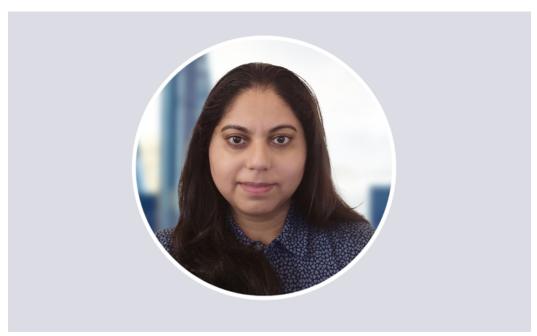# Short-term vs long-term – which should insurance asset managers be focusing on?

Amrit Summan, Investment Strategy Solutions Lead, Ortec Finance, discusses rates, drivers, and the role of technology in navigating uncertain markets.

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Andrew Putwain: What are we seeing in areas around those 'macro themes' of the past few years (inflation, interest rates, etc.) – can you discuss the drivers and the permanence of what we're seeing at the moment? What is a long-term trend and what is more short-term?

Amrit Summan: It's worth reflecting on the economic landscape pre- and post-Donald Trump's re-election.

At the back end of 2024, we were coming off a year of central banks around the globe implementing rate cuts and attempting to balance the impact of those cuts on rates of inflation. Inflation has remained relatively sticky in parts, particularly services inflation in the UK for example. Nevertheless, there were signs of the global economy moving towards some stability around inflation expectations and inflationary pressures seemed to be easing. Generally, it is expected that inflation will continue to tend towards central bank targets over the next few years.

Similarly, after a long period of uncertainty and consistent with prospective monetary policy, expectations for interest rates in the short and long term were closer to recent levels and indeed may decline. So, the year ended in economic terms relatively quietly.

We then get to post the US election results and the start of 2025. In Q4 2024, there was observed some strong performance of US equities and credit spreads also tightened. This was, in part, accounting for anticipated policies such as tax cuts and deregulation, typically activities that stimulate the economy.

The one unknown, which we now see unfolding, is on tariffs and whether that was pure rhetoric, a means for leverage to enact other policies, or whether it's a core longer-term philosophy of the current US administration.

As this situation unfolds and given the high level of uncertainty, one clear outcome is increased market volatility. We have already seen the market's immediate reaction to some policy announcements, and these volatility effects may persist in the coming weeks.

Supply chain disruption is also typically a short-term issue but, in this case, it depends on how the tariffs play out. We saw in recent years the impact of supply chain disruption due to global conflicts, COVID and so on and it took some time for global logistics to improve to manage these impacts.

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> *to those economies that are decarbonising?"*

The week we're doing this interview, the tariffs were announced and then a day or two later they were paused, at least with Canada and Mexico. So, the impact on businesses and consumers of those tariffs might be limited, as would be the subsequent impact on the wider economy. We note that the tariff policy regarding China continues to be in place.

On the longer-term impact, it's a much trickier and probably more interesting question because generally, long-term rates are further influenced by more structural issues. None of these are new, and we've seen them play out before, and maybe more are coming to the fore.

For instance, demographic changes, such as ageing populations versus the impact of migration. Are we now in an era of deglobalisation? This is an important question, particularly amongst developed countries to consider over the next few years.

The other issue is around energy costs. If the tariffs persist and apply to energy prices, what does that mean to those economies that are decarbonising or those that are managing net zero goals? Do those targets change for some developed economies? Those effects will play off against each other in the next few years, which could be a long-term structural issue.

We're also yet to see fully how AI technology might impact productivity. What does that mean for economic growth – are we going to be more productive, will GDP reflect that, and is it the same for GDP per capita or will there be fewer jobs on the horizon?

Andrew: Building on this topic, there are a lot of predictions around 2025 and the amount of volatility we will see – especially with Donald Trump's agenda and the rise of AI - will the short/long-term changes we're seeing signal temporary adjustments or a more permanent structural shift in the market?

Amrit: The most interesting aspect of what might be driving short-term market volatility post the US election is the pace and scale of some of these announcements, such as on tariffs and efforts to cut the size of the state. I am not sure anyone predicted just how many and the speed at which these policy directives would be announced, but they are forcing the market to reflect on the likely longer-term impact and how they might be managed.

The other interesting and unexpected factor, and this links to the technology side of things, is the DeepSeek announcement.

This is China's answer to Open AI, and its apparent efficacy is being contrasted with what is possible at the moment and indeed what Trump's [Open AI Fund](#) may eventually achieve. One important aspect of the use of AI technologies are the large-scale resources required, by these so-called 'mega factories'.

"Investors might have to recalibrate their views on

growth expectations."

These centres are intensive and costly in several ways, and so any new player that suggests it can achieve superior results in a cost-effective way could permanently shake up the tech landscape. Observing the impact of all these unexpected announcements has meant a very interesting start to 2025.

