Manager Selection Critical Amid Worsening Beta

Stockholm (HedgeNordic) – Hedge fund managers will have more opportunities to perform well as central banks have started unwinding their unconventional monetary policies, according to a recent market outlook released by J.P. Morgan Asset Management.

Hedge fund managers have not encountered numerous opportunities to distinguish themselves from their rivals in recent years, as risky assets have been moving in near-lockstep due to central bank buying. As the monetary policy normalisation process starts, fundamentals will be driving securities and sectors again. As a result, skilled stock pickers may have more opportunities to generate alpha. “With lower correlations across individual stocks and indices, there is more room for managers to play,” said John Bilton, Head of Global Multi-Asset Strategy at J.P. Morgan Asset Management, during an event held at the firm’s headquarters to discuss the new market outlook.

Despite historically high equity valuations, the report anticipates an improvement in alpha opportunities for hedge fund players, as a more fundamentally driven and less central bank/macro market-driven environment continues to evolve. Put differently, the transition from a macro-driven to a more fundamentally driven market environment is supportive of alpha generation.

Nonetheless, Bilton emphasised that “active asset allocation is important, but so too is selecting the right manager.” The report also adds that “improved alpha opportunities and worsening beta underline our view that manager selection remains the critical driver of return.” In conclusion, high prevailing equity valuations are likely to hurt benchmark-hugging funds, but the lower correlation across individual stocks will present opportunities for experienced stock pickers.