Macro Outlook Summary

October 2026

In the 1950s Harry Markovitz published his thesis on Modern Portfolio Theory where he showed that combining different assets like equities and bonds produced an 'Efficient Frontier' graph of return versus risk/volatility. The correlation was low and this produced a diversification benefit which couldn't be ignored. That brilliant insight has informed portfolio construction ever since and the 60% equity-40% government bond portfolio became the standard offering from wealth managers.

Markovitz observed that government bonds behaved like a safe haven for investors and in times of equity market stress or crisis that asset rallied strongly and counterbalanced some of the losses from equities. In fact the solution was a sort of hedge fund using safe haven government bonds to hedge.

But a safe haven asset must be just that and always deliver gains every time there is equity market stress. Here lies the problem. Since 1980 there have been 20 periods when the SPX has fallen by -10% or more. In 11 of those periods the UST 10Yr fell in yield and provided capital gains to cushion the equity losses. But in the remaining 9 periods the UST 10Yr rose in yield and lost money. Those periods coincided with times when the outlook for inflation was poor or central banks were engaged in an overt fight against it, resulting in bond losses and equity losses. The most recent instance of this failure from government bonds to cushion equity losses was of course 2022 when the SPX drew down -25% from Jan'22 to Sep'22 and the UST 10Yr lost -17% over the same period.

So while Markovitz's invention of the efficient frontier will remain central to portfolio construction the observation that government bonds and equities are reliably negatively correlated is clearly wrong. Yet the wealth management industry persists in peddling this simple portfolio solution especially for medium risk and more cautious investors either because they are not aware of any other safe haven asset or because the offering is familiar to their audience. The words 'government bonds' and 'balanced' do sound very reassuring. In 2022 the shocking outcome was that the more conservative the client portfolio the larger were their losses and for clients who had expressly said their tolerance for losses was very low. Those managers failed their clients badly.

In the last 20-30 years thankfully the rest of the world has moved on with the emergence of private market investment offerings and most importantly hedge funds. The latter is a very broad church encompassing so many activities it still presents an enormous challenge to useable categorisation. But we know that within that world there are multiple solutions and managers offering a proven safe haven product.

A basket of 8-10 such managers will be safer than owning just one and engaging a specialist to make that selection is then what every institutional investor does. Flows into safe haven hedge fund solutions are increasing by the quarter.