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Focus on Funds: Finding Growth in Today’s Capital Markets

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Portfolio managers must choose carefully in today's dynamic global environment. In the April 28, 2017, edition of *Focus on Funds*, John Bilton, managing director for JP Morgan Asset Management, examines where investors may find positive returns.

Transcript

Stephanie Ortbals-Tibbs, media relations director, ICI:

Economic growth and delivering value for investors is critical to those in the fund industry. At a recent Chatham house conference, the question was put on the table as to how to keep delivering growth, especially in developed markets. Here’s some key takeaways from that conversation.

John Bilton, managing director, JP Morgan Asset Management:

The presentation that we were looking at was one questioning how do we have a long-term, sustainable growth model, and of course there’s a lot of gyrations in near-term events to work through—Brexit, understanding the new administration within the US, all of that kind of thing, which of course makes people nervous. When we look longer term, there is still a good opportunity for some level of positive growth out there, and we shouldn’t be over-concerned about the outlook for asset returns.

Yes, simple asset returns will probably be lower. Long-term growth is going to be constrained by demographics, which means probably a lower equilibrium interest rate, which is turn probably means lower asset returns. But we’re getting growth in different areas as well.

Some of the things to be positive about? Regulation and the surge in that is beginning to come to an end. Now, I think it would be farfetched to assume—as some of the other panelists also corroborated—that we see a sudden bonfire of regulation, but the reality is, we’re likely to see this being a high watermark. Regulation is probably now appropriate, and that means that the additional capital raising that’s being done across the financial industry may be slowing some, which means that you have a better outlook perhaps for earnings across the financial sector.

Another area of course, generally, is looking at areas where you can pick up returns from liquidity premium. Things like infrastructure investment, whether it be debt or equity, has really nice yields relative to the bond market—indeed, relative to dividend yields in the broader equity market.

But then the big one in my mind, which we perhaps mismeasure today, is the impact of technology. What we are seeing is a huge potential surge towards automation and digitalization, which may mean that the economy grows a little bit faster in productivity terms, even as we see demographic trends pointing somewhat downwards.

Where does that leave us? We have a positive outlook in terms of long-term growth—we see about 1.5 percentage points [for] developed-market growth, and around 4.5 percentage points for emerging-market real growth over the next 10 to 15 years, and that gives us asset returns from the equity market and developed market somewhere around the 6 percent kind of range. We'd expect returns coming in from fixed income to be some ways behind that, but there are opportunities still out there. Even though it's a fairly uncertain world that we face today, longer-term opportunities will always exist for investment.

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