The headlines have been more than clear that 2016 has started dreadfully for capital markets. Some headlines have even been quite frightening, and whilst we acknowledge journalism demands sensation to sell, we know underlying clients have been unsettled.

Human nature finds change very difficult and this is the issue facing markets right now. The recent over investment in mining and oil and the resulting supply glut is hitting the market just as demand is waning. China is changing, as they said they would, and lower global growth just as the US began to raise rates has created a perfect storm.

Whilst the commodity bulls insisted this was just a pull-back it has become increasingly clear we are going to have lower prices for much longer. In turn this has led to a savaging of the oil and mining sector. Not only with falling share prices, but with dividend cuts or the fear of cuts in some key income investments. This leads to banks coming under the microscope as they have been lenders to this sector; it was after all a safe and sensible place to lend to after the crash of 2008!

Why this is of such a high magnitude to markets is that these sectors are heavyweights in many leading equity indices, be it global oil majors such as Exxon, BP, Shell or Total or BHP, Rio Tinto in the mining world or large Banks. They all have a major impact on their respective index and in turn the headlines that are reported. In turn a slower rate of global growth and the impact these sectors will have on global output will dampen already fragile sentiment. Also many emerging markets were also commodity based economies, making matters even worse.

Like many economists we regard oil as an “evil” tax, based on need rather than income and it has a disproportionate impact on the rural poor. Not only that, the funds often flows to less than desirable regimes with limited social benefit. Therefore a lower oil price should, in the longer term, benefit a broad range of people as fuel costs fall, input costs fall and more money is in the pocket of those who will consume. Having avoided oil, mining and large banks on both investment and ethical grounds has helped mitigate the impact of the recent falls.

At the moment fear is driving the narrative and we feel this may continue for some months, and therefore a negative sentiment will continue to drive sentiment. At the end of our October report we concluded that tension remains, which in turn, provides some opportunities. Likewise we noted that we were keeping cash at a higher level, we have not changed our stance, the focus is towards investments that will benefit from this new environment.