

### Where are the Macro Goalposts? Maybe It's Time to Rethink Your Talent

In markets that have been trending upwards, it's puzzling that many proven macro strategies have underperformed. It's as though, without warning, someone moved the goalposts in the middle of a match, putting investors on the wrong side of geopolitical events and costing them the game.

The volatile geopolitical landscape is making it hard for fund managers to know where - and when - to invest. It's even led to many macro funds being shuttered. And neither current systematic or discretionary strategies seem capable of accurately predicting the next shift.

You may not recognise it, but the key to this is people.

Successful discretionary strategies have typically depended on a gifted investor making decisions – partly based on sound, but limited data, and the rest using the investor's market instinct. But this has become a costly gamble. Investors need access to far more layered data. The Bank of England decision to raise interest rates might persuade investors to factor an improving economic outlook into their decisions. But how is Brexit going to affect that? And what if credit card spending tells you consumers are not splashing out on luxuries but on everyday items from economy stores. You might want to revise your forecasts.

Discretionary investors need people with the data analysis skills to process and make sense of many different data streams and they need a quantitative toolkit to recognize the macro patterns in that data.

There are things fund managers can do to improve the performance of systematic strategies as well.

Automated systems do a great job at macroeconomic forecasts when markets only suffer the odd geopolitical tremor, but not in seismic 'regime changes' such as those caused by Brexit or a surprise election result.

Again, having the right talent is critical. Fund managers need people who know when market shifts are beyond what the systems can cope with, and when to recalibrate them to factor those events into its decision making. It's why we're seeing increased demand for a new breed of hands-on systematic macro investment professional to 'mentor' the technology.

Discretionary and systematic strategies are converging around technology. Discretionary strategies need people who can build better quantitative tools, and systematic strategies need people who understand better when and how to use the technology.

Anticipating the next move of the goalposts will involve striking the appropriate balance between fundamental macro research and utilizing new, innovative, approaches to forecasting such as extracting alpha from big data as well as utilizing machine learning.



*At Sheffield Haworth we've helped large quantitative investment managers build discretionary macro strategy teams and worked with discretionary macro investors on key, foundational, quantitative research hires. For more information please contact:*



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