With the likely end of the rate-hike cycle approaching, and risks to the US growth outlook mounting, we think it's time to increase exposure to bonds. (Getty Images)

Fragen an das CIO – Anleihen, alternative Anlagen und China

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Market narratives have continued to shift as investors assess the latest economic data. Fears of a banking crisis have receded, but concerns about the US growth outlook are likely to persist. In an uncertain environment, how should investors position? For our thoughts on this and other key questions, read our "Ask CIO."

Where are the opportunities in fixed income?

Government bond yields have fallen from their early March highs as banking sector turbulence added to fears of slowing economic growth. We don't think a full-scale banking crisis is likely. But we do see a higher probability that central bank rate-hiking cycles will end sooner. At the time of writing, markets are pricing a peak in the US federal funds rate in May.

With the likely end of the rate-hike cycle approaching, and risks to the US growth outlook mounting, we think it's time to increase exposure to bonds. Yields, though off their peak, still look attractive, and we see the potential for capital gains in the event of a deeper economic slowdown. We think investors holding excess cash should consider opportunities to lock in today's yields. We prefer high grade (government), investment grade, and sustainable bonds relative to high yield bonds. We also like emerging market bonds.

Can alternatives help navigate correlated markets?

Alternative assets like hedge funds and private market investments can provide investors with the opportunity to diversify their sources of return at a time of heightened uncertainty in global markets, if they are able to tolerate the risks involved.

In hedge funds, we think strategies that can capitalize on market dislocations while providing stable diversification benefits should be well positioned in a year when uncertainty and macro risks are likely to stay elevated. We like macro managers' ability to take long/short positions across a range of asset classes, regions and financial instruments; equity market neutral funds' appeal in providing uncorrelated returns; and multi-strategy funds' diversified approach and versatility. Meanwhile, private market secondaries and distressed strategies could be well positioned to buy assets at attractive valuations.

Investors in alternative assets must be able to lock up capital for longer and should consider risks like reduced liquidity, higher costs, and complexities.

What are the implications of China's recovery?

China's reopening has paved the way for an economic recovery in 2023. The official March PMI data underlined that the rebound remains on track. Backed by a resurgence in consumption and resilient investment, we expect Chinese GDP growth of around 5.5% y/y this year.

MSCI China fell 1% last week after three weeks of gains. But we see further upside for Chinese equities, supported by strong earnings growth. We retain a most preferred view on emerging market equities, including Chinese stocks, and we see opportunities in reopening beneficiaries. We also think select property developer bonds, commodities, the yuan, and the Australian dollar may emerge as winners as China's economy continues to pick up.

For more topics, see Top 10 questions answered.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.