

A message from the Heartwood Investment Team

The Heartwood Investment Team thought it worthwhile to provide our thoughts given financial market falls over the past few days.

What is happening? We have certainly had a few turbulent trading days. However, to put this in context, these falls largely erase gains made over recent months. Nevertheless, risk appetite has collapsed in very short order. In terms of sequencing, selling pressure originated in bond markets which then spilled over into equities, commodities and most recently credit. US bonds have been front and centre of the weakness, but closely followed by other developed bond markets too. Software-dominated trading strategies seem to be exacerbating recent moves.

What has changed? Though the new Chairman of the US Federal Reserve, Jay Powell, started yesterday, the recent moves are more to do with last week's US employment report which showed wage growth edging higher. In itself this isn't a major development, but there are growing fears that the central banks will have to reduce monetary stimulus quicker than originally thought to control inflation pressures.

How are the fundamentals? The global economy is in good shape with robust and synchronised growth. The global corporate sector is experiencing improved earnings momentum, especially in the US where the tax plan has caused material upgrades to growth expectations. Inflation may be starting to rise, but is still historically quite low. Though the Federal Reserve has been raising interest rates remember that many other central banks are still printing money and supporting the real economy.

The Heartwood view: We think this is a technically-driven correction that can potentially reverse quickly, rather than being the start of a protracted downturn based on recession fears. In the fullness of time we believe this will be viewed as a buying opportunity and so we are actively looking into avenues of interest.

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Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

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