Of course, as these short-term effects flow through the markets, investors will need to take a view on whether and how to measure these impacts. At a broader level, investors might have to recalibrate their views on growth expectations, what levels of risk they want to take, and how their risk appetite might change. In the short term, in some of these areas, it is difficult to assess what might happen. We are in a waiting game to see how certain trade policies will evolve - by their very nature, tariffs when applied by one country tend to result in retaliatory measures by the impacted country, pathing the way for potential escalation.

It is important to remember that, depending on how it is implemented, tariffs in effect may act as a tax on the country that has raised the tariff – so in this instance, it could be US businesses or consumers that may pay higher prices. The level of impact would depend on the ability of businesses to absorb these costs or diversify their supply chains.

What does that do to demand if consumers want to buy less of those goods affected? Maybe the inflationary impact of rising prices might be offset in the short term by lower demand.

There are many competing themes that could evolve in the short term from those disruptions. In the longer term, it's even trickier to assess the impact on supply chains and longer-term expectations of inflation.

"The key to answering that question is how quickly

companies can adapt and utilise these technologies."

Probably the most interesting element of what might indicate permanent structural shifts is AI. The Open AI and DeepSeek stories have propelled AI into the mainstream and its impact and potential have become more apparent across all aspects of our lives. It feeds into healthcare options such as personalised medicines, manufacturing processes and automation, logistics, financial services, etc. Many may suspect that the shift in technology is more permanent too, although its economic impact remains to be seen.

The key to answering that question is how quickly companies can adapt and utilise these technologies. Many industries are trying to adapt to energy transition and decarbonisation and now they're also having to adapt to the use of AI.

Assuming they can utilise – and then wield – those technologies will be the main driver for the economic impact going forward in the longer term.

Andrew: Due to this uncertainty and flux, it feels like the market needs to be better prepared for future shocks. Can you discuss the importance of scenario analysis in planning for multiple rate outcomes?

Amrit: Yes, it's very important and I would say crucial for investors trying to capture fundamental risks and uncertainty to help their decision-making.

"Markets are volatile and not static; the price of a stock

or a bond today is going to be different in 20 years."

At its core, it's about the ability to test the robustness of any strategy under different market conditions, and regimes and being able to appropriately measure those impacts. The key aspect of scenarios is that they allow users to define potential future outcomes, not just in terms of economic indicators but as business or funding implications, and these can be linked back to financial impacts on your balance sheet as an investor.

Markets are volatile and not static; the price of a stock or a bond today is going to be different in 20 years, as will the macroeconomic environment. That type of complexity is only captured in the use of scenarios, which can be time-dependent and incorporate specific views over the whole horizon of your investment objectives.

When assessing the robustness of your portfolio's risk/return profile—whether optimizing returns or ensuring coverage of liabilities—it's essential to account for likely market developments, such as trade wars or central bank policy changes. Incorporating these realities through scenario analysis is key. Using coherent scenarios that capture short-, medium-, and long-term market behaviours based on empirical data is an effective approach.

The key benefit of scenario analysis is its ability to stress test and assess sensitivities. It is particularly useful for comparing relative positions. Running a single scenario is insufficient—multiple scenarios are needed to gain a comprehensive understanding of potential outcomes.

This is where the power of scenario analysis comes in. It's why stress testing is a core part of the regulatory frameworks that govern pension funds and insurers globally.

Andrew: Can you talk about how advanced technology and machine learning tools empower practitioners to model, analyse, and adapt to uncertain conditions?

Amrit: Ultimately, it's about improving processes. We're using it directly within our organisation as are many of our clients, and the industry is looking for opportunities to expand how these techniques can be usefully applied to investment challenges.

> *"This process turns out to be powerful in widening investment opportunities, which can be a challenge when you are balancing investment objectives."*

Over the last few years, we've worked closely with our clients to combine scenario analysis and using stochastic scenarios, alongside machine learning techniques. We developed various approaches that we've summarised as 'scenario-based machine learning'. These approaches allow us to utilise stochastic scenario output and combine it alongside other data inputs and constraints to essentially train an 'AI agent' or 'algorithm'.

Machine learning enables us to use multiple sources of data, assumptions and other relevant information in order to train the tool on very precise problems. This training process turns out to be very powerful in widening the universe of investment opportunities, which can be a challenge when you are balancing competing investment objectives.

To date we have conducted some pilot studies with insurance companies and a good example of this work has been to optimise risk/return with respect to present value of distributable earnings (PVDE), which ordinarily is a very complex problem that is influenced by asset-liability dynamics, solvency ratios and so on. We are looking forward to testing these techniques on different investment problems.

Ultimately, these models serve to expand the range of potential opportunities for investors. Their effectiveness depends on the inputs—such as economic views and assumptions—which shape the agent's learning and significantly influence potential outcomes.