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**Amundi**  
ASSET MANAGEMENT

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# ABSOLUTE RETURN STRATEGIES IN AN INFLATIONARY CONTEXT

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For professional clients only.

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# Current macroeconomic context

**Countries across the world are facing a number of challenges amidst a backdrop of general uncertainty.** The ongoing geopolitical tension between Russia and Ukraine has contributed to already-increasing commodity and energy prices. Before the conflict, the global economy was experiencing supply chain bottlenecks, as a result of the Covid-19 pandemic, which in turn was pushing up consumer prices. To try and address this, **Central Banks across the globe are adopting an increasingly hawkish stance to try and stem the rise of inflation, while at the same time global growth prospects are declining**<sup>1</sup>.

With fears of recession and possible stagflation<sup>2</sup>, investors may need to consider alternative ways to protect the real value of their capital. **Global equity markets have already fallen considerably in 2022<sup>2</sup>, suffering the worst first half-year in decades<sup>3</sup>.** Sovereign bonds also lost ground, both in the US and in Europe.

In this scenario, investors may be looking for ways to protect their capital from inflation. **Including an absolute return strategy in your portfolio might offer some protection**<sup>4</sup>.

## What is absolute return?



Absolute return funds utilise an investment style that aims to deliver a positive return over the medium term (generally considered to be 3 or 4 years), regardless of market conditions. However, a profit is not always guaranteed<sup>5</sup>.

Absolute return funds usually employ a macro strategy, identifying investment opportunities in a number of markets by using fixed income, equity, commodities and currencies.

In our view, a key element of absolute return strategies is the lack of a pre-defined benchmark. Instead of having their performances measured against a specific index, **absolute return funds aim to deliver a positive return in all types of market conditions**, generally with lower volatility.

Furthermore, absolute return funds can use long and short strategies. These strategies aim to realise a profit by buying securities that are considered to be undervalued and simultaneously selling securities that are considered overvalued. Derivatives may also be used and could be beneficial when using short strategies, in order to decrease or increase risks, but also for hedging purposes. Market, counterparty and liquidity risks are usually associated with derivatives.



Equities



Fixed Income



Commodities



Currencies

<sup>1</sup>Commodity prices surge due to the war in Ukraine, World Bank blogs, as at May 2022

<sup>2</sup>Amundi Global Investment Views, August 2022

<sup>3</sup><https://www.cnbc.com/2022/06/30/the-markets-worst-first-half-in-50-years-has-all-come-down-to-one-thing.html>

<sup>4</sup>Returns are not guaranteed and a loss of the capital invested may occur

<sup>5</sup>Amundi Asset Management, as of August 2022

# Potential benefits of absolute return strategies

Thanks to portfolio diversification<sup>6</sup>, absolute return strategies may offer a number of potential benefits during periods of high market volatility, as they normally strive for a low correlation with equity and bond markets.

This defining characteristic may in turn serve to help protect portfolios during periods of volatility or market downturns.

In our view, the diversity in the asset allocation process of an absolute return fund may allow for a **greater flexibility and dynamism in the portfolio while managing volatility.**

Furthermore, absolute return strategies aim to generate positive returns while managing and limiting risks, which in turn could potentially lead to attractive risk-adjusted returns over the long term<sup>4</sup>.

## Absolute return strategies in an inflationary environment

During periods of prolonged upward consumer price pressure (similar to what we are currently experiencing), where inflation is probably more structural than the markets are anticipating, an absolute return strategy may benefit portfolios.

A sustained increase in inflation could have a negative impact on the majority of assets. To compensate for this, inflation-protected bonds coupled with increased credit exposure and short duration could be considered. Furthermore, investors may wish to consider broadening their exposure to commodities

such as precious metals like gold and industrial metals as well.

Additionally, due to the current low level of expected future returns and the associated high uncertainty, pursuing an absolute return strategy could offer potential downside protection when markets are distressed. At Amundi, we believe the lack of a precise benchmark and the ability to consider long and short position, or a combination of both, could offer the opportunity to undertake relative value positions to generate performance and might play a positive role.



**Absolute return strategies aim to generate positive returns while managing and limiting risks, which in turn could potentially lead to attractive risk-adjusted returns over the long term<sup>4</sup>.**

<sup>4</sup>Returns are not guaranteed and a loss of the capital invested may occur

<sup>6</sup>Diversification does not guarantee a profit or protect against a loss

# Important information

Unless otherwise stated, all information contained in this document is from Amundi Asset Management S.A.S. and is as of 17 August 2022. Diversification does not guarantee a profit or protect against a loss. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management S.A.S. and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. This material does not constitute an offer or solicitation to buy or sell any security, fund units or services. Investment involves risks, including market, political, liquidity and currency risks. Past performance is not a guarantee or indicative of future results.

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