3 Financially Savvy Things You Could Do TODAY To Boost Your Portfolio

Description

With stock markets such as the FTSE 100 and the S&P 500 having enjoyed almost ten years of growth, managing a portfolio over the next few years may prove to be challenging. After all, following such a long and significant bull market, history indicates that a bear market could be likely. This idea could hold back investor sentiment to at least some extent over the medium term, and make it more difficult to know where to invest.

However, by paying attention to the following three areas over the coming years, an investor may be able to beat global indices. While doing so may not be easy, focusing on a few key areas could stack the investment odds further in an investor's favour.

High inflation

Although the world economy has experienced a decade of low inflation, the reality is that higher inflation is likely. This is due to the nature of the economic cycle, with the rising GDP growth rates being recorded by countries such as the US and now in Europe likely to lead to an overheating of economies further down the line.

The pace of inflation could be affected by heightened spending levels in the US. President Trump has sought to increase government spending on infrastructure and defence, while also implementing a major tax cut. Together, these policies could lead to increasing consumer demand, which may push prices higher. And with austerity now being a policy of the past in a range of developed countries, the prospect of higher inflation seems to be increasing.

In response, investors may wish to buy stocks in companies that can pass on the vast majority of higher cost inputs to consumers. For example, companies with strong brand loyalty or stocks with a competitive advantage on costs could become increasingly appealing.

Rising interest rates

In response to higher inflation, interest rates could continue to rise. Already, they have started to increase in the US, UK and other developed economies. This trend looks likely to continue, and could make some sectors more attractive than others. Banks, for instance, could become increasingly in-demand, with the potential for higher profitability due to rising net interest margins.

At the same time, though, stock prices could suffer from interest rate rises to some degree. Equities and interest rates generally have an inverse relationship, which means that a higher interest rate may suppress demand for stocks over the medium term. This could lead to defensive stocks becoming more appealing, since a lack of strong capital growth in the wider index may cause companies with resilient business models to perform well on a relative basis.

Debt levels

Higher interest rates could cause some companies to experience financial challenges. In the last decade, debt has not been a stumbling block when deciding which stocks to buy, since the cost of servicing borrowings has been at historic lows. A higher interest rate, though, could lead to a squeeze on profitability across a wide range of stocks and sectors. This could cause uncertainty and lower valuations for such stocks.

Investors should therefore double-check debt levels and interest cover for companies they are either holding or thinking about buying. Doing so may lead to reduced risk, and an avoidance of potential difficulties as the world economy moves ahead with a normalisation of interest rates over the medium term.

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