Better times ahead for U.S. active equity funds: Cerulli

By Editorial Staff *Thu, Jan 28, 2016*

The prospect of a rising dollar should make U.S. equities attractive to Europeans, and investors will expect active strategies to perform better than passive funds in volatile markets, Cerulli analysts said in a release.

Managers of active U.S. equity funds face negative factors in 2016—including a potential 'risk-off' stance in the run-up to the quadrennial election, more interest rate hikes, and the mixed blessing of high P/E ratios—but there are some positives, said Cerulli Associates in the latest issue of The Cerulli Edge – European Monthly Product Trends edition.

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For instance, the S&P 500 was flat in dollar terms last year and underperformed European benchmarks. But in euro terms, it rose 20% for year ending November 30, 2015. Allianz's Ireland-domiciled US equity fund, investing in standard names such as GE, returned 18.7% despite trailing the benchmark.

"Fed hikes may well further strengthen the dollar, making U.S. exports less competitive, which held back some companies in 2015. However, for a European investor in a US fund, there is compensation in a strong dollar, if the product is unhedged," said Barbara Wall, Europe managing director at Cerulli.

Cerulli is bullish on the U.S. Its analysts noted that domestic investment in infrastructure would help domestically focused industrial names. "A strong U.S. economy will help to generate sustainable corporate profits, dividends, strong M&A activity, and share buyback programs," Wall said in a release, conceding that China-inspired turmoil may see further outflows in equity funds in the early months of 2016.

Then there's the expectation that active funds do better in difficult times. "Stock-picking may be key if investors are to realize upside, while limiting downside if the market goes as badly wrong as some fear. Firms with well-established track records, that have been selling reasonably well, can hope to make further gains, especially if the turmoil sees some fall by the wayside," Gorman said in a release.

"The recent pullback has made many companies look considerably cheaper," he added. He pointed to T. Rowe Price's Luxembourg-domiciled U.S. Blue Chip equity fund and MFS Investments' actively managed U.S. Value Fund as two steady performers.

"U.S. equity funds with decent records of picking the right stocks can hope to sell in Europe, given the lack of alternatives. The upside potential is clear, while the better funds can mitigate the losses during the tougher times. Managers should be using established channels to extol the virtues of U.S. equity funds, as well as pushing to appear on the growing raft of self-directed platforms," said Wall in the release.