CS INVESTMENT MANAGERS

INVESTMENT BULLETIN

SECOND QUARTER | TWO THOUSAND AND TWENTY ONE

The end of the first quarter of 2021 marks a year since the low point of the crisis inflicted on markets by the pandemic. A year that has seen tremendous swings in investor positioning within equities and across asset classes. We wrote last year of markets tending to look ahead, by about six months, of where the world is now, and that has very much played out in markets: record low yields and a world living at home saw huge demand for growth and technology stocks; and news of the vaccine in November last year shifting investors views to the great re-opening, that favoured cyclically sensitive assets. The winners in this rotation have been those with flexibility to adapt – active managers.

The fund management industry has had a tough time since the great recession in 2008, with a rising tide of Quantitative Easing lifting all boats. Taking any form of economic or macro view has been challenging as central banks have continuously pumped liquidity into markets and kept rates at record low levels, thus raising asset prices across the board. So, it made good sense, for a long period of time, to simply buy the lowest cost exposure to stocks and bonds that one could get one's hands on.

The last 12 months has seen a renaissance in active management, that we think is well set for the next decade (due to continuing central bank action). We are seeing clear evidence in fixed income and equity strategies that flexibility is critical in adding value. Within equities, the shift from a growth investment style to a value investment style – that started in November last year – has continued apace to the end of the first quarter. From this point, we believe purposeful and considered security selection is well placed for the road ahead.

Whilst investors often focus on equity markets, the first quarter of 2021 also showed the difficulties with a passive fixed income approach, with many bonds starting the year guaranteeing investors a negative absolute return. Consider any form of inflation and the picture becomes even less attractive. However, active strategies have proved their worth considerably this year, after one of the weakest periods for fixed income in decades.

We are not advocating the death of passive investing and do belief that passive funds can still provide good, low cost, building blocks in a portfolio. Rather, we suggest that actively managed funds and flexible mandates are perhaps better positioned for what lies ahead – with returns and asset flows starting to reflect this too.

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