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Alberto Gallo: sneakers, digital art and the end of safe havens

Algebris' head of global credit strategies believes a barbell approach will win out in a world where yield is hard to find.

by CHRIS SLOLEY
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Investors are piling into art, rare sneakers and other areas viewed as historic safe havens, but the old rules no longer apply and active managers can – and must – take advantage.

That call to arms was issued by Alberto Gallo, head of global credit strategies at Algebris, whose latest update was titled, quite bluntly, 'A world without safe havens'.

In the missive, Gallo and his team outlined how assets which produce no income or cashflow have become increasingly valuable over the course of the pandemic, and even in the recent market rotations.

He said the end of the 'debt super cycle' will have implications for asset allocators over the next decade and a closer look at how capital is both being invested and protected is warranted. 'Investors in nominal, low-yielding assets have only two options: they can lose money slowly, as their return is eroded by inflation, or lose money quickly if yields reprice faster.

‘We see a strong opportunity for active strategies that don’t rely on safe haven assets to thrive going forward: capturing macro alpha from volatility and from the cross-country dispersion in the speed of the recovery, as well as micro alpha from investing in sectors which will benefit from an environment of faster growth and inflation.’

Striking the right balance

Gallo said current market dynamics mean a barbell approach – balanced between credit and cash – is the best performing stance in current markets. ‘In an environment of QE purchases and record low interest rates, a fully invested credit portfolio provides negatively convex returns to investors.’

A negative risk-reward scenario is currently attractive, Gallo said, given fragile and volatile markets. He said a portfolio exposed to both BB or B-rated debt, as well as cash, can generate excess returns by deploying cash during moments of stress.

The emphasis on credit, Gallo said, is because government debt is no longer worthy of the safe haven tag. ‘On the one hand the recent price action may be a cyclical event – another interval during a secular bond bull market which might persist due to structural deflationary trends.

‘But there are reasons to at least doubt this consensus assumption and believe that the move in inflation and rates is the beginning of a more sustained turn,’ he added.

Gallo said investors need to rethink which risk-free assets, if such things exist, they are going to be exposed to. He said a better approach would be to build strategies that focus on managing risk internally, rather than relying on external correlations.