Trying to make sense of uncertain times

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In times of economic hardship, it's important to stay adaptable in order to navigate through tough financial times and find ways to thrive amidst uncertainty.

Surviving and thriving: navigating tough economic times

Does anyone get the feeling that markets have stopped making sense - or is it just me who is struggling to make sense of an efficient market way ahead of where I see it? A comment recently heard was that "some of the brightest analytical minds in the first world have been way off the mark on their economic forecasts for over a decade now." Some would argue that this has been the case for even longer.

Add to this the complete overload of contradictory market signals and divergent views amongst market commentators, and things just get worse. As Sandi Bragar, Chief Client Officer, and Partner at Aspiriant in San Francisco, says, it is "almost like we're in a pinball machine; investors are just getting hit on different angles, running into different pieces of news and it's hard to pull it all together." So where do we go in such an environment? And how does one invest?

We should take a step back and contemplate three broad scenarios our Chief Investment Officer, Arno Lawrenz, has been discussing since the middle of last year. They are:

The stagflation scenario

This is characterised by persistently higher inflation, combatted by central banks continuing to raise rates even higher. The result is that inflation combines with higher rates to destroy demand and the economy sinks, with potentially harmful consequences for middle- and low-income economies alike.

The recession scenario

Central banks persist with their rate hikes triggering a global recession with commodity prices tumbling and inducing rapid falls in inflation rates back towards long run norms. Equity markets are most vulnerable in this situation. Under this scenario, rates will rise less and central banks will begin to ease sooner. According to a recent Bank of America Merrill Lynch survey, over 87% of portfolio managers anticipate that the U.S. economy will fall into a recession this year. But there is no consensus on just how extreme it will be.

The goldilocks or soft-landing scenario

Central Banks succeed in bringing inflation under control quicker than most anticipate. The most important aspect of this scenario is that the Central Banks manage to cool down the economy just enough, without triggering a recession. And that gives them more room to stimulate and support renewed economic growth without triggering another hyper-inflation cycle.

The common theme in the mentioned scenarios is that in the end, inflation will revert to expected low levels. As Jim Reid, Head of Thematic Research at Deutsche wrote, "Low, stable inflation and historically low interest rates have been the glue that have held together macro policy for the last three decades." So, what if this unravels and we land up with inflation at 3% or 4% instead of at 2% or lower? Rising levels of Sovereign Debt accompanied by higher interest rates will result in higher debt servicing costs, which makes it difficult, if not impossible to achieve the social and economic goals that many Governments view as a basic mandate and responsibility. This could also mean that we find ourselves heading into a sustained period of lower growth and fewer opportunities.

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Take control of your financial situation and solicit expert advice and practical tips on budgeting, investing and career development.

Investing in turbulent times

So then where and how should one be positioned in these times? Uncertainty like this argues for diversification and caution. And an extraordinarily strong stomach! A balanced approach, in a diversified portfolio is the way to go. And this certainly speaks to the need to be nimble in our approach with the ability to change course rapidly as the expected heightened volatility will produce opportunities for additional return. As John Maynard Keynes said, "When the facts change, I change my mind. What do you do sir?"

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