Themes and trends in the global economy are the biggest driver of asset price returns. Global macro investing seeks to take advantage of these changes by delineating macro thinking into a set of themes or trends and assigning certain levels of probability as to how these will evolve through time. To efficiently reflect macro themes in a portfolio, investors must draw on a broad set of asset classes. Macro investing typically aims to generate positive returns in different market environments, with a lower level of volatility than equity to limit falls in periods of market stress and achieve a smoother path of portfolio growth.

Aim for positive risk-adjusted returns

- Risk-adjusted returns for a traditional equity and bond portfolio have been very good over the last few years.
- As we get closer to the end of this economic cycle, returns from traditional assets are likely to be lower and volatility higher, meaning risk-adjusted returns could be lower. In this environment, it probably makes sense to seek an exposure with a lower volatility than equities but that can still deliver attractive positive returns.
- Investors shouldn't rely solely on a negative correlation between stocks and bonds for diversification as it can't always be relied on when it's needed most, such as in August 2015.
- Funds that can use sophisticated strategies, such as options and shorting, have the potential to protect against portfolio downside and can aim to make money without simply relying on equities or bonds rising in value.

Go beyond traditional multi-asset investing

- Global macro investing is about assigning probability to potential outcomes of trends as they evolve, and understanding the implications for asset classes.
- Macro investing should be highly dynamic, with the ability to move exposures quickly as trends change or surprise events unfold. Macro-driven portfolios often draw on a very broad opportunity set across many asset classes.
- This multi-asset, unconstrained investment style moves away from traditional equity funds that tend to overweight their preferred regions or sectors. Instead, a macro portfolio would only have exposures from which it expects to make positive returns.
- As well as having the ability to use long equity and fixed income strategies to generate positive returns, macro investing provides the opportunity to exploit relative value opportunities. These may include being able to benefit from the expectation that one currency will outperform another based on a prevailing economic theme.
Focus on diversification and correlation

- Diversification is key to macro investing. Generating positive returns in varying market environments requires a diversified return stream. It is therefore critical to understand the relationship between asset classes in normalised market conditions and periods of market stress.
- As well as seeking diversification within the portfolio, macro investing may seek to have a low correlation to equity and fixed income markets when they look less attractive, or when the traditional negative correlation between them comes under stress and is no longer a good source of diversification.

Investment implications

- Global macro is an attractive investment approach in order to take advantage of the longer-term trends and more rapid changes in the economic environment, which have been the principal driver of asset price returns in recent years.
- A macro strategy is typically complementary to core equity and fixed income funds as it has the ability to be more lowly correlated to traditional markets when they look less attractive and increase exposure when there are greater opportunities.