What we're hearing:

Timely market insights from our network of industry experts, as of 3/10/22

Three views on the Russia-Ukraine conflict

- The Russian attack brings long-sought European unity: Russia's invasion of Ukraine has managed to do in one week what many observers of Europe have agonized over for decades: It has singularly united the European Union. Along with the United States and NATO, Western democracies haven't been this closely aligned in purpose since the aftermath of the September 11 terrorist attacks. Other European nations have signaled their resolve in various ways, including shipping weapons to Ukraine, accepting Ukrainian refugees and looking for alternatives to Russian oil and gas supplies.
- The U.S. economy, Fed rate hikes and the "R" word: While the threat to Europe's economy is far greater, the U.S. economy probably won't emerge from this conflict unscathed. Rising energy prices were a problem prior to the invasion of Ukraine and now are moving higher as global markets contemplate a world without Russia's vast oil and gas supplies. That could very well lead to higher U.S. inflation, which is already running hot. With the U.S. Federal Reserve poised to raise interest rates later this month, some market participants are wondering if the Ukraine crisis might give Fed officials a reason to keep rates near zero. Stocks rallied late last week partly on this sentiment, but I don't see it happening.
- Stay focused on long-term investment goals: Since the beginning of the year, we've been in an environment where price-to-earnings multiples are experiencing a significant correction, especially at the frothiest ends of the market. If the crisis in Ukraine eventually causes central banks to refrain from raising interest rates, that could be positive for some companies with solid earnings growth that are reasonably valued, especially if oil is not an input for them. With oil prices above $100 a barrel now, that will be a major headwind for energy-dependent companies.

View the full commentary.

Investing in quality: Our views on how to earn income and dampen volatility

- The list of concerns facing investors in 2022 is a long one: the Russia-Ukraine situation, the fear of rate hikes, the impact of the “Great Resignation” on labor markets, and the anticipation of the midterm elections, just to name a few. In the Q&A, Matt Brill, Head of North America Investment Grade at Invesco, addressed the key questions he’s receiving from fixed income investors.
- U.S. rates are still positive relative to Asia and Europe, meaning that high-quality, liquid U.S. fixed income is still potentially attractive to foreign investors. There is also demand from U.S. pension plans and insurance companies that are rebalancing out of equities after their huge run. Another factor driving demand for U.S. fixed income is its high level of liquidity. If investors change their opinions or want to change direction, they can get in or out of their positions fairly easily in the U.S. bond market. High-quality corporate credit is not as liquid as Treasuries and agency securities, but is still a very liquid, high-quality portion of the U.S. bond market and offers positive yields. Consequently, we believe the demand for investment grade corporate bonds will stay relatively strong.
- One of the major themes we anticipate this year is the growing supply of ESG-related bonds, particularly green and social bonds. Also growing in popularity are sustainability-linked notes (SLN). Another theme likely to be big in 2022 is floating rate investment grade bonds. Even though companies may expect interest rates to rise, we believe market demand for this type of issuance will probably increase and companies will likely respond by meeting it. Brill’s favorite opportunity right now is the BB portion of high yield.

View the full commentary.

The price of panic

- In any crisis, “playing it safe” to avoid losing your money can seem like the only rational strategy. However, in the past 60 years, we’ve seen repeating patterns of crises. Despite these crises, the market has been resilient. The Dow Jones Industrial Average rose from 679 points in 1959 to over 36,000 in January 2022. Regardless of the type of crisis, history shows that long-term investors who stayed the course through crises and didn’t lose sight of their financial goals have been rewarded.
- Let’s face it, there are good reasons to be anxious about the effect of a crisis on our economy. When anxiety increases, many investors respond by trying to make their portfolios safer. By the end of 2021, total assets in cash investments reached an astounding $17.2 trillion. Cash investments may provide a sense of security because of their perceived benefit of principal stability. Making a portfolio safer seems perfectly rational during a crisis. Nobody likes losing money, especially when the market plunges. Although safer investments can calm our anxiety when the market’s tumbling, choosing safety can be a mistake for long-term investors.
- Many investors try to time the market’s ups and downs and change their portfolio investments accordingly. Research shows that this strategy hasn’t worked well for investors. Hopping in and out of investments to prevent losses or capture gains can be a primary reason why investors have underperformed the market. Anxious investors tend to overestimate the risk of holding stock investments and underestimate the risk of not holding them. The U.S. has experienced 26 bear markets since 1929. Our recovery record? 26 for 26. While we can’t predict the future, as Warren Buffett has said, “It’s never paid to bet against America.”

View the full commentary.

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