Problems in China Drive Market Volatility

Hello, I'm Dirk Hofschire of Fidelity Investments. I want to share with you a few thoughts about the market volatility that we're seeing here early in 2016. And to me it really does come down to the question about the outlook for China, and that's been in the headlines in recent days and weeks. So, there are two main points to keep in mind of what's going on in China today. The first is that China is facing extraordinary cyclical pressures. It's at the end of a cyclical boom, where it built up too much excess capacity, too much credit, and it's now time to digest that at the same time it's trying to maintain macro stability. So, a very challenging environment in a downshift in growth in China.

The second thing is China is also being squeezed at this point in time by the increase in interest rates that the Federal Reserve has started to initiate here in the U.S. And the reason is that China had kept their exchange rate relatively pegged to the U.S. dollar for quite some time. But it is very difficult to control both your exchange rate and your interest rate. So, as the Federal Reserve moved to tighten, it strengthened the dollar, which strengthened China's currency, and really created a tightening in the Chinese system that made it very, very hard for them to ease its monetary policy. So, what we're seeing now is the culmination of both China's weakness, as well as its efforts to try to ease its currency policy and this has really made the markets much more volatile here in 2016.

Our outlook is that this is going to continue to be a very volatile backdrop for both China as well as the global financial markets. But we are expecting that over the course of 2016 policymakers are going to continue to pour enough fiscal stimulus/monetary stimulus as well as some currency easing into the picture that things will eventually stabilize in China. That will help stabilize the global environment and perhaps even financial markets as well. So, it's quite likely we can continue to see some volatility in the financial markets in the short term, but it's very important to remember your longterm objectives as an investor. I’m Dirk Hofschire and thank you very much for watching.

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