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Investors Rush Into Havens as Growth Fears Persist

Portfolio managers are hedging their bets in case the argument for recession becomes clearer

By Amrith Ramkumar and Ira Iosebashvili

Updated Aug. 19, 2019 8:46 pm ET

Investors are snapping up safer assets including gold, dividend-paying stocks and the Japanese yen, as portfolio managers hedge their bets with major U.S. stock indexes near record highs.

The continued strength of the U.S. economy has buoyed equities. On Monday, the Dow industrials posted their third straight gain, rising 249 points, or almost 1%, to 26135. The gains were paced by banks—among the most economically sensitive sectors—and trade-facing technology firms such as chip makers Micron Technology MU **2.17%** ▲ and Nvidia .

But some market indicators regarded as reliable forecasters of downturns are sending warning signals. Bond yields have plunged in the second half of 2019, despite Monday's rise in the 10-year U.S. Treasury yield to 1.603%. The yields fall when the prices increase.

"The market mood is very uncertain right now," said James Bianco, head of Chicago-based advisory firm Bianco Research. "There are a lot of things happening at once and investors are not sure what to make of them."

The prices of rich-country government bonds have surged since July, sending yields in Europe to record lows and pushing the global pool of negative-yielding debt above $15 trillion. The world's best-performing major currency is the Japanese yen, which has long been the go-to destination for nervous investors. Gold has risen more than 10% in 2019 and stands near a six-year high. The S&P 500 has also logged a double-digit gain but has been outpaced by gold—a confluence that has occurred just four other times in the past four decades.

Shares of real-estate firms, consumer-staples companies and utilities are the only S&P 500 sectors to notch significant gains this month. Investors tend to favor those sectors during rocky periods because of their relatively stable earnings and sizable dividend payments.

The shift to safer assets is the latest round in investors' yearlong bout with fears that a global slowdown will end the decadelong U.S. expansion. While the evidence so far favors continued economic growth, more portfolio managers are hedging their bets in case the argument for recession becomes clearer.

Investors this week will parse minutes from the Federal Reserve's last meeting, with many expecting the central bank to continue lowering interest rates to brace the economy from trade tensions. Comments from Fed Chairman Jerome Powell at the central bank's annual retreat in Jackson Hole, Wyo., could also swing markets.

Many investors think that trade uncertainty could last for months or years, even after the White House said last week it would delay some of its most recent tariffs on Chinese imports until December. Other concerns center on the impact of Brexit, political friction in such places as Italy, India and Korea, and violent protests in Hong Kong.

The decline in interest rates stands to be good for stocks, at least in the short term. Lower rates make shares look more attractive—the latest affirmation of the "There Is No Alternative" to stocks thesis known as Tina.

Yet many investors are skeptical that lower interest rates around the world will spur a pickup in economic activity. Many also believe that the buildup of negative-yielding debt, particularly in Europe and Japan, and the plunge to near-record lows of U.S. Treasury yields mark ominous signs for the world economy.

"People would have thought these low interest rates would spur growth, but they're not," said Robert Tipp, chief investment strategist at PGIM Fixed Income. Mr. Tipp holds long-dated bonds in his portfolio, which he expects to rise in price as rates fall.

"What that's telling you is that interest rates may still be too high."

More fund managers are bullish on bonds than during any other time since the financial crisis, a Bank of America Merrill Lynch survey conducted Aug. 2 to Aug. 8 showed. More than a third of those polled believe a recession is likely in the next 12 months, the highest reading in nearly eight years.

Investors' fears help explain why both gold and stocks are up more than 15% in 2019, something that has occurred only two other times in the past 40 years, according to Dow Jones Market Data.

Some investors are choosing to weather trade uncertainty by turning to U.S. stocks, which are perceived to benefit from the relative stability of domestic growth and ultralow interest rates around the world. The S&P 500's dividend yield recently eclipsed the 10-year Treasury yield,

and shares of consumer-products firms including Kellogg Co. and General Mills Inc. have been among the beneficiaries.

Other investors believe the signal from the gold rally is stronger.

“It’s too early to say that global growth is going to turn around,” said Aron Pataki, a portfolio manager at Newton Investment Management, which has increased positions in havens such as gold in recent months.

Aided by low interest rates, markets have repeatedly overcome past bouts of economic worry to continue climbing, including in 2011, when gold rose to a record near $1,900 a troy ounce.

Low bond yields also benefit gold because they make the metal—which doesn’t generate any income for holders—more attractive to yield-seeking investors.

“People are just looking for stability,” said Michael Hans, chief investment officer at Clarfeld Citizens Private Wealth.

Fund managers surveyed by Bank of America are also holding more cash than they have on average in the past decade. And hedge funds and other speculative investors have increased bets on continued gains in gold and the yen, figures from Scotiabank and the Commodity Futures Trading Commission show.

“A lot of people just don’t like volatility, so they are looking for ways to find a buffer against the market,” said Mariann Montagne, a portfolio manager at Gradient Investments, which has been favoring gold recently. “We don’t think we’ve seen the last of the gyrating trade tweets.”

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