MACROSCOPE
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# Investment safe havens hard to find in an interconnected world

**Assets like weather futures, carbon credits and insurance policies can help mitigate some risks**

It was the dead of night in the heart of China, in the core of the capital Beijing – and I sat transfixed at a moment in history.

Monumental incidents were happening live as I and the rest of the world could actually see the Chinese military clearing Tiananmen Square of demonstrating students. It was a generation ago and it spawned the birth of CNN and live rolling news. Twenty-seven years later and instant communication is something we expect.

Just a few months earlier, I had made my first trade from a semi-mobile telephone, shaped and weighing like a brick, from the stockroom of my shirt tailor in Causeway Bay, when I bought a French share, for an Australian client, settled in London, through a Swedish broker. I thought globalisation had arrived.

Just 18 months later, I sat in New Zealand watching the Gulf War begin, live, some 18,400 kilometres away. News now flies around the world at electric speed. Every smartphone holder is a viral journalist with a newsreel in their pocket. The picture will always get through, even if there is no internet.

Speed and information have always been bedfellows as we saw in the global financial crisis that revealed the deepest interconnectivity between assets so far.

The crisis started as little domestic US trouble in 2007 but the interconnections led to a sovereign debt crisis in Europe a year later. In 2008 the global equity index fell by 60 per cent peak-to-trough, hedge funds by 20 to 30 per cent, commodities by 56 per cent, private equity fell 20 to25 per cent (and sucked up a lot of investor's money to do that well), and Hong Kong residential property fell by 20 to 30 per cent. Liquid assets, such as commodities and equities, are more volatile as investors seek to raise cash at any price; they incorporate every wobble and worry of sentiment. A "V" shaped recovery, which averages out the very worst of the fall, makes those assets that trade less frequently look better – that is just mathematics and not a superior performance.

One asset that did hold its own in the crisis was government bonds that fell from peak to trough in 2008 by just 9 per cent, although in calendar year 2008 they actually rose in value by 7 per cent. Even in a crisis, money has to flow somewhere.

> **A 'V' shaped recovery ... makes those assets that trade less frequently look better**

In the eight years since the global financial crisis, interconnectivity has developed in ways that have not yet been tested. We now can't run and can't hide from the instant communication in our "Twitterised" world. There are going to be few investment safe havens.

As share prices fall, so do asset values because many loans are pledged against the value of stock portfolios.

This deleveraging will happen in other leveraged asset markets and a liquidity credit crunch will accelerate financial prices down the death spiral.

How do we then protect ourselves? The bond markets worked last time but bond prices of course can hardly get any higher in an era of negative interest rates policies.

Last time the bond markets were confident that the Fed would bail them out – but do they have any ammunition left to bail out the world again? If they can't then the bond markets too will fall causing an intense destruction of value.

We can return to cash – cash is king, after all – or is it? This time cash may be decidedly risky because the lack of discipline by the US Fed in not raising interest rates to control borrowing has debased the value of money.

That impact is normally seen in hyperinflation – though we have not seen it so far.

It may be that the debasement will be seen in other ways, such as the "Cyprus Solution", where to rebalance the books in the crisis the authorities in 2013 "confiscated" a percentage off the top of every uninsured bank account, making many careful savers that much poorer.

The rather grim picture of the correlation of all global assets means that it is tough to find alternatives. Illiquid, long duration assets like private equity or direct property might outlive the downturn, but even they will post paper losses in the meantime.

Perhaps non-correlated assets like weather futures, insurance policies and carbon credits should become part of everyone's portfolios. And one other; you can't earn from it, you can't eat it, but maybe it's time to accumulate some gold – as a hedge in a highly correlated world.

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Illustration: lau Ka-kuen