Absolute Return 2010 outlook

We believe that conditions will be positive for global Absolute Return funds in 2010, and that there will be plenty of opportunities for the most successful managers to differentiate themselves from the pack.

Ongoing deleveraging means that overall market volatility is set to remain high. This creates a constructive backdrop for macro funds, allowing good managers to generate decent returns without employing excessive gearing. Selecting the right instruments is key – as ever, we will be looking for the best value and most efficient way to express our views for the benefit of investors.

Sizing our positions and timing entry and exit points is also important: with markets moving quickly, we need to know how much risk we are prepared to take and when to lock in profits or cut our losses. And finally, maintaining a highly liquid approach will be paramount again in 2010 – one of the most painful lessons of the past two years has been what happens when crowded and illiquid trades go wrong.

Within all the short-term volatility there are bigger themes that will be significant sources of alpha in 2010. One of the most obvious is the continued shift in the balance of power between the "old", indebted, developed world and the "new", commodity-rich developing nations. This theme is all-pervading and can be played in a wide variety of ways. We might take views on currencies, interest rates, commodities or equity markets and, again, identifying where the value lies and constructing cost-efficient and highly liquid positions to reflect our views is crucial. At the same time, we need to remember that while the long-term theme may be clear, nothing happens in a straight line. Shorter-term pullbacks within a macro theme can also be ready sources of alpha. This is where our technical, charting expertise comes in.

Quantitative easing has created supply and demand tensions and technical anomalies that can be exploited in macro funds and, although QE is likely to be scaled back or stopped altogether in 2010, issuance is set to remain very high as governments seek to rein in their budget deficits. We see this as a potential opportunity, as the sheer size of issuance is likely to continue to cause short-term distortions in markets and yield curves.

Finally, our mantra has always been to adapt to market conditions – "survive to fight, don't fight to survive". It can be tempting to look for trends where in reality there are no trends. One of the reasons why we have succeeded in delivering 14 consecutive months of positive returns is that we have resisted the temptation to leverage up big "glory trades". Trading ranges can persist for longer than people realise and, in the meantime, we are happy to stay disciplined and lock in incremental alpha wherever we can find it.

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