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Multi-assets make the most of macro

The JPMorgan Global Macro Opportunities Fund seeks capital appreciation through sophisticated global investment strategies that span several asset classes.

There is a notion that financial markets will often misprice global macroeconomic trends and in turn it creates considerable investment opportunities for asset managers.

Subscribing to this idea is the JPMorgan Global Macro Opportunities Fund*, an unconstrained approach that seeks capital growth by investing in a range of asset classes through equities, bonds and cash strategies.

J.P. Morgan Asset Management multi-asset solutions portfolio manager Talib Sheikh⁰¹ says the fund, launched in Australia in May 2016, was introduced as investors reframed their thoughts about asset allocation.

“With long-term return expectations from traditional asset classes falling amid lower trend growth and central banks moving towards a less accommodative monetary policy stance, investors are [always] thinking more deeply about return sources and diversification properties within their portfolios,” Sheikh says.

To navigate this increasingly fluid market environment, Sheikh says the fund’s focused and dynamic investment approach has potential to deliver attractive risk-adjusted returns.

He says the fund’s portfolio managers draw on insights from their dedicated research platform which can further develop relevant macro themes. This is then reflected in focused investment strategies across multiple asset classes and regions, often expressed through long and short positions.

“The portfolio has potential to deliver positive returns in different market environments and to offer a differentiated return stream to traditional assets over the medium term,” Sheikh says.

Managed by a dedicated macro investment team, the Global Macro Opportunities Fund has the ability to use traditional long-only equity and fixed income investment strategies as well as sophisticated relative value, dynamic hedging and derivatives strategies.

As Sheikh explains, this multi-asset flexibility gives the fund the potential to deliver positive returns. He says it allows investors to participate in market rallies while limiting risk exposures in periods of market correction.

Asset allocation

The fund currently maintains high exposure to equity strategies (84.5%) and Sheikh says this

largely comes from a backdrop where most major economic regions are enjoying at or above-trend growth.

“The global economy is experiencing a synchronised upswing for the first time in several years. Better global growth is leading to a recovery in corporate earnings growth, with 1Q17 marking one of the best reporting seasons in recent years,” he says.

Maintaining its alignment to global macro themes, the fund holds its largest equity exposures in financials and information technology.

“We hold a number of Asian financials which should benefit from better regional growth, fading asset quality concerns and attractive valuations,” Sheikh says.

“In information technology, we hold a significant proportion of our exposure in semiconductor related stocks which are benefitting from favourable near-term pricing for end products, along with strong secular trends, such as increased automation.”

Geographically the fund recently increased its exposure to Asia ex-Japan with much of this concentrated in China.

Sheikh says stable growth in the region has provided an opportunity to tighten monetary policy, “but we expect these measures to be modest as the authorities remain committed to financial stability ahead of the [Chinese] National Party Congress in November.”

Elsewhere the fund reflects the asset manager’s view of solid fundamentals in the US, partly through long financials exposure. Sheikh says the fund is seeking to take advantage of low market pricing of the Federal Reserve’s rate hiking path.

“In Japan, we favour exposure to a basket of equities with the potential to benefit from shareholder-friendly behaviour amid improving corporate governance,” he says.

Finally he adds that as part of the fund’s high focus on risk it currently holds Nasdaq put options to help protect the portfolio in the event of an equity market rotation.

Moving forward

Generally the fund invests in six to 10 macroeconomic themes, leading to a portfolio of about 30 strategies. The current macro themes are:

- China in transition
- Emerging market convergence
- Gradual growth recovery in Europe



The quote

The global economy is experiencing a synchronised upswing for the first time in several years.

- Global policy divergence
- Japan beyond Abenomics
- Supply side weakness
- Maturing US cycle

J.P. Morgan Asset Management multi-asset solutions head of global multi-asset strategy John Bilton says in the third quarter of 2017 “a diversified regional equity exposure is best suited to benefit from the pickup in global growth.”

“We expect the global economy to deliver trend-like growth in the second half of the year,” he says.

“The dip in US inflation looks to be bottoming, and both financial conditions and inventory data suggest any slowing of manufacturing momentum will be modest and transient.

“The expansions in Europe and Japan are robust, with all key segments of the economies participating in the upswing, and emerging market economies too are showing improvement despite the slight slowing in China’s pace of growth.

“By contrast, the optimism over US fiscal stimulus has largely dissipated, notwithstanding some lingering hopes of tax cuts [later this year].”

This said Bilton says in terms of the breadth of global growth, the first half of 2017 “is shaping up to be the best start to a year since 2011.”

Where does the fund fit?

Given the portfolio diversity and the manager’s investment philosophy, the Global Macro Opportunities Fund is likely to whet the appetite of investors seeking to add another source of return in a sleeve of alternative investment strategies.

Although it is an unconstrained strategy, the fund’s investment objective is “to achieve capital appreciation in excess of its cash benchmark by investing primarily in securities, globally, using financial derivative instruments where appropriate.”

Its benchmark is the Bloomberg AusBond Bank Bill Index; management costs are 75 basis points with no performance fee; and the minimum investment is \$25,000. **FS**

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