



Gold tends to rise in periods when the US dollar is weakening, and downside risks to the greenback have risen alongside money market pricing of Federal Reserve rate cuts. (ddp)

Manage recession risks with diversified portfolios

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Recession fears have driven markets in recent days as US data has pointed to a slowing economy. The US ISM manufacturing PMI fell further into contractionary territory, reaching its lowest level in nearly three years, the ISM services PMI dropped to a three-month low, and the number of US job openings came in below expectations.

Central banks in Australia and India both decided to pause their rate-hiking cycles this week as they assess the impact of previous increases.

The S&P 500 has slipped 0.5% so far this week. Government bonds have rallied, with the yield on two-year and 10-year US Treasuries falling 31 basis points and 20bps, respectively, month-to-date. Safe-haven assets are also up: Gold is now above USD 2,000/oz, while the Japanese yen has appreciated to 131 against the US dollar.

While equities should remain a key component of long-term portfolios, against this deteriorating macroeconomic backdrop we expect global stocks to deliver limited returns and exhibit high volatility this year. Equities are now least preferred in our global tactical strategy, and we recommend diversifying beyond the US and growth within the asset class. But rather than seek the perceived safety of cash, we think that investors should stay invested and ensure their portfolios are well diversified across asset classes.

Seek opportunities in high-quality bonds. With rates likely approaching a peak, we expect high grade (government), investment grade, and sustainable bonds to deliver good returns over the remainder of this year. We recommend a selective approach, and believe there are opportunities to generate alpha through more active duration management in light of the volatile interest rate environment. We also see value in emerging market bonds amid improving growth prospects and a weakening US dollar.

Consider gold as a safe haven. Gold breached the psychological USD 2,000/oz barrier this week for the first time since the war in Ukraine broke out last year and is approaching its record high of USD 2,075/oz set in August 2020. We have recently moved gold to most preferred in our global strategy as we see the precious metal as a good hedge within a portfolio. Gold tends to rise in periods when the US dollar is weakening, and downside risks to the greenback have risen alongside money market pricing of Federal Reserve rate cuts. While volatility can be expected in the near term, we now expect the precious metal to hit USD 2,100/oz by year-end, and USD 2,200/oz by March 2024.

Find uncorrelated returns in hedge funds. 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. For investors willing and able to manage inherent risks such as partial illiquidity, leverage, and complexity, we continue to 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.

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