Coronavirus changes investment landscape over next decade

Key points

- *The long-term investment outlook in the wake of COVID-19 is highly uncertain.*
- *Investors should consider greater diversification, including across new asset classes to protect portfolios and generate returns.*
- *Investors should prepare for potentially higher inflation over the next decade.*

The coronavirus pandemic will radically reshape the investment landscape over the next decade in unforeseen ways according to a panel at the Frontier conference.

Bridgewater Senior Portfolio Strategist, Seth Birnbaum, said it was remarkable how quickly governments had implemented massive fiscal policy measures following years of easy monetary policy.

"This new policy equation we think is likely to be here for the foreseeable future, until it hits its limits and you start to get the risk of inflation, or you start to get the risk of a currency decline, or the divides prevent that policy," he said.

"The question that I'm certainly wrestling with is, given the speed with which each of these steps have played out so far, might we hit those limits sooner than people think?"

Risk comes to the fore

Ariel Investments CIO, Rupal Bhansali, said the huge fiscal stimulus underway had just added to an even bigger debt problem for investors.

"The biggest thing that I would focus on as a CIO is to avoid exposure to any country, any asset class, any business… that has gone on a debt binge, because that is going to be the most difficult thing. If you have deflation, which is what Japan had, debt becomes a noose around your neck – you simply can't pay it off."

She said high-yield bonds (or 'junk bonds') were risky in this environment and investors should consider hedging risk because the market has become crowded in favour of 'risk on' trades.

With traditional assets unlikely to deliver the returns investors require, liquid alternatives may come to the fore while stable, dividend yielding companies could act as a proxy for fixed income. Investors should also consider gold and oil, which are negatively correlated to equities.

"You're actually going to have to go active in your asset allocation. It's going to be more eclectic, more unconventional, more outside the box thinking," said Bhansali.

Diversify across investments

Frontier Advisors Director of Investment Strategy, Chris Trevillyan, said investors should diversify their portfolios as much as possible given the uncertainty, as well as the need to reconsider the role of bonds in portfolios

"On a long-term perspective… they [government bonds] seem almost certain to provide a negative real return"

Trevillyan mentioned that real assets that have exposure to inflation, like infrastructure, could be increasingly valuable.

Birnbaum suggested investing in assets such as gold, government inflation-linked bonds, and stable cash flow companies.

While the technology sector has boomed in recent times, Bhansali suggested many companies in the sector were overvalued and don’t produce positive cash flows. She instead suggested investing in cash-rich telcos, like China Mobile.

While the pandemic has put strong downward pressure on already soft inflation, it has also potentially sown the seeds for stronger inflation over the next decade.

"We can certainly see some risks ahead in the longer term, but for the here and now, it doesn't seem like an immediate risk," Trevillyan said.***Key questions the panellists answered***

- *(17.30m) How should investors position a portfolio for the next 10 years?*
- *(26.15m) Given bond yields are now so low, what role should bonds play in a portfolio?*
- *(42.20m) When you look at the next 10 years, is inflation going to be higher or lower than what people are expecting today?*