 years and things always seem to bounce back. Analysts seem to think we will bounce back quite quickly from this episode of high inflation

Remain diversified – Having a wide range of exposures will really benefit you in this troubled period, it's difficult to say what sector will increase in value and when.

Take advantage – Suppressed markets and discounted prices never last for long so make sure you are in a position to profit from it

