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Making global macro work

The JPMorgan Global Macro Opportunities Fund harvests the world's most important themes across multiple asset classes and regions.

Fund managers prepared to take a different approach in the current global macroeconomic environment expect to be rewarded for making their portfolios work harder.

It is a mantra supported by the JPMorgan Global Macro Opportunities Fund, a thematic fund which critically thinks about the world's future and where investments can be directed to achieve differentiated returns to traditional asset classes.

J.P. Morgan Asset Management multi-asset solutions managing director Olivia Mayell [01] says the macro opportunities strategy actively envisions where it can work harder for investors. J.P. Morgan's annual publication on long-term capital market assumptions is one example where the focus is directly pointed to better asset allocation decisions.

"We have to think about how we can find different areas of interest, different areas of return and not just rely on beta but have a portfolio that's very diversified and thinking about the important themes in markets," Mayell says.

She adds the firm has also carefully designed the risk management in its multi-asset portfolios, introducing bespoke analytics and portfolio management systems. It enables the portfolio managers to have "real-time risk management, real-time understanding of our positions."

It also affords Mayell and her team the ability to change or alter the portfolio before any trades and to understand what those implications are.

"That gives us much more knowledge, much more understanding and much more confidence in our portfolio," she says.

Macro minded

The Global Macro Opportunities Fund distills the world into macroeconomic themes, making sense of the world's important issues and where markets can aggregate in the future and provide positive returns over the medium to long term.

Currently there are eight macro themes in the strategy and Mayell says two have really come to the fore in recent months.

"One is the theme of the maturing US cycle, acknowledging we're late in the business cycle but that still presents many opportunities for investors," she says.

"Another important theme we have is China in transition.

"It's really understanding that China is going through a multi-year transition, from a manufacturing and investment led economy to one which is much more consumer led.

"China is more about looking to the future in terms of where investment opportunities may be and that might look more like the Anglo-Saxon economies and less like the China of the past."

Other themes include a supply side weakness, widespread technology adoption, Japan beyond Abenomics, emerging market governance, Europe growth recovery and global policy divergence.

In February, and amid a higher period of volatility, the fund delivered a positive return as global equities suffered heavy losses. It's an ability that will be increasingly meaningful in a period of higher market volatility, the fund manager adds.

Expanding on it's active positioning, earlier this year it added a small position in duration in the form of US 10-year Treasury bonds, as yields climbed above 3%. With short-term equity-bond correlations at negative, the portfolio managers saw this as an attractive entry point.

J.P. Morgan Asset Management multi-asset solutions head of global multi-asset strategy John Bilton noted recently that "investors' tail risk fears have shifted from concern about inflation overshooting and triggering more rapid rate hikes, to growth undershooting and crimping earnings."

"Against this backdrop, bonds are an effective portfolio hedge, and with real yields moving higher duration is less costly to hold in portfolios," he says.

Excluding its derivatives investments, as at July 31 the fund held more than one-third of its risk in equities (33.4%), about half in bonds (47.6%) and the remaining 19% in cash or cash for margin.

"At the margin the moderation in the pace of global growth leaves us a touch less convicted on our pro-risk tilt, but our increased appetite to hold bonds within portfolios mitigates our risk to a good degree," Bilton says.

In his third quarter update, Bilton adds asset returns in the second half of 2018 should be an improvement on the first half, but there is a growing sensitivity to any threat to economic growth.

"The return of US short-end rates to positive territory means a higher hurdle for deploying capital to riskier assets; but equally the higher yields on bonds also means that diversifying pro-risk positions in portfolios is less costly. US yields at around 3% do not seem to be the constraint on equity returns that was feared, and indeed may—for the time being—even grant investors a level of comfort in keeping a risk-on tilt as the economy moves deeper into late cycle," he says.

The quote

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Portfolio construction

With a return target of cash plus 7%, and such a broad opportunity set, Mayell explains there has to be much consideration and deep understanding about the portfolio's risks.

"What we've found is that's offered a return that's been very successful for investors and differentiated to that of a 50/50 equity and bond balanced type of profile," she says.

Where that's been useful in portfolios for some investors is to be an alternative to their existing macro allocation.

Sometimes that existing allocation might be a multi-asset fund or it may be more of a macro hedge fund-type style, but the fund managers' differentiated approach means its correlation to many other funds is low.

The Global Macro Opportunities Fund is designed in a manner where themes can be represented across several asset classes, and it may include long and short exposures across equity, fixed income, currency and volatility.

The fund was introduced in Australia in May 2016, as investors reframed their thoughts around asset allocation. Further highlighting its commitment to work harder for investors, the fund also recently incorporated exclusionary ESG screening, specifically with the purpose of eliminating exposure to tobacco stocks.

The fund has also reduced its management fee to 70 basis points and converted to a trust structure, meaning it will be directly invested. Earlier this year, Lonsec upgraded the fund to "Recommended", reflecting its confidence in the strategy and the portfolio management team.

"For some people it may be an alternative to their more traditional investments, portfolios which are in much more long-only equity and bond exposures," Mayell says.

"We've proven to be very attractive as a mix in terms of alternative allocation to those traditional assets."

She adds that for financial advisers or individual investors that have been less confident investing in hedge funds, the Global Macro Opportunities Fund offers liquidity and transparency as a more liquid alternatives strategy.

"We're much less opaque than any of those hedge fund-type strategies and that makes us much easier to include in a diversified portfolio," she says. **FS**

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