Three Surprising Risk Management Ideas for 2025

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 2025 sounds similar to what we published in **2024**, **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 2024 commentary, we've identified three key 2025 risk factors and ways to manage them:

- **Bonds:** Interest rate risk remains a stumbling block for investors – and the best solution remains a resilient, systematic approach.
- **Stocks:** Artificial Intelligence (A.I.) and machine learning has created new opportunities in *portfolio construction* – from the individual stock level to the level of asset allocation.
- **Macroeconomics:** Humility remains the watchword when it comes to global events and their impact on investment returns.

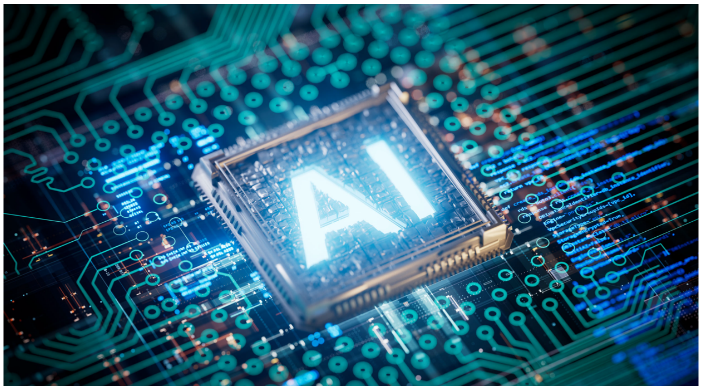
Bonds: Interest Rate Risk Requires Systematic Management

Since 2022 many investors have sought to pick up fixed income tailwinds by anticipating a rate cut cycle that has been frustratingly late and slow to arrive. The Fed Funds target rate has held at 5.33% for much of the year and sits now at 4.64%. The yield curve remains quite flat, with the 10-year Treasury at 4.19%, having bounced from a 2024 low yield of 3.53%.

Fits and starts to rate cuts on the policy agenda are evidence for an uncomfortable reality: Interest rate directions are unpredictable. Although five years of post-COVID history have taught us that surprises have just as much influence on interest rates as policy agendas, many investors have a hard time resisting the temptation to make discretionary directional calls on where rates are going next.

We reiterate the importance of **fixed income strategies with a history of reasonable performance regardless** to the interest rate environment. After all, we believe the true method for navigating rate uncertainty is **real diversification**, not consultation with a crystal ball.

Stocks: Artificial Intelligence Supports Increased Relevance of Quant Strategies

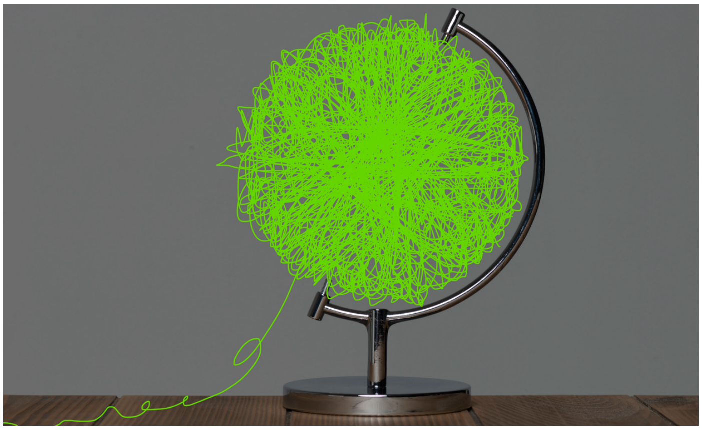


Machine learning and artificial intelligence models are becoming more commonplace. Everyday people increasingly rely on large language models and algorithms to help them do everything from take meeting notes and organize their calendars to choose what to watch next on TV. We believe that, increasingly, powerful AI prediction models will support broader adoption of quantitative investment strategies that help with everything from **picking individual stocks** to deciding the **optimal asset allocation within a portfolio**.

Many investment portfolios can benefit from systematic, AI-driven processes that identify reasonable sources of return and diversify portfolios' exposure to traditional assets' risk profiles.

We're not predicting any kind of sci-fi investment utopia: Despite the robots' best efforts, there's still no free lunch. But there's an ever-increasing opportunity to solve **problems that have seemed unavoidable within traditional 60-40 portfolios**.

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 potentially contentious U.S. trade policies 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

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