

Active Fund Managers Stage a Comeback

Stockholm (HedgeNordic) – “There will be a time soon when active managers really prove their worth to the discerning clients,” reckons Matthew Beesley, Head of Equities at Swiss asset manager GAM. The imminent end of quantitative easing and rising interest rates are anticipated to fuel the ongoing fall in stock correlations, which will likely create a better environment for active managers.

The advent of quantitative easing since the global financial crisis has distorted equity markets across the world, creating an extremely challenging environment for active managers. “With interest rates low globally, correlations between assets and also within asset classes have been high which has led to a challenging period for active management,” Beesley wrote in an article published on GAM’s website. More importantly, Beesley asserts, fund buyers and selectors have found it more difficult to differentiate between good and bad asset managers in this environment.

As correlations have started decreasing across the board in 2017, numerous active managers have already benefited from this reversal. As Luke Ellis, the CEO of London-based global hedge fund manager Man Group, recently said in an interview with HedgeNordic: “the more dispersion there is across stocks and between different markets/assets, the more opportunity there is to generate alpha (both positive and negative), and so the skill inherent in good hedge fund managers has been rewarded with better performance.”

Matthew Beesley anticipates “stock correlations to continue to fall and dispersions of returns to rise.” There is a great opportunity for stock-pickers to start shining again. Echoing Ellis’s words, he adds: “Low correlations between individual stocks and a high dispersion of returns between the best and worst stocks within a sector (known as cross-sectional volatility) create a fertile environment for an active stock-picker with a clear and consistent investment process.”

Considering that equity markets on both sides of the Atlantic have enjoyed an eight-year bull run, a possible (and imminent) downturn will lead to increased dispersion. Good managers tend to thrive and add the most value in such environments. All in all, it appears we are rapidly approaching an era of active management outperformance. Or at the very least, active fund managers will get the chance to prove their worth.