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Roubini's Alternative Haven Trade Launches on Inflation Fallout

By Tracy Alloway

(Bloomberg) -- Economist Nouriel Roubini has partnered with Goldman Sachs Group Inc. to launch the first in a suite of planned financial products that offer investors an alternative safe haven in a big market crash.

Famed for his prescience on the housing bubble that sparked the 2008 crisis, Roubini serves as the co-founder of Atlas Capital Team where he's helping develop investing strategies that protect against high-risk regimes including out-of-control inflation, climate change and civil unrest.

The Atlas Capital Team Index, or ACT, offers a mix of short-term and inflation-protected US Treasuries, as well as gold and US real estate investment trusts, after an atrocious year for bond and stock returns that's rocked so-called 60/40 portfolios. Meanwhile rampant speculation over the dollar's future in the global monetary order, from the likes of Bridgewater Associates LP's Ray Dalio and Credit Suisse AG strategist Zoltan Pozsar, has sparked interest in alternative hedges.

"Traditional safe haven assets are long-duration dollar fixed income instruments such as long-dated Treasuries," Roubini said in an interview. "One has to look for new defensive assets that hedge against the inflation risk: short-term treasuries, TIPS, gold, and environmentally resilient-real estate," said Roubini, who recently authored "MegaThreats: Ten Dangerous Trends That Imperil Our Future, And How to Survive Them ."

His comments come after the collapse of Silicon Valley Bank, sparking massive moves across Wall Street from Treasuries and the dollar to bank stocks. The San Francisco-based lender had ploughed billions of dollars into longer-term bonds during an environment of low interest rates, but failed to sufficiently hedge its exposure as inflation surged and depositors withdrew. The bank's failure has led to the announcement of a new Federal Reserve facility, as well as additional scrutiny of banks' broader exposure to longer-term debt.

While Silicon Valley Bank was "unique in its vulnerability to unrealized security losses to wipe out its equity, many other banks would have a third to one half of their capital wiped out if losses are realized," Roubini added. "These huge losses are all related to the rise in long yields."

Atlas says it plans to offer annuities, total return swaps and other derivatives based off of the ACT index. A spokesman for Goldman declined to comment.

The products taps into demand for pro-active investing to protect against existential threats in the face of elevated inflation, geopolitical risk, and environmental shifts, according to Atlas Chief Executive Officer Reza Bundy.

"These are all potentially creating macroeconomic pressures and strains on financial markets," Bundy added. "Governments are faced with a pending need to print more money to manage these threats, which is likely to devalue these currencies so that investors are forced to safeguard their assets."

The Gulf-based investment firm says it plans to eventually launch an exchange-traded fund based off the index, to be followed by more directly distributed retail offerings including a blockchain-based or tokenized version. In doing so, Roubini is walking a fine line between his outspoken criticism of the crypto industry and his stated aim to provide a “financial inclusion opportunity” by offering the new product to a wide range of investors.

Atlas says it’s working with Fireblocks Inc., the crypto startup backed by one of Alphabet Inc.’s funds, for the tokenized version, in addition to Mysten Labs, the web3 developer founded by former Meta Platforms Inc. engineers and backed by Andreessen Horowitz. The product is dubbed the “United Sovereign Governance Gold Optimized Dollar.” A spokeswoman for Fireblocks confirmed the collaboration.

“If average inflation were to be 6% this decade rather 2% — a modest and likely scenario — 10-year Treasury yields would have to be at least 8%. Today they are around 3.5% and last year it was a bloodbath for fixed income and 60/40 portfolios,” Roubini added. Yet classic 60/40 and risk-parity investing is based on the “negative correlation between equity and bond prices: risk on, risk off, growth, and recession. But that assumes low and stable inflation.”

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