For investment professionals only

CIO outlook:

Recovery positions

Legal & General
INVESTMENT MANAGEMENT

Foreword:

Looking beyond the pandemic

We believe that COVID-19 has intensified a number of long-term investment trends that were already underway.

Events confound outlooks at the best of times. These, needless to say, are not the best of times.

But the immense challenges we have all faced this year also mean we have an even greater responsibility to help our clients navigate the shifting macroeconomic and market landscape.

In this outlook, teams from across LGIM offer answers to some of the biggest questions for investors raised by COVID-19, including:

- What shape will the economic recovery take?
- Which asset classes are likely to benefit?
- Is the bull market in bonds finally over?
- Which equity factors held up during the market turmoil?
- Will defaults wipe out returns for credit investors?

We also drill down into emerging markets, look at the potential prospects for UK real estate and discuss the importance of establishing – and keeping to – investment beliefs.

Picking winners

The unprecedented breadth, depth and speed of global policy responses to COVID-19 have helped to remove the tail risk of a liquidity crisis; they have not, however, solved longer-term solvency issues for companies. Put simply: not all business models will be viable in the future.

As a result, we see potential opportunities for investors to pick companies that are likely to emerge from the pandemic as winners, while avoiding those without the financial and operational flexibility to weather this storm.

We believe this divergence will also highlight the need for responsible investing over the months and years ahead.

The crisis has underscored some of the social issues that we must consider – not least income inequality and access to healthcare – as part of the broader analysis that underpins our investment decisions. Yet we must not lose sight of other environmental, social and governance (ESG) concerns, such as climate change, which could in time wreak havoc on a similar scale or worse to that unleashed by the virus.

Resilient societies, resilient portfolios

One of the common themes in this outlook is that we believe the pandemic has intensified a number of long-term trends that were already underway, from global digitisation to the resurgence of populism.

So when we are all able to venture out of our homes again, we will find a different world – but one in which many of the topics that we have been discussing for some time will still be central.

For those themes with ESG implications, responsible investing can capture the opportunities, mitigate the risks and strengthen long-term returns, in our view. Indeed, we believe that by using our investments to help make our society and environment more resilient against future crises, we are ultimately building more resilient portfolios for our clients.

Sonja Laud
Chief Investment Officer

Economics:

The shape of the recovery

The risk that economies are 'scarred' by the pandemic is a key concern, given the implications for long-term growth and the socioeconomic consequences.

In light of the huge uncertainty over the path of COVID-19, we think about the economic outlook in terms of probabilities around scenarios.

The scenario to which we attach the highest probability involves a lacklustre rebound for the global economy, with some 'scarring', meaning business failures and persistently high unemployment, alongside lower investment and productivity (Scenario 2 below). But we see a more optimistic scenario as almost as likely, whereby the global economy makes a strong but partial recovery, with a return to 'normal' by the end of 2021 (Scenario 1).

We now have more visibility on the depth of the crisis: many economies are clearly heading for record-breaking, double-digit drops in GDP in the second quarter. High-frequency data in April and early May were truly dreadful.

We also know that lockdowns have helped bring the infection under control, so economies are now gradually reopening. This means growth will probably be strong in the third quarter as we venture out of our homes; it will look like a 'V' at first in most scenarios, in our view. But the level of activity is likely to be far from normal, probably recapturing only about 50% of the drop.

Global economic impact scenarios

40% (Probability)

Scenario 1: Strong, partial rebound

- Initial hit still twice as bad as global financial crisis of '08
- Relaxation of most economically damaging restrictions
- Return to normal by end 2021

50% (Probability)

Scenario 2: Some recovery, some scarring

- Restrictions slowly lifted, some re-imposition necessary
- Unemployment remains high along with bankruptcies
- The world loses 2-3 years of output growth

10% (Probability)

Scenario 3: Persistent slump

- Restrictions lifted slowly, fully re-imposed later in Q3
- Understanding of COVID-19 progresses slowly
- Policy support is exhausted

Source: LGIM, as at 19 May 2020. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

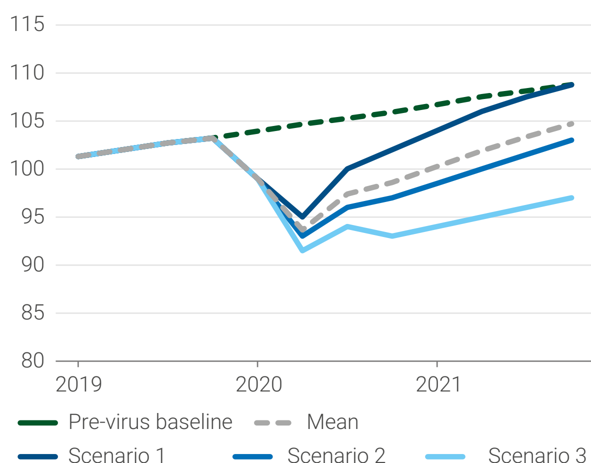
The outlook hinges on the speed at which economies reopen and whether there is a second wave

Caution and comebacks

What happens after this will depend on the speed at which economies reopen and whether there is a second wave of the virus. Reopen too quickly and GDP will bounce initially – but COVID-19 might make a comeback. This danger seems more *acute in the US* than Europe.

So we could start in Scenario 1, but if restrictions have to be partially re-imposed, we'll end up in Scenario 2. This is more a square root-shaped recovery.

Level of GDP scenarios



Source: BEA, ONS, LGIM estimates as at 19 May 2020. Rebased to 100 as at 1Q 2019. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

The most extreme turn of events – Scenario 3, or the dreaded 'W'-shaped recovery – involves a large second wave and return to full lockdowns.

It looks like most governments will be relatively cautious. If, as seems likely, social distancing persists through the rest of this year, we should end up somewhere between Scenarios 1 and 2 by year end, in our view. For 2021, there is still a broad variety of possibilities, with the availability and timing of a vaccine and treatment being very important.

With a vaccine, Scenario 1 becomes more likely, with a path to return to 'normal' by the end of 2021. Even so, unemployment is likely to remain elevated and we will only begin to approach full employment in 2022.

Without a vaccine, we are stuck with social distancing, which will exacerbate the scarring in Scenario 2. The socioeconomic consequences of long-term unemployment, and the skill degradation this causes, are a concern for us all.

Tim Drayson
Head of Economics

Asset allocation:

Beware a political malaise

We may be dealing with the repercussions of the coronavirus for many years after the economic lockdown is lifted.

The near-term implications of the coronavirus outbreak and ensuing global recession are still so uncertain that it is tempting to focus solely on the outlook for the rest of the year rather than the rest of the decade.

But as long-term investors, we know it is more important to understand the direction of the market than its daily or monthly movements. So what comes after the recovery? I believe that this crisis will not so much transform