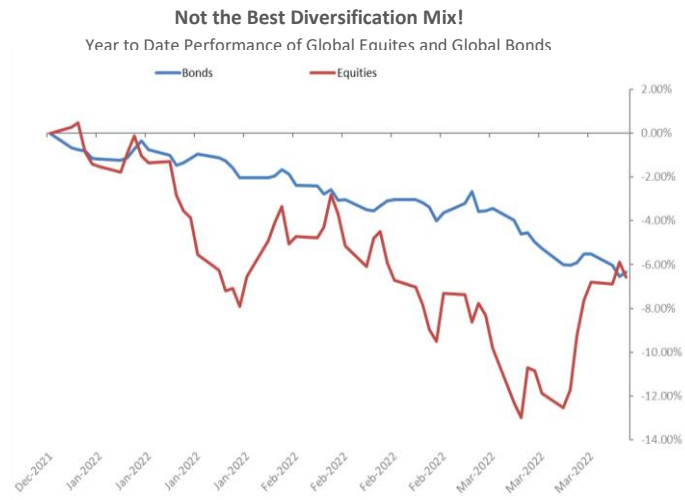


Quarterly Investment Outlook

2nd Quarter 2022

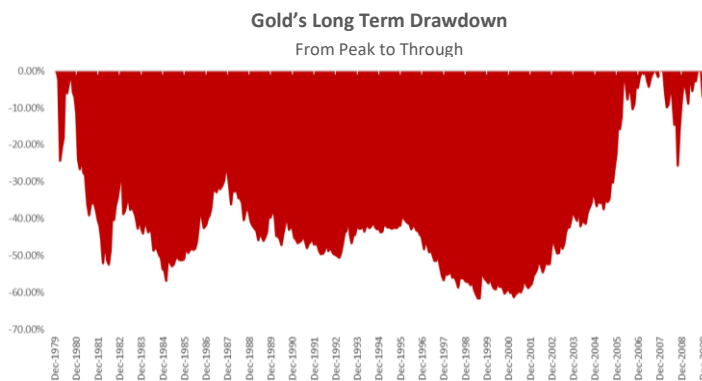
March 2022

Tackling dual headwinds, global equities and bonds are facing testing times. Persistent high inflation has forced central bankers to back down on their “transitory” rhetoric and pivot to a surprisingly aggressive path of future rate hikes. Additionally, the Russian-Ukrainian conflict is upending decades of Western peacetime and thrusting vital commodity prices higher, which in turn, is weakening confidence in global economic growth. These developments have pushed both risk prone and risk averse assets lower in tandem. Global equities have shed over 6% this year while global bonds have fared similarly poor with an equivalent 6% drop. This does not bode well for traditionally diversified portfolios where the equity/bond mix has historically acted as decent risk mitigation solution. With higher interest rates, bonds are bound to lose. Moreover, economic slowdown typically force equities lower, and so does higher cost of capital from loftier rates. As a result, the two perceived uncorrelated assets are now moving in unison and are essentially amplifying portfolio risk, rather than mitigating it.

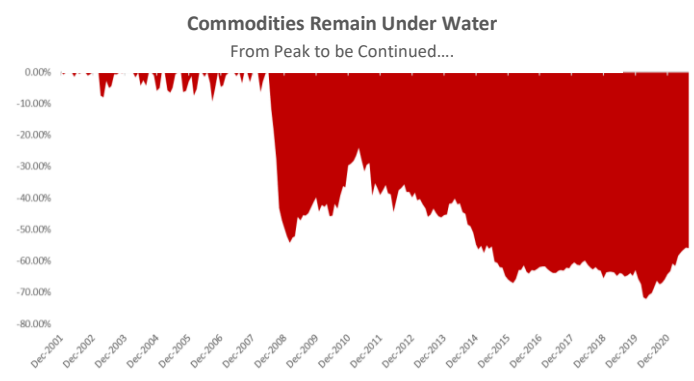


Source: Ameliora Wealth Management, Bloomberg LP. As of 23.03.2022. Global Equities = MSCI ACWI Net Total Return Index
Global Bonds = Bloomberg Global-Aggregate Total Return Index

This conundrum has forced a rethink of diversification, i.e. how to diversify portfolios beyond bonds and equities. Gold and commodities often surface as potential solutions since they have historically exhibited uncorrelated properties. Both asset classes have had positive developments so far this year with gold up a little over 6% and global commodities up a stellar 31%, the latter truly adding diversification benefits. However, this masks the actual properties of these assets and their effectiveness as portfolio diversifiers. Historically, neither of them have served as good risk reducers. Gold’s massive drawdown in the 1980’s (down 60%) lasted 25 years and did not offset the four equity bear markets and recessions in between. It did prove golden during the Great Financial Crisis (GFC), however. Nevertheless, its price behaviour has been extremely sporadic making it an unreliable asset in a diversified portfolio. Commodities, which emerged as a popular financial asset around 2004, have displayed extreme cyclical behaviour revealing true boom and bust characteristics. The spectacular 3-fold rise in commodity prices during the first decade of the millennium, stemming in part from China’s grandiose modernization plan, manifested commodities as a valuable portfolio inclusion. Yet, the ensuing global recession saw commodities draw down over 70% from their peak and still to this day remain under water.



Source: Ameliora Wealth Management, Bloomberg LP. Gold = Gold Spot Per Troy Ounce. Commodities = Bloomberg Commodity Index Total Return



Managed Strategies Truly Add Diversification Benefits

Performance during the Worst 10 Monthly Declines in a traditional diversified Portfolio. Jan-90 to Feb-22

	60/40 Portfolio*	Barclay CTA Index [§]
Oct-08	-10.2%	3.4%
Aug-98	-7.6%	5.9%
Feb-09	-6.6%	-0.2%
Jan-09	-6.3%	-0.2%
Mar-20	-6.1%	1.7%
Aug-90	-5.9%	6.7%
Sep-02	-5.4%	2.4%
Sep-08	-5.1%	-0.3%
Feb-01	-5.0%	-0.6%
Jun-08	-4.7%	2.0%
Average	-6.3%	2.1%

Source: Abbey Capital

The challenge with using any of these assets in a diversified portfolio is that owning them outright introduces new risk factors that are difficult to manage. Their deep drawdowns and high volatilities allow only for marginal portfolio positioning which in turn reduce their effectiveness and thus provide little diversification benefits. A preferred approach to risk mitigation is through managed strategies rather than just heterogeneous asset classes. As we have previously discussed, managed futures or CTAs, have proven worthy portfolio diversifiers (please see our September 2019 and March 2021 Investment Outlooks). Their bi-directional properties, i.e. ability to hold long or short positions in any asset, enables the possibility of generating accretive returns in both rising and falling markets. Historically, managed futures have delivered positive returns during negative periods of a traditional stock/bond portfolio. The fact that the strategy is “managed” implies both better risk control and potential uncorrelated performance properties. These days, with bond prices collapsing, equities weakening, and commodities skyrocketing, managed futures have returned 17%, effectively capitalizing on these distinct, but opposite price trends in a rewarding managed way.

Ameliora
Wealth Management Ltd.
Beethovenstrasse 19
CH-8002 Zurich
Switzerland

T +41 43 336 10 90
office@ameliorawealth.com
www.ameliorawealth.com