

## LOOKING FOR SAFE HAVENS IN 2023



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The persistence and strength of inflation was a major driver of volatility in 2022, yet while inflation may reach its peak in the coming quarters, investors should not expect a decline in volatility anytime soon.

The data also underlines the scale of volatility recorded last year. The VIX equity volatility Index ended above its historical average on 94% of trading days; the bond market's MOVE Index was above average on 87% of trading days; and the S&P 500 moved by more than 2% on a daily basis 61 times compared to only 7 in 2021.

Against this backdrop, central banks were forced to raise rates aggressively to preserve their main asset: credibility. The collective failure to recognise and control inflation could still lead to sustained second-order inflationary pressures and a hard landing for economies.

Despite this, we believe that markets may find some relief in a potential peak both in inflation and in central bank hawkishness in the next quarters. However, we expect volatility to remain elevated and prone to sudden spikes in 2023, as the headwinds that hindered markets in 2022 will gradually dissipate.

All of this means that investors should expect to continue facing a range of challenges in the year ahead, including, but not limited to, the impact of geopolitical tensions, higher than expected inflation, and global monetary policy tightening.

This persistently volatile environment means active management should make all the difference. When stocks are offering solid, steady returns, passive investing is the way to go, but as volatility increases, picking the right themes and stocks becomes integral to success.

In addition,

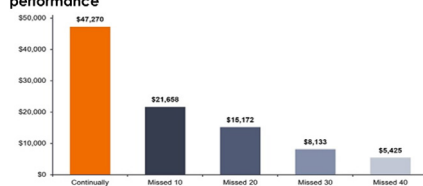
we advise investors to tilt exposure toward defensive parts of the equity and fixed income markets,

develop strong risk management and diversify by considering new asset class allocations (e.g. alternatives).

### DEFENSIVE ALLOCATION TO EQUITIES AND BONDS

The right mix of listed equities and bonds can offer an effective hedge in volatile markets. However, investors need to minimise the impact of (unfortunate) timing.

**Trying to time the market can have significant impact on performance**



Source: Bloomberg, Janus Henderson Portfolio Construction & Strategy team, in US dollar. Shows the value of a hypothetical US\$10,000 investment in the S&P500 Index between 1 January 1999 and 31 October 2022. Past performance does not predict future returns.

- Risk management techniques are critical to minimise the risk of mis-timed investments.
- One way to help reduce vulnerability is by considering high quality investment-grade bonds (including sovereigns) and dividend-paying stocks. Investors may be able to collect regular income, while leaving the investments untouched until the market recovers.
- Renewable energy is a fastest-growing segment within the infrastructure sector, which is an effective diversifier: long-term investments in tangible assets with relatively steady, low volatile, inflation-linked cash flows and low correlation to capital market cycles.
- Among defensives, utilities is also an attractive sector along with large cap high-dividend stocks.
- Active fixed-income total return strategies rather than seeking income delivery through buy-and-hold approaches. Total return can be achieved by managing duration risk and driven by global macro views.

### DIVERSIFICATION TO ALTERNATIVE INVESTMENTS

Diversification also provides a cushion in times of volatility. The best way to achieve this when there is a high correlation between stocks and bonds is by investing in alternatives.

- Hedge funds can facilitate diversification, not just when markets are volatile, but in the long-term. They invest in many different strategies that are not correlated to traditional markets and can enhance long-term risk adjusted returns. In the first 11 months of 2022, hedge funds outperformed, with the HFRI Fund Weighted Composite Index posting a return of -4.1%, compared to a 16% decline in the MSCI All Country World Index and a 15% loss for the Bloomberg Global Aggregate Total Return Index over the same period.
- Global macro managers may also offer sources of relatively attractive, uncorrelated returns in a high volatility regime, along with variable bias and multi-strategy funds. The latter combines different strategies and allow investors to build a diversified hedge fund portfolio without investing in multiple individual funds.

Despite the various challenges facing investors in 2023, elevated volatility can also prove to be an opportunity for investors who seek ways to diversify their portfolios to defensive allocations and consider alternative asset classes.



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