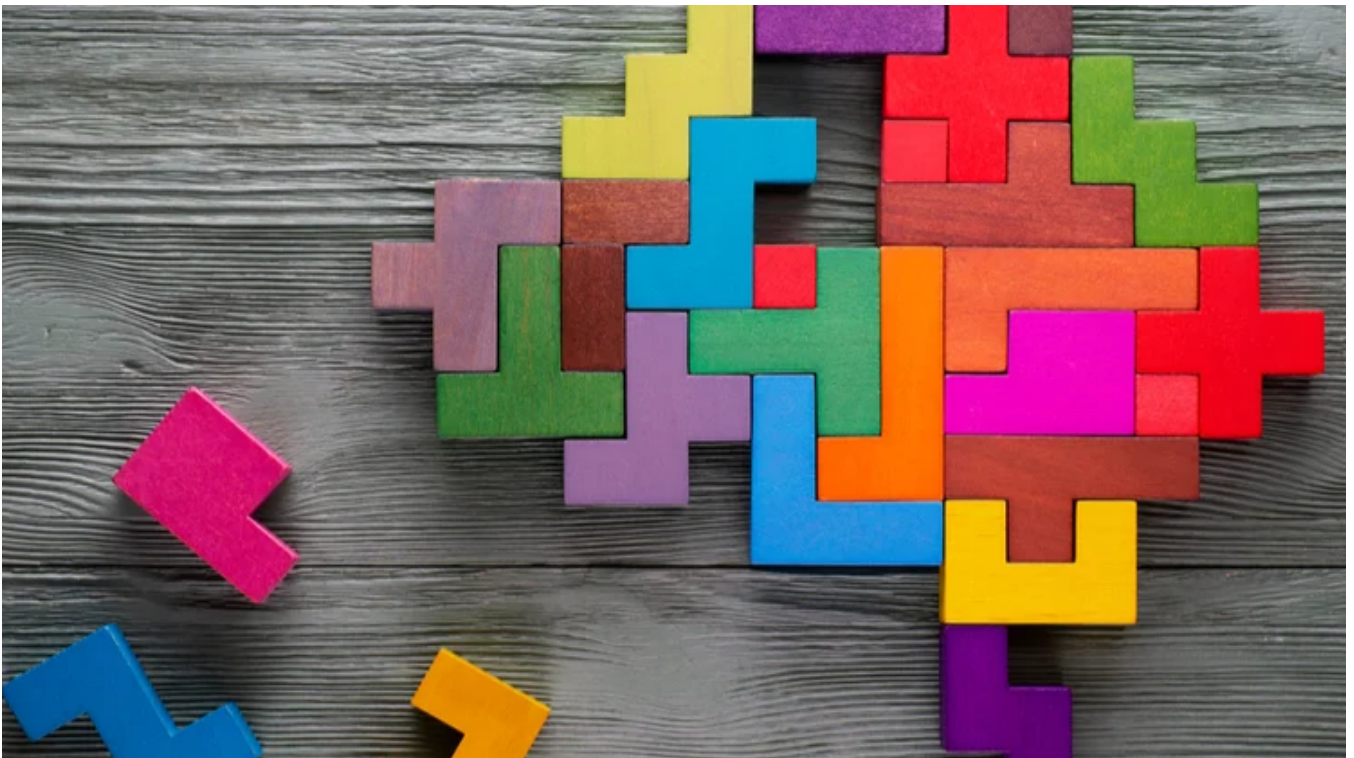


Perpetual knowledge bank series: tightening cycle

12 May 2022



A tightening cycle occurs when central banks implement a cycle of interest rate hikes. This course of action is usually undertaken to slow down overheated economic growth, to constrict spending in an economy, or to curb inflation when it is rising too fast. By boosting interest rates, a central bank increases the cost of borrowing and effectively reduces its attractiveness.

Typically, easy or 'loose' monetary policy and consumer confidence push stock prices up and GDP higher because growth in borrowing and spending translates into growth in transactions and incomes. A central bank will then consider tightening financial conditions. For example, Baby Boomer spending played a large part in driving the US inflation of the 1970s that led to the Volcker tightening cycle. Closer to home, the RBA took the cash rate to 6.75 percent in 2007 as part of a tightening cycle to combat the inflation resulting from an economic boom.

For investors, the prospect of a tightening cycle should not be alarming, and any selloff may indeed provide an attractive entry point into the market. Slower economic and earnings growth, exacerbated by tighter fiscal and monetary policy, suggest a more defensive approach, which could mean considering high-quality, large-cap stocks.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.