

Perpetual knowledge bank series: tightening cycle

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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.

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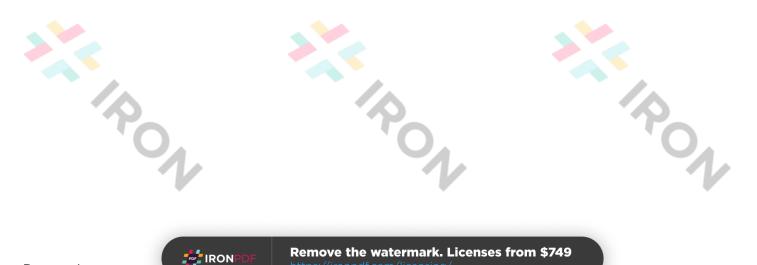
For investors, the prospect of a tightening cycle should not be alarming, and any selloff may indeed provide an attractive entry point into the market. Slower economic and earnings growth, exacerbated by tighter fiscal and monetary policy, suggest a more defensive approach, which could mean considering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

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