WHAT FRANKLIN TEMPLETON THINKS…
About Volatility

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Volatility is the new normal (which looks a lot like the old normal)

For the markets, normal has almost always meant volatile.

The "jumper cables" are being removed

Central banks are backing away from controls that helped jump-start the global economy after the 2008 financial crisis.

Interest rates are one such example. For almost a decade, rates in Canada and the U.S. hovered near all-time lows. That likely dampened volatility and encouraged people to turn to relatively higher risk investments, like stocks—but it also moved markets away from historical norms.

We see the recent uptick in volatility as a sign that markets are returning to normal.

#TradeWars are trending

Trade wars–especially between the U.S. and China–have made investors nervous. Until recently, trade uncertainty was somewhat neutered by low interest rates. Going forward, central bank policy will likely have a greater impact.

Brrrrexit: chances of a hard exit rise, which may leave the UK out in the cold

The story is playing out in real-time and has the potential to disrupt UK markets.

The UK is scheduled to leave the EU on March 29, 2019, but with the deadline looming, so much remains uncertain for Europe's second largest economy.

There's still no trade deal

With less than 100 days to go, the EU's executive has warned that Britain's banking and insurance firms will be cut off if a deal isn't reached. A hard Brexit (kind of like a divorce without a separation agreement) would likely also mean higher tariffs on British exports to European countries.

Markets are likely to remain skittish

Some of the worst-case scenarios may already be priced into sectors like financial services. UK government bonds, for example, look set to rally while sterling may be further pounded.

Very *Interesting*…The Long and Short of Rates and Inflation

In December, the Bank of Canada decided to keep interest rates at 1.75%—a decision that shone a spotlight on the following challenges facing the Canadian economy:

Energy prices are low

The price of Canadian oil is weak compared with the rest of the globe.

In an effort to boost prices, the Alberta government recently made the surprise decision to cut crude oil production by 8.7%. Aside from reducing output, this move could have the unintended consequence of hindering investment in Canadian energy, which would mean a reduced contribution by the sector to the overall economy.

Trade is tricky

As an export economy, Canada is even more susceptible to ongoing trade spats, which may have a negative impact on global demand for Canadian goods and services.

Inflation is…(un)flating?

The annual inflation rate crawled in at 1.7% in November (short of the long-standing 2% target). The Bank of Canada expressed concerns that inflation may fall even further in the coming months, leaving little room for interest rate hikes.

What's ahead for interest rates?

According to its December statement, the Bank of Canada is planning for three modest hikes that will lift interest rates from low to neutral. Given the challenging backdrop highlighted above, however, the central bank will likely take its time rolling out those hikes.

At Franklin Templeton, we see volatility as opportunity.
Talk to your advisor or visit franklintempleton.ca/volatility to learn more.

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