Quick Take

TAKE 5 VIEWS

March 16, 2020

Active Managers Assess Market Opportunities

As the global financial markets continue to cope with economic and health turmoil, we are mindful of the trust our shareholders have placed in us. In good markets or in bad, we view our responsibility in simple terms: to deliver investment services that we believe represent the best practices in our industry. Our team of experts remain focused on overseeing our subadvisers and for administering all of our fund-related operations in the most efficient manner. When our subadvisers face extraordinary stresses, we work closely alongside the portfolio management teams, confirming they are sticking to their style and discipline, monitoring trading and performance—and making sure we are asking all the right questions. I'm happy to share with you what some of the brightest minds on Wall Street are telling us this week.

- Ken Kozlowski, Chief Investment Officer, AXA Equitable Funds Management Group, LLC

MFS Investment Management

Large Cap Value Equity Team

We have been buying companies with resilient businesses, with the ability to adapt and change, but who have been disproportionately hit as a result of dislocations resulting from the coronavirus, enabling us to buy them at more attractive valuations. Importantly, they have balance sheets which will enable them to weather the current storm without risk of financial distress.

Second, we have made trades which we believe are helping to mitigate risks in the portfolio. Over the last two weeks, the market has reflected investor concerns regarding the impact of a dramatically lower yield curve. We will use this information to decide what moves to make within the financial sector.

T. Rowe Price Associates, Inc

Growth Equity Team

Volatility in the markets has presented some attractive opportunities to increase exposure to select names where share prices have become dislocated from fundamentals and names that we think will emerge from the situation in a stronger position. While we look to improve the portfolios on the margins, it is important to stress that our approach has not changed. We continue to focus on high quality companies with healthy balance sheets that can weather the storm and emerge from the situation more quickly than competitors and in a better position. We continue to emphasize durable secular growth themes in the portfolio (shift to digital advertising, enterprise migration to cloud, shift from cash/check to electronic payments, proliferation of Chinese internet use, e-commerce, etc.) and are closely monitoring the landscape to ensure we remain on the right side of change.

DoubleLine Capital, L.P.

Dynamic Allocation Team

We believe the current market volatility serves as an important reminder to investors to maintain a disciplined approach to asset allocation, rebalancing to their target asset mix both in good times and periods such as this when asset values cheapen. Entering this period we were fairly conservatively positioned, with our equity allocation lower than that of the benchmark weight. We continue to look for more clarity about the depth and duration of the likely earnings recession.

Invesco

Invesco Large Cap Value Team

As highly valuation sensitive managers with an expanded time horizon, dislocations can often present opportunities for those with a long-term perspective.

Prior to the virus-induced disruption, managers were generally of the belief that the broader market was overvalued and that the opportunity set was fairly limited.

Over the past two weeks, portfolio managers selectively began to sift through the wreckage in search of opportunity, but with an abundance of caution given the developing nature of the situation.

GAMCO Asset Management

Small Cap Value Team

It is too early to tell whether current events lead to a shift in market leadership from growth/momentum to value. We began to see a deterioration in venture funding in late 2019, but that has been belied by the continued strong performance of certain technology darlings. Ultimately we think a retrenchment of the markets will chasten some momentum investors while an economic downturn will underscore the importance of investing in companies with sustainable cash generation and adaptable managements.

J.P. Morgan Asset Management

Large Cap Value Team

Our investment philosophy is rooted in our belief that a company's stock price should reflect the present value of its long-term future cash flows. By understanding the "normalized" earnings power of a company, we can take advantage of the temporary mis-pricing of stocks due to near term information. Our approach leads us to invest in companies with compelling valuations, combined with contrarian sentiment and risk control.

We've been putting some extra cash to work in sectors that were already beaten up before the latest sell off given the signs of panic selling. We don't view sectors with stretched valuations as interesting. If there is a recession (or if we're already in one), we expect it will likely be shallow and short given how much stimulus is already in place (with likely more on the way). Given this backdrop, we are positioned for a rebound in cyclicals at some point in the next year. That said, we're still avoiding weak balance sheets, as credit woes likely will get worse, especially in energy sector.

Asset Allocation Team

From a real economy standpoint, the direct economic impact from the recent drop in oil prices should be limited for the major economies. Much uncertainty remains around the extent of impact of Covid-19 on supply chains and business confidence, meaning market volatility is likely to be high in the near term causing us to maintain a more defensive posture.

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