2022 year end reflections

By Perpetual Private Insights

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2022 has been a rough year for investors. Considering the year in hindsight, one might retain a certain sense of irony in the way markets have performed. With the pandemic having been diffused to a manageable level and lockdowns ending in many countries, we could have hoped to enjoy easier times. So-called “transient inflation” should have subsided and there was hope amongst investors that economies would return to some form of ‘normality’.

In this paper, Perpetual Private’s Andrew Garrett, Investment Director, reflects on the economic events of 2022 and where the opportunities lie ahead.

Tectonic changes occurred in 2022, as a long period of low and stable inflation came to an end. This has led to heightened levels of volatility in the valuations of financial assets, as adjustment to current and expected levels of interest rates filter through the contemplations of market participants.

Heightened levels and persistence of inflation across the global economy have influenced the expectations of economic agents, leading cost pressures to become somewhat embedded. As such, central banks have felt obliged to respond, in force. Institutions from our own RBA, through to the US Federal Reserve, the European Central Bank and the Bank of England, have all increased policy interest rates at a historically rapid pace. In addition, the messaging they have been delivering, to further influence economic conditions, has swung rapidly, from supportive to foreboding.

These changes represent a paradigm shift from the past decade, causing many entrenched positions and the assumptions of investors to become dislodged. Though this will likely lead to healthier market environments as we move forward, we must endure some turbulence along the way as markets seek a consensus view of the path ahead.

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