Three Surprising Risk Management Ideas for 2024

Year-ahead commentary is challenging for us: We don't have a crystal ball and we believe predictions contribute more to investment mistakes than outperformance. But the New Year does offer opportunity to consider recent experiences in long-run strategic terms.

(If our look ahead to 2024 sounds similar to **what we published in 2023** and **2022**, it's because we believe in a consistent approach to risk management. Although our philosophy is consistent, the themes for the coming year are fresh – as you'll see below.)

Looking back at our 2023 commentary, we've identified three key 2024 risk factors and ways to manage them:

- **Bonds:** The game has changed regarding return expectations in fixed income.
- **Stocks:** AI and machine learning has created new opportunities in portfolio construction, which is different from investment opportunities in AI businesses.
- **Macroeconomics:** Humility remains the watchword when it comes to global events and their impact on investment returns.

Bonds: The Snow Globe Has Been Shaken

This year we urged investors to remember that short-term Treasuries and similar "risk-free" assets tend to offer good liquidity and low volatility of returns – but that **portfolios should remain invested** in a variety of riskier asset classes to keep pace with inflation, diversify, and earn reasonable returns. This is true even when **risk-free fixed income produces higher yields** than we've seen in over a decade. As many investors learned, painfully, in 2022, it's **not just yield but also total return** that matters when assessing risk and reward in fixed income.

As the yield curve remains inverted, bond markets hold plenty of potential surprises for investors who would try to predict interest rates' direction going forward. As always, most investors should be best served by identifying the risk-reward on offer for the level of **interest rate** and **credit risk** in their portfolios. There are opportunities to earn reasonable returns in fixed income, especially for investors who diversify their allocations with positions in systematic alternatives.

Stocks: Artificial Intelligence Has Entered the Chat

While many investors have become enamored with the technological possibilities afforded by artificial intelligence – and have taken interest in AI-oriented companies – it's also important to consider how AI and machine learning models can apply to portfolio construction.

The objective for most stock portfolios is to optimize returns. Most active management strategies seek to identify companies with potential to outperform in the future. Factor strategies offer a systematic way to look for attractive stocks. Investors should be mindful that **strategy diversification can help improve investment outcomes**. Additionally, **strategies that use sophisticated machine learning models** as part of their processes may have a chance to improve factor performance across a wider range of market environments.

Wherever AI leads the world going forward, investors should consider how this technology can be used to support and diversify their investment portfolio construction process.

Macroeconomics: Our Tumultuous World Demands Prudence

It's hard to imagine 2024 as a year of peace and stability, as war rages in Ukraine and the Middle East, growing regional instability from the Taiwan Strait to the Red Sea threatening global trade, and a potentially contentious U.S. presidential election looming.

The COVID-19 pandemic – and its often-surprising consequences for financial markets – should have shown many investors the difficulty in correctly positioning for geopolitical risk and global macroeconomic events. There's a two-layered difficulty: An investor must not only correctly assess the real-world outcome, but then also anticipate financial markets' response. This all must be done as emotions are often running high given the gravity of these events.

Humility about what is knowable has often proven more rewarding than rolling the dice on a major world event. Using systematic processes to **identify opportunity** and **manage risk** can, together with a well-considered long-run strategic allocation, provide investors with reasonable returns and a method for securing against major shocks.

Conclusion

We believe bold market predictions often leave investors worse off. On the other hand, our strongest belief is in systematic processes that prepare portfolios for many scenarios.

Low-correlation systematic strategies can have the paradoxical effect of freeing investors from focusing too heavily on big drivers of traditional asset class performance – things like interest rate regime change, the AI revolution, and global conflict. When a portion of a portfolio includes systematic alternatives, an investor can afford to be a little less focused on making big predictions, a little humbler about what we actually know about the future, and a lot more focused on achieving favorable long-term results.

Important information about the funds are available in their prospectuses, which can be obtained at counterpointmutualfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Mutual Funds. The Counterpoint Mutual Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Mutual Funds, LLC is not affiliated with Northern Lights Distributors, LLC member FINRA/SIPC.

Important Risk Information

The forecast and/or opinions may not come to pass and are subject to change.

3630-NLD-12/27/2023