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## **COVID-19 Will Cause a Drop in AUM: Cerulli**

By Editorial Staff    *Thu, Aug 6, 2020*

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*'Around the world, investments into private markets slowed in the first half of 2020, with only US\$433.7 billion of capital raised,' said an analyst at the global analytics and consulting firm.*

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COVID-19 and the associated economic crisis are set to cause the first decline in global asset management industry assets under management in a decade, according to Cerulli Associates' latest report, [\*\*Global Markets 2020: A Sharper View of the Asset Management Sector\*\*](#).

The global analytics and consulting firm expects the global asset management industry to recover and grow after 2020, fueled by increasing demand in developing countries, particularly Asia. Advances in technology and product will give global asset managers more ways to access growing investor segments.

"As the coronavirus pandemic continues to impact the global economy in the second half of 2020 and beyond, asset managers will need to find ways to keep investors in their products and prevent a widespread flight to cash," says André Schnurrenberger, managing director, Europe at Cerulli Associates.

"Managers should dedicate resources to investor education on how to handle a market correction, implementing scenario analysis from the last significant global drawdown in 2008." These resources will be especially useful in those countries where emerging middle-class investors have entered the market within the past decade and had not experienced a substantial correction before COVID-19.

As the global economy reacts to the coronavirus pandemic, Cerulli expects mutual fund allocations globally to become more conservative through the first half of the next decade. Global investors will look to re-allocate and assets pulled from equity funds are likely to flow not to bond products, but to money markets. With central banks around the world committing to keeping interest rates low for the foreseeable future, investors may not feel that the yields on bond funds are compelling enough to move them away from the safety and stability of money market vehicles.

The U.S. Federal Reserve has reduced short-term rates to nearly zero in a bid to spur the economy and the European Central Bank was at 0.00% and the Bank of Japan at -0.10% in July 2020. Bond yields are set to remain low for the rest of 2020—and likely into 2021.

Though global markets have stabilized somewhat after substantial losses during March and early April this year, fund managers worldwide stand to lose a significant market performance tailwind in 2020. Losing the aid of market appreciation will be a substantial challenge for managers already facing numerous hurdles, including fee compression, the rise of passives, and an increasing view of asset management as a commodity.

Cerulli expects manager consolidation, which largely paused in the first half of 2020 due to the coronavirus pandemic, to return in 2021 as markets stabilize. Underperforming managers present a ripe target for acquisition by multinational investment giants.

Around the world, investments into private markets slowed in the first half of 2020, with only US\$433.7 billion of capital raised. The lockdown measures implemented in many countries to curb the spread of COVID-19 have affected business operations, due diligence, and investment decision-making processes for both managers and investors. Despite the headwinds, however, Cerulli expects investors to continue the process of diversifying into alternatives in search of better long-term returns.

In the institutional space, COVID-19's effects on investors will be negative in the short term. Its impact will include insurers' profit margins narrowing due to payouts on policies and pension sponsors reducing contributions where possible to keep their businesses going. However, institutional investors are starting to return to planned projects, boosted by the quick recovery in the financial markets.

"Overall, the volatility in the global financial markets caused by COVID-19 is likely to persist for the rest of 2020," adds Schnurrenberger. "It is still unclear what the full impact of the coronavirus pandemic on the asset management industry will be, but it will inevitably dominate managers' thinking and activity in the coming months and years. Nevertheless, those managers that respond effectively to their clients' needs in these unprecedented times will find a growing opportunity set."