MARKETS

No Refuge for Investors as 2018 Rout Sends Stocks, Bonds, Oil Lower

The failure of so many investment strategies is viewed by some as a warning of what could come following years of above-average returns

By Akane Otani and Michael Wursthorn

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Stocks, bonds and commodities from copper to crude oil to burlap are staging a rare simultaneous retreat, putting global markets on track for one of their worst years on record and deepening a sense of unease on Wall Street.

Data show global stocks and bonds could both finish the year in the red for the first time in at least a quarter-century, according to BlackRock Inc. BLK **-0.25%** ▼

Major stock benchmarks in the U.S., Europe, China and South Korea have all slid 10% or more from recent highs. Crude oil's tumble has dragged it well into bear-market territory, emerging-market currencies have broadly fallen against the dollar, and bitcoin's price—which had a meteoric rally last year—crashed below $5,000 last week for the first time since October 2017.

Havens such as U.S. Treasury bonds and gold rallied this fall as U.S. stocks and industrial commodities staged their fourth-quarter swoon. But both are still down on a price basis for the year, reflecting solid economic growth and tighter Federal Reserve policy that have begun to push interest rates out of their post-financial crisis doldrums.

All told, 90% of the 70 asset classes tracked by Deutsche Bank are posting negative total returns in dollar terms for the year through mid-November. The previous high was in 1920, when 84% of 37 asset classes were negative. Last year, just 1% of asset classes delivered negative returns.

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>
> —Thomas Poullaouec, T. Rowe Price

The broad pullback in markets is leaving fund managers scrambling to find places to park their money. But with global growth showing signs of slowing and monetary policy expected to tighten further, few are eager to place large wagers and risk compounding earlier failures to generate expected gains. Indeed, the simultaneous failure of so many investment strategies is being viewed by some as a warning of what could come following years of above-average returns.

"It's been a difficult year," said Ed Keon, chief investment strategist at asset-management firm QMA, which continues to favor stocks over bonds. "All investors have goals, and none of those can be fulfilled with negative returns."

Few investors believe a recession, particularly in the U.S., is imminent. Yet the strength of the U.S. economy has allowed the Fed to continue stepping further away from the regime of rock-bottom interest rates and bond-buying put in place after the financial crisis. That has, in turn, diminished the premium investors get for taking on risky assets, pressuring a variety of markets.

Hedge-fund manager Pierre Andurand, who earlier in the year bet oil could soon hit $100 a barrel, saw his $1 billion Andurand Commodities Fund suffer its largest monthly loss ever in October. Funds that had built up large stakes in fast-growing technology companies were also stung by sharp reversals. Twenty-six funds dumped their entire stakes in Facebook Inc. in the third quarter, according to a Goldman Sachs Group analysis of 13-F filings, including billionaire Daniel Loeb's Third Point LLC, which offloaded 4 million shares, citing "a very disappointing quarter" for Facebook.

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Some contend the market's 2018 stumbles aren't all bad. The declines across stocks, bonds and commodities that had finished last year in the green reflect in part a healthy, albeit painful readjustment of expectations, some investors say.

"A year like this—it shakes out some of the situations that were out of kilter with the rest of the economy," said Jason Pride, chief investment officer for private clients at Glenmede Trust Co. After markets around the world soared to records last year, buoyed in part by synchronized global economic growth but also by a surge in investor optimism, "we actually needed to take some air out of the system," Mr. Pride said.

He, like many others, is betting the bull market in U.S. stocks still has longer to run before the economic expansion morphs into a downturn. While U.S. economic data have been bumpier as of late, with the housing and auto sectors in particular showing signs of strain, the overall picture still looks solid, Mr. Pride said.

Still, even those betting on continued—if more modest—gains in stocks say they have had to take on a more cautious approach as the bull market has aged.

Traders work on the floor of the New York Stock Exchange on Friday. PHOTO: GRISELDA SAN MARTIN/BLOOMBERG NEWS

Last year, Glenmede began paring its exposure to some of the fast-growing technology stocks that had run up sharply, betting their outperformance would fade.

"The feedback loop felt horrible—absolutely horrible," Mr. Pride said, recalling presentations he gave where some clients questioned why the firm had pulled out of stocks that had rallied more than 50% in the past year. That decision has seemed easier to justify more recently, with many former big hitters such as Facebook, Apple Inc. and Netflix Inc. tumbling, he said.

Other firms have told clients to stay invested in stocks but take on a more defensive stance.

UBS Group AG's wealth-management arm is urging its wealthy clients to hold on to bets on the S&P 500, but with some caveats, using instruments like put options—which typically allow the buyer to profit when asset prices fall—to protect against further pullbacks.

"We're cautiously optimistic," said Jerry Lucas, a senior strategist at UBS Global Wealth Management's chief investment office. "It's worthwhile to be a little more conservative and have some hedges on to reduce your risk."

Still, the broad selling has made conditions difficult for many investors.

“It hasn’t felt like a bad year, but retrospectively, it’s been a pretty miserable year,” said Thomas Poullaouec, head of multiasset solutions for Asia Pacific at T. Rowe Price in Hong Kong. “2019 isn’t looking to be any better either.”

—Steve Russolillo and Mike Bird contributed to this article.

Write to Akane Otani at akane.otani@wsj.com and Michael Wursthorn at Michael.Wursthorn@wsj.com