Quarterly Investment Outlook

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ameliora
WEALTH-MANAGEMENT

Haakon Håland
Chief Investment Officer

Advisor‘s Commentary

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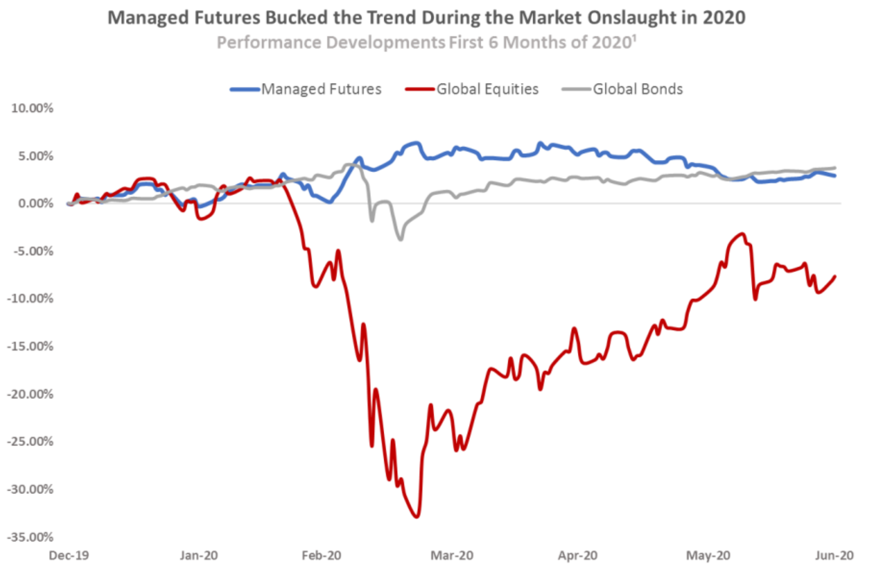
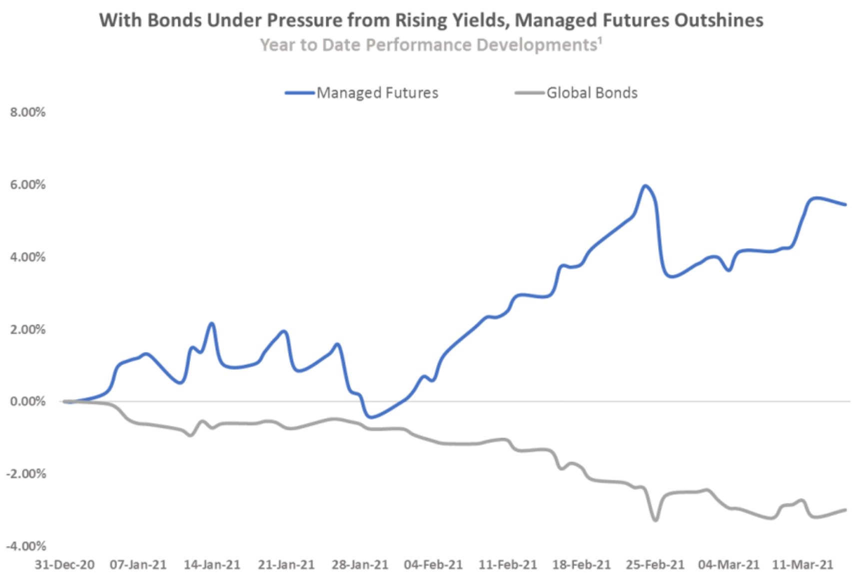
In this edition we are revisiting a topic discussed in our September 2019 Investment Outlook on utilizing alternative investment strategies in the portfolio mix. With diversification advantages from bonds still challenged by rock bottom yields, employing other risk mitigating strategies such as managed futures might help solve parts of the diversification dilemma. In essence, managed futures typically seek to capitalize on dominant price trends in any asset class regardless of direction by using rules based investment programs. These time-tested strategies, which also go under the names of commodity trading advisors (CTA) and trend followers, provide broad exposure to major asset classes making them highly diversified investment strategies.

Typically, in the event of clear asset price trends, either up or down, managed futures stand to benefit. Case in point are some of the turbulent market developments witnessed during the COVID-19 outbreak. At its most extreme in March 2020, the global equity market was down more than 30%, (even global bonds were down, by about 4%, exemplifying their puny diversification attributes). At the same time, a portfolio of managed futures strategies was up over 6%, a significant return both in absolute and relative terms. That does not necessarily mean that such strategies automatically and distinctly profit from rapid negative price trends in equities or bonds concurrently. Rather, it implies how the diversified nature of managed futures can capitalize on increased volatility across asset classes and subsequently mitigate overall portfolio risk. When the traditional relationship between stocks and bonds fail to provide sufficient diversification as it did in 2020, alternative strategies such as managed futures can provide a different source of diversification.



Source: Bloomberg LP, Ameliora Wealth Management AG

¹Performance chart data for Managed Futures derived from Abbey Capital Futures Strategy Fund (ABYIX), for Global Equities Vanguard Total World Stock ETF (VT), for Global Bonds Vanguard Total World Bond Fund (BNDW). Chart period is from 30.12.2019 to 30.06.2020.



Source: Bloomberg LP, Ameliora Wealth Management AG

¹Performance chart data for Managed Futures derived from Abbey Capital Futures Strategy Fund (ABYIX), for Global Bonds Vanguard Total World Bond Fund (BNDW). Chart period is from 31.12.2020 to 15.03.2021

More recent events demonstrate how managed futures can also provide diversification to bonds. Since the start of the year, longer-term interest rates have been moving higher putting downside pressure on bond prices. Fixed income securities, such as government bonds, are supposed to be the counterweight to equities in a diversified portfolio, especially during crises, but have as of late provided little protection with equity volatility rising. A portfolio of managed futures, however, have strongly outperformed global bonds. Although the strategies have in fact capitalized on the distinct trend of rising rates, i.e. *falling* bond prices, managed futures have also benefitted from the clear trend of *rising* commodity prices, implying yet again how their broad asset class exposures can capitalize on divergent price moves across various markets.

Rethinking traditional asset allocation by employing more dynamic exposure management are some of the efforts that we think can help improve both portfolio diversification and risk management in future challenging market environments.

Source: xxx

¹Bloomberg Barclays Global Aggregate Index in USD

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

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