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Money managers are bullish on global equities

By Editor Test *Mon, Jun 10, 2013*

Asked to project which asset class will perform best this year, the top choice among institutional investors was global equities (27%), followed by domestic stocks (19%) and emerging market equities (15%).

Institutional investors around the globe say they have a better handle on risk, but most worry about the challenges of rising volatility, inflation and low yields, according to a study by Natixis Global Asset Management (NGAM), which oversees more than $785 billion worldwide.

The results, released by NGAM's Durable Portfolio Construction Center, include insights from more than 500 institutional investors that collectively manage more than $11.5 trillion in assets.

Five years after the financial crisis upended markets, many institutional investors say the old rules of investing no longer apply in today's markets. In the U.S., institutional investors (88%) feel strongly that traditional portfolio construction and diversification strategies aren't ideal for most investors, and 60% of global institutions agree. Additionally, more than 70%, including a high concentration of sovereign wealth funds, say that setting asset allocation and taking tactical advantage of market movements is difficult.

The widespread attraction to equities continues, with investors particularly drawn to global stocks. Asked to project which asset class will perform best this year, the top choice was global equities (27%), followed by domestic stocks (19%) and emerging market equities (15%).

This optimism is reflected in most investors' allocation plans for 2013, as 58% plan to increase their exposure to global stocks, 46% will add to their emerging market equity holdings and 42% will increase their weighting in domestic stocks.

Lower yields have made the risk-reward tradeoff of bonds less appealing for many investors, as 43% say they plan to scale back on their domestic bond exposure in 2013 and 42% will reduce their global bond allocations. U.S. investors are slightly more optimistic within their own borders, with only 29% saying they will reduce their domestic bond allocations. Investors worldwide are bearish on gold and cash, as more than 80% anticipate lowering or maintaining their current allocations to each.

Institutional investors have an above-average comfort level with alternative assets such as hedge funds, real estate, private equity and commodities. A large majority (85%) report that they own alternatives, and three in four say it is essential to invest in these strategies in order to diversify portfolio risk.

Most (60%) plan to add to their alternative investments, or other assets that don't correlate with the broader market, in the next 12 months, with the most popular target areas being real estate (41%), private equity (36%) and infrastructure (30%).

Most are also bullish on the near-term performance prospects for alternatives, with 71% predicting that the assets they own will perform better in 2013 than they did last year. Institutional investors in the U.S. are more cautious, with less than half (48%) projecting better year-over-year performance.

While 89% of institutional investors are confident in their ability to meet their own future obligations, that confidence does not extend to individuals saving for retirement. A large majority of institutions (81%) in the U.S. say the average citizen won’t have enough assets in retirement, and seven in 10 (70%) globally say the same – a powerful message considering that many respondents manage retirement assets professionally. Institutional Investors expressed greater concern in Latin America (88%) and the United Kingdom (84%).