

Overcoming the ‘low-return’ imperative

FLEXIBLE MULTI-ASSET SOLUTIONS ARE KEY, ENABLING INVESTORS TO RESPOND TO EVER-CHANGING MARKET CONDITIONS SAYS RUSSELL INVESTMENTS’ **DAVID VICKERS**

Given the ongoing uncertain economic backdrop, it comes as no surprise that almost half of advisers attending the Russell Investments bi-annual conference said they expect their allocation to multi-asset products and services to increase next year.

Indeed, the results seem to be further evidence of the fact that the low-return environment, a crucial pinch point for investors today, is real and here to stay – in spite of Bank of England governor Mark Carney’s recent decision to raise rates by 25bps.

“The choices investors face today are unavoidably hard,” explains Vickers. “The low-return imperative well-defines what we believe is the single greatest challenge investors

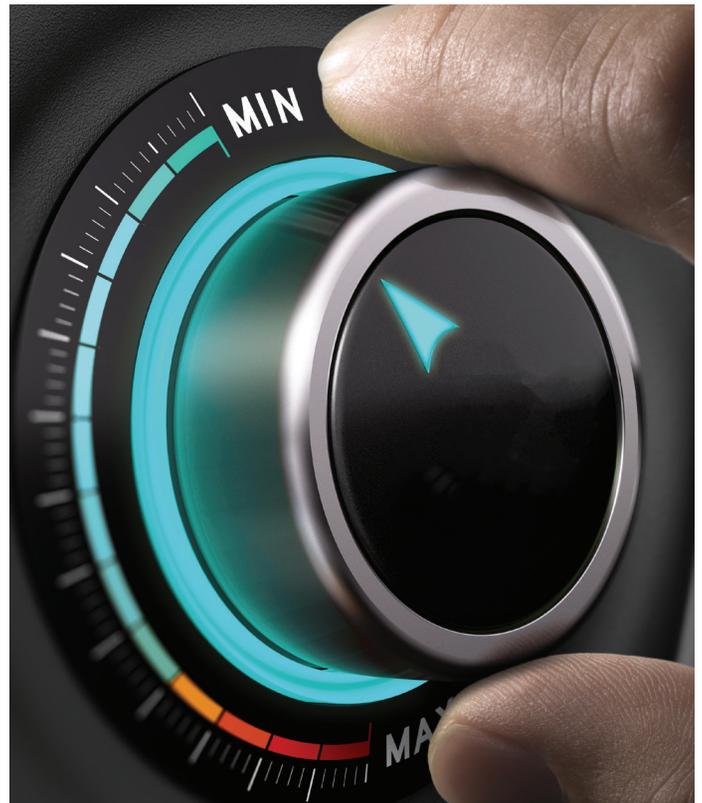
face today. When expected future market returns are likely to be lower than the required rate of return, we believe an investor cannot afford to take on risks they do not expect to get paid for. That is, if returns from capital markets are likely to be lower going forward than they have been in the past, it is absolutely ‘imperative’ that investors seek additional sources of return to improve the probability of achieving their objectives.”

This is where a move to multi-asset or an increased allocation to multi-asset can assist investors, according to Vickers.

“True’ multi-asset portfolios invest across many dimensions, including return source, risk exposure, investment style and investment horizon. Russell Investments’ multi-asset funds have been specifically designed with this approach in mind. Their suite of multi-asset funds vary in their allocation of fixed income, equities and other assets (such as real assets and cash) for differing risk appetites. This allows the group to accommodate an individual client’s risk appetite and return expectations – whether they are cautious, balanced or adventurous, or something in between.

For example, today, the most cautious fund in their multi-asset range invests roughly 65% in fixed income, while the balanced fund has 43% in this asset class. The most adventurous fund invests just 20% in fixed income, however.

In the current economic environment, such flexible multi-asset solutions are key so that investors can respond to ever-changing market conditions. Particularly as



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recessionary and inflationary risk clouds gather on the horizon, says Vickers.

“Valuations in credit and equity (specifically US equity) appear way above fair value. In fact, US equities look as though they are on the path to outright expensive. The economic cycle is also quite long in the tooth, but it has been prolonged by ultra-loose monetary policy as central banks have continued to keep interest rates low over the past few years.”

“At this juncture, we find that developed economies are in the ‘sweet-spot’ of moderately above-trend growth, continuing low inflation and easy monetary policy or in the case of the US Federal Reserve, very gradual tightening,” he says.

Though Vickers adds that neither a recession nor an inflation scare that sends interest rate expectations significantly higher seems likely in the near term, the fact we are a long way into the current market cycle with out-of-sync valuations may be a cause for concern.

“In such an uncertain environment, it is by taking a diversified and multi-asset approach that we believe investors will have the highest likelihood of achieving the outcomes they are working so hard to reach,” adds Vickers.

 **Russell Investments**