SSGA Expects Continued Market Volatility and GeoPolitical Uncertainty Throughout 2016

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Lower-for-Longer Growth Expectations and Return of Volatility a Challenge to All Investors

LONDON & BOSTON--(BUSINESS WIRE)--State Street Global Advisors (SSGA) the asset management business of State Street Corporation (NYSE: STT), today released its six month check-up on the 2016 market outlook and key investment themes.

In the wake of the Brexit vote in the UK, SSGA’s Global Market Outlook for the second half of the year urges investors to think differently about their investment strategies to confront the challenges ahead, and emphasizes the need for defensive strategies to help weather volatile markets. Investors may also want to consider re-engineering core exposures to target better risk-adjusted returns amid a persistent low-growth environment.

“We expect that spikes in volatility triggered by a range of geopolitical factors will continue to characterize markets for the remainder of the year,” said Rick Lacaille, SSGA’s global chief investment officer. “The Brexit vote outcome will be a primary source of volatility, particularly in the short term, but also in the coming months as the process unfolds. Longer term, volatility is likely to remain a feature of markets as they contend with broader global growth concerns, the capacity of central banks to stimulate economies and other geopolitical events including elections in the US and across Europe.”

Mastering Volatility

SSGA notes that investors may want to consider volatility strategies that limit downside risk but allow them to potentially participate in upside risk. Managed or low volatility strategies continue to hold promise, and alternatively, target volatility triggers can provide a capped volatility level in portfolios.

“We began the year predicting that political uncertainty and structural factors meant that volatility would be a market feature for some time,” said Lori Heinl, SSGA’s chief portfolio strategist. “This has proven true over the first half of 2016 and may likely continue through the rest of the year. As ever, the best time to take out insurance is before you need it.”

Projections Downgraded for US Interest Rates

After raising rates in December 2015 for the first time since 2006, the Federal Reserve has been unable to follow up on its initial hike due to weakness in some US data and uncertainty about economic conditions abroad.

“We now anticipate just one rate hike this year, most likely in December. Moreover, we think the risks around the hikes projected in the Fed’s dot diagram for next year are skewed to lower for longer,” said Christopher Probyn, SSGA’s chief economist. “Because of the current asymmetries in monetary policy, the Fed has limited ammunition to respond to a downside surprise and is therefore keen not to make the mistake of tightening too much too soon.”

“Overall, we believe the low-growth environment we were preparing for has indeed persisted, and that means investors need to either recalibrate their return objectives or be prepared to take on far more risk and complexity,” concluded Lacaille. “We continue to advocate revisiting allocations, integrating factor exposures to boost returns where possible and uncovering new and efficient forms of alpha generation. Diversifying across a number of factors to squeeze more out of the portfolio remains an attractive approach.”

The full Global Market Outlook report for the second half of 2016 can be found here.

For further insight into some of the immediate and longer-term impacts of Brexit for global investment markets, click here.

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State Street Global Advisors is the investment management arm of State Street Corporation.

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