Inflation, Ukraine war top list of investors' concerns, Glenbrook Advisory Managing Director says

GLASGOW, SCOTLAND, UNITED KINGDOM, April 11, 2023 /EINPresswire.com/ -- Institutional investors are "nervous and climbing a wall of several worries," including inflation and the war in Ukraine, according to Archie Brook, UK Glasgow based Managing Director of Glenbrook Advisory, a fixed-income specialist.

"Inflation tops the list along with the continued war in Ukraine, the impending debt ceiling fight and the path of the Federal Reserve and interest rates," he said. "It's still a macro-driven market and inflation remains in the driver's seat."

Mr. Brook explained that investors are particularly concerned that inflation will be "hard to wrestle down" to the Fed's 2% target.

The annualized CPI rate going from a peak of 9.1% to, say, 4%–5% is the 'easy' part and no one should be surprised by that," he said. "Going down from four-or-so percent will be much more difficult given wage concerns driven by a red-hot job market."

Mr. Brook describes the strong job market as "ground zero" in the Fed's fight against inflation. "Wages figure large in the services category, and with the lowest unemployment rate since 1969 and two job openings for every job seeker, the Fed needs to destroy more demand," he stated. "In essence, good news is bad news here."

However, he does not think the current rate environment necessarily bodes ill for fixed income securities. "If we see the Fed hike and hold (rates), this could create a bit more certainty and stability around the path of rates as stability is preferable to uncertainty and 4%–5% (fed fund) rate is something the economy can handle."

The Fed could "hike in May and go away" which could be a "positive" for fixed income markets, he added.

Looking at 2023, Mr. Brook particularly likes short-to-intermediate high-quality credit within fixed income. "With rates up in the front end, and an inverted yield curve earning 5%-plus on short-dated investment-grade, credit makes sense," he said. "If you can stomach more short-term spread volatility, we also like short-dated high yield. We would stick with higher quality names where one can still earn 7%-plus with low interest rate risk. Even if inflation settles in at a higher level than 2% the real yield opportunity is compelling."

Within the equity markets, Mr. Brook said he has been focused on income generation and "finding the steadiest components of total return," which can typically be provided by dividend payers and growers.

"We also like allocations to alternatives, particularly in private credit and real assets in real estate and infrastructure," he added. "These sectors in private markets can help provide higher income, lower correlations to public markets, lower portfolio volatility and help hedge against inflation."

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