Navigating Volatility with a Multi-Asset Strategy

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As we enter a new decade in the investment realm riddled with volatility, how can investors position themselves to ride the turbulence ahead? In the following interview Steven Moeller, Head of Multi-Asset Strategies APAC, BlackRock shares his outlook for markets in 2020 and how investors can benefit from a multi-asset portfolio allocation.

Q1 It's been a volatile year for markets in 2019 whether stemming from trade tensions, geopolitical risks or recessionary fears. Do you expect volatility to persist moving into 2020?

Growth should edge higher in 2020, limiting recession risks. This is a favorable backdrop for risk assets. But the dovish global central bank pivot that drove markets in 2019 is largely behind us. Inflation risks look underappreciated and the lull in US-China trade tensions could end. This leaves us with a modestly pro-risk stance for 2020.

The 2020 macro environment marks a big shift from the dynamics of 2019, when an unusual late-cycle dovish turn by central banks helped offset the negative effect of rising trade tensions. The US dovish pivot looks to be over for now. Any meaningful support in the euro area will have to come from fiscal policy and we do not see this in 2020. Emerging markets (EMs) however still have room to provide monetary stimulus.

Q2 The protracted US-China trade conflict now risks dragging on into its second year. How do you see this playing out or is it an old story?

US-China tensions remain front and centre. Both sides have strong incentives to hit the pause button on trade frictions, at least through 2020 – and on balance we think that is the likeliest outcome. Yet we expect pockets of turbulence, and there has been little progress toward resolving structural US-China rivalries.

There is broad, bipartisan support in the US to take a tough stance on China, and China looks prepared for a long struggle to gain global leadership in industries of the future. US restrictions on Chinese tech giants and technology exports to China have disrupted global supply chains – and intensified China's drive to become self-sufficient in foundational technologies. This could lead to a gradual decoupling of the US and China tech sectors.

Q3 Any risks or key events that could rattle markets for 2020? What's in your radar?

We expect market attention to geopolitical risks to remain high in 2020 even as we see US-China trade tensions likely extending their temporary pause. In addition to the US-China trade tensions detailed earlier, we see flashpoints in the fragile Middle East, including fallout from attacks on Saudi oil facilities, Turkey's incursion into Syria and protests around the region.

Another key risk looming: a tumultuous U.S. election year. Domestic considerations will be paramount in US foreign policy, including on trade. Potential economic policy outcomes are wider than they have been in decades – and uncertainty could depress business spending and market sentiment. Investors may face divergent risks depending on policy outcomes in the US presidential election in 2020.

Fiscal stimulus, whether in the form of green infrastructure or tax cuts, is possible if either party gains control of both the executive and legislative branches. Big tech companies may face a regulatory backlash whatever the election outcome, as issues around market dominance, data privacy, election meddling and cyber security rise to the fore. This challenges large caps that have led markets higher.

Q4 Amidst uncertainty in global markets, where are some of the bright spots and investment opportunities you see?

We remain moderately pro-risk in our view of global markets in 2020. We find equities and credit are still reasonably priced and expect them to be supported on an expected growth pick-up. Specifically, the firming that we expect to see in global industrial production and trade can pave the way for cyclical assets to outperform on a tactical basis, particularly those with beaten-down valuations. This supports regions and companies dependent on global trade, such as Japanese and EM equities. Easy monetary policy in the EM world supports this view as well.

We are neutral on government bonds as we see little scope for easing surprises. We favor the front end of the US Treasury curve on a tactical basis. This segment is less vulnerable to growth and inflation induced steepening.

Lastly, we have upgraded our view on the quality style factor. Companies with quality characteristics such as strong balance sheets tend to be more resilient to late cycle risks. At the same time, many large multinationals in the "quality" basket could benefit from a pause in trade tensions.

Q5 In such a volatile environment, the benefits of having a multi-asset portfolio becomes invaluable to diversify risk and still grant upside potential. How can investors make the most of a multi-asset strategy?

We believe an investor can benefit from a diversified multi- asset portfolio in a variety of ways. For those investors that have traditionally owned more fixed income, a diversified multi-asset portfolio may provide greater potential upside while helping to manage interest rate risk. These types of strategies offer greater equity market upside with less duration as compared to the fixed income sectors.

Similarly, for investors who may have a larger allocation to stocks, these types of strategies may be able to provide greater diversification and downside protection without sacrificing the potential for attractive returns.

In either case, multi-asset strategies could benefit investors in achieving attractive returns with moderate risk, a value proposition we believe to be relevant for many investors today.

Q6 From a portfolio perspective, is it time for investors to tilt their allocation towards equities or fixed income given the risk-return dynamics?

Within a total portfolio context, we maintain a general preference for stocks relative to bonds given our view that markets are likely to be well supported in 2020. That said, in order to protect against both known and unknown risks, we continue to emphasize a barbell approach in order to diversify a portfolio through additional sources of ballast.

We believe short term treasuries, which are less vulnerable to growth and inflation-induced steepening, exhibit attractive characteristics in today's environment. We also favour the 'quality' factor as companies with strong balance sheets tend to be more resilient to late cycle risks.

Lastly, we also find value in gold and other uncorrelated alternatives as a way to add additional ballast to an investment portfolio.

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