Insights, Tacit Thought | Weekly Investment Insights

Conflict and markets

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Conflict is an emotional topic. Every conflict in the world is personal to somebody. It goes without saying that we all wish for a world without conflict, but regrettably this has now become an entrenched risk which investment markets appear to take in their stride. As an illustration of this ability of markets to cope with the risks associated with conflicts on multiple fronts, the Tacit strategies have actually reached new all-time highs in absolute terms during the past quarter.

The one positive aspect of a less globalised world, post COVID, is that conflicts in a region do not spill over into the economic outlook for other regions as previously they used to. Oil is a good example in point. The chart below shows how the oil price has historically risen to over $100 triggered by events such as those unfolding in the Middle East at present, but not this time – so far.

So why has this happened? In simple terms, it is because of the US. A little-known fact is that the US is now the marginal exporter of oil to the world, rather than many Middle Eastern countries. This development means that the global economy is not affected by conflict in the Middle East in the same way it previously would have been. It is certainly possible that this could change, but it is interesting to us that the oil price is currently still trading where it is.

More important from an investment perspective, and therefore for Tacit portfolios, is that global interest rates are falling, inflation is low, and China is recognising the need to support its economy on a scale not seen since the financial crisis of 2008. These stimuli, when coupled with attractive valuations (outside of certain technology and commercial property related areas) provide a very positive medium term outlook, all be it with the risk of short term volatility driven by day-to-day events.

Tacit strategies have increased equity exposure over the past days from holdings of high yield bonds as we see better opportunities as markets evolve in some very specific areas such as gold mining companies and mid-tier UK equities. To put this in context, this has only moved us closer to a neutral weighting in equities, with our continued bias away from Europe and the UK towards Asia and the US. We remain of the view that being selective in equity exposures and cognizant of valuations remains as important as remaining invested during periods of heightened market tension and volatility.

If you have any questions about our current thinking, do not hesitate to get in touch with your Investment Director.

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