Key message

Staying calm through volatility is key, and this has paid off for investors in 2019, with global equities rallying more than 12% so far this year. Even so, investors need to manage potential downside risks. We see convincing sources of optimism—including accommodative central banks—and recommend that investors look at protection strategies that reduce downside risk, without sacrificing a significant share of gains as the bull market continues.

House view

01 Lower growth and a variety of potential risks to markets give cause for caution.
- Most investors had taken for granted a positive outcome to trade talks between the US and China, with the chances that talks break down having risen this past week.
- We expect the global economy and earnings growth to reaccelerate, but we will need confirmation that this soft patch is ending before we can fully dismiss growth fears.

02 But cash isn’t the safest place, and there are better ways of protecting against risks.
- Excess cash is virtually guaranteed to destroy investor wealth over the long term, lagging behind diversified portfolio returns and losing purchasing power as interest rates remain below inflation.
- Proper diversification across regions limits the risk of being caught on the wrong side of an individual political or monetary policy change, while diversifying across asset classes, including low-yielding safe-haven bonds, is also key to protecting against downside risks.

03 And improving the resilience of investments can be done without sacrificing growth.
- For investors worried about the state of the short-term economic cycle, we recommend investing in secular growth trends, sustainable investing strategies, and themes like “Enabling technologies” and “Fintech” from our Longer Term Investments (LTI) series.
- For investors who have found themselves stuck on the sidelines—holding excess cash and hoping in vain for a market pullback to offer a better entry point—our Lump sum report recommends strategies to get invested while mitigating the risk of “bad timing.”

New this week

The S&P 500 index declined last week, after US-China trade negotiations ran into trouble. But the fall so far has been relatively modest, with the S&P 500 total return index only down around 2.5% on the week as of the open on 10 May. Risks have increased and we recommend investors take steps to protect their portfolios.

One liner

Investors should consider defensive and countercyclical positions to protect against downside risks without sacrificing upside participation.

Did you know?
- In 2018, the S&P 500 fell 19.8% from its 20 September peak through Christmas, just short of the 20% peak-to-trough fall that defines a bear market. Read our Bear market guidebook for more details.
- Over the past 15 years the spending power of cash deposits after inflation has fallen around 11% in the US, 7% in the Eurozone, and 3% in the UK. It has been flat in Switzerland.

Investment view

To be prepared for the road ahead you need to plan, protect, and grow. A clear plan, using our Liquidity. Longevity. Legacy. approach to wealth management can help mitigate the threat of damage from choppy markets. Diversification and quantitative risk mitigation strategies can also help protect against portfolio downside. And to grow portfolios for the future, we look to enduring trends. Read more in our report, Be prepared: Plan, Protect, and Grow.

Disclaimer: Time-frames may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.
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