Asian stock markets stumbled yesterday, amid fears of rising interest rates.

Investors are selling off due to concerns that the increased cost of borrowing for businesses will stifle economic growth.

Central banks such as the US Federal Reserve have indicated that interest rates will continue to rise.

Investors are fearful that this could spiral into a global recession.

For more on the global increase in interest rates, Jack Yong spoke with Associate Professor Sundaram Janakiramanan from Singapore Management University.

SJ: The main bank is actually the Federal Reserve in the US and the Federal Reserve is increasing interest rates because they are afraid of inflation and other pressures. What happens is that, typically, the currency values of all the other countries will also change because their currency values are based on interest rate parity, and because of that, what’s going to happen is that if the interest rates in the US are going to increase, a lot of money may flow from other countries into the US because that it’ll offer better investment opportunities. So, the other countries, in order to stabilize their currency and keep the money within their own country, will also increase interest rates.

Like you said, the world’s central banks’ lending rates will impact all the other banks’ lending rates and I understand that investors are concerned that this could tip global economies into a recession. Do you think investors have good reasons to fear a recession at this point?

SJ: I don’t think the world is going to go into a recession very soon because for a recession to take place, what has to happen is that production and other factors will decrease, but that doesn’t seem to be happening. I think all the indexes are reacting because of the fear of the people rather than to the real economic situation. I don’t think there’s any reason for them to be afraid of that situation. I don’t think the world is heading towards a recession soon.

Yesterday, many Asian bourses took quite a hit, from Mumbai to Hong Kong, Japan to Singapore. Why do you suppose we’re seeing such an impact in Asia?

SJ: One of the major trading partners of most of the Asian countries is the US. Secondly, what’s happening is that most of the commodities like gold and oil are priced in US dollars. So if the US interest rates increase, there will be uncertainty over the value of the US dollar as well. If the US dollar value is going to increase in relation to all the other currencies, then what is going to happen is that the cost of oil is going to increase, which may be a deterrent for most of the countries. The other thing is that with increasing interest rates in the US, it’s quite likely that it may have an impact on the negative growth of the US economy. If that happens, all these other countries are also going to suffer because most of their major trading partner for most countries is the US. So I think that’s the reason why people are a bit afraid. I think it’s more of an irrational behavior at this particular moment rather than a rational behavior that’s causing stocks to fall in Asia.

Are there any financial mechanisms that can be used to correct or stabilize the stock market at this point?

SJ: That’s a difficult thing because what happens is that one of the principles that we always use in stock pricing is; the value of any share is based on the prospects of that particular company in the future. But what is happening now is that if something happens in the US, these people are afraid because the prospects of these companies may turn out to be poor. I don’t think that’s going to happen. I think what’s going to happen is that we’re going to see a correction in the next two weeks. It may not be as the level that we saw two weeks back, but I think the markets will pick up in the next two weeks.

That’s optimistic actually, because most analysts are saying that the markets will experience continued volatility for the next three months…

SJ: I think what’s going to happen is that it’ll go up and that it’s not going to go down too much. It’s going to be volatile in the next two to three weeks because of the fear of the people. Since the indexes and stock prices have come down quite a bit, it may be a very good time to enter the market and many people are going to enter the market with these low prices, and that will push up the prices. What may happen is that these people may push up the prices too high that it’ll cause a sell off the next day and then the values go down. So the volatility will be high until rationality returns to the market. Now, I think irrationality is ruling the market and it’ll take some time before rationality comes back into the market.

That was Associate Professor Sundaram Janakiramanan from Singapore Management University, speaking to Jack Yong.