

For financial advisers only

During volatile times, it's easy to focus narrowly and locally on what's happening. But when it comes to investing, the interconnected nature of markets means it's crucial to look globally - and at the long-term picture.

At Standard Life Investments, we consider what's likely to happen next and what may trigger further movements in markets and economies.

Andrew Milligan, Head of Investment Strategy at Standard Life Investments

Key events that could have an impact

July: a series of decisions by central banks, notably the UK and US, Europe and Japan

October/November: political events, referendums and major elections taking place in several countries across Europe, as well as the US

2017/2018: expect detailed results of UK/EU negotiations, as well as general elections in The Netherlands, France and Germany

Politics are influencing markets

Politics are beginning to affect financial markets more than ever, and uncertainties and lack of confidence could have a material effect on economic growth.

So far, there haven't been signs that the European Union (EU) referendum has led to unduly high levels of financial stress, nor are there signs of company balance sheets or the banking system coming under undue pressure.

However, the UK leaving the EU is a process that will last years; it's not an event.

There's still uncertainty over the UK's negotiations with the rest of the EU. Clearly, co-ordination is key. A lack of co-ordinated solutions – whether at the level of the G7 nations*, the Eurozone or the UK economy – could have a negative impact on the final outcome for all involved.

A changing environment

Importantly, the EU referendum is not the only political event of significance. The results of a series of elections and referendums in the US and Europe between now and 2018 will be influential for markets.

Italy

Opinion polls in Italy show a steady decline in support for Prime Minister Renzi ahead of October's referendum on reforms to one of Italy's houses of parliament – the Senate. This is increasingly because of the bad debt situation facing many Italian banks. Tackling the banking issue fast and decisively to support the economic recovery would remove one source of political tension.

Europe

The European Central Bank (ECB) carries out annual stress tests on financial organisations across the EU. This lets it see how resilient these companies will be if there are difficult market conditions. And it allows the ECB to identify any trends and potential risks that could affect the EU financial system.

This year's announcements in late July may be important. Worries about European politics have also meant more money going into perceived safe haven investments.

Japan

Here we've seen unintended consequences as a result of Japan's decision to move into negative interest rates. In particular, quantitative easing programmes have driven more government bond yields lower, increasing the pressure on the remainder of the global bond market. Following the recent elections, there's a growing expectation that further measures will be announced over the summer to boost the economy.

What's the likely outcome for economic growth?

At Standard Life Investments, we analyse scenarios in depth and our most likely outcome for the global economy is a period of slow growth into 2017.

Our analysis shows mixed signals for the UK; however, many sectors are expecting a sharp slowdown and some are indicating a recession.

Indeed, in its July summary, the Bank of England's Monetary Policy Committee suggests a similar slowdown in the UK economy over the short term. Although the Bank of England base rate was left unchanged in July, most Committee members believe it will be cut in August, possibly by 0.25%.

While it's understandable that the focus has been on the UK and parts of the Eurozone in the past month, it's important to keep an eye on other areas which may have an impact on economic growth, for example:

- ▶ how quickly the US dollar strengthens against other currencies
- ▶ if there's further weakness in commodity prices
- ▶ renewed tensions in emerging markets, both political and economic.

What this means for you

The result of the EU referendum marks a significant change to global market, economic and political outlooks. Short-term market fluctuations can be unnerving and make it feel like investments are losing money. However, volatility is part of investing and it's crucial that the focus is on the long term at times like these.

It's also a valuable reminder of the importance of diversifying – of spreading money across different types of investments, geographical locations and industries. The sustainability of income, whether from dividends, corporate bonds or property yield, also increasingly matters in this low growth world.

Focus on change

That's why, at Standard Life Investments, we believe in the value of active management. We regularly review our portfolios at a strategic and tactical level, and make changes to reflect Standard Life Investments' house view. The main changes to this recently have been a move from equities to bonds, not only towards UK gilts and US treasuries, but some higher yielding emerging market and corporate debt too.

Fluctuations in financial markets are presenting us with ongoing challenges. But we're concentrating firmly on the future – and on anticipating and identifying the next compelling opportunities for our investors.

*The G7 nations are Canada, France, Germany, the UK, Italy, Japan and the US.

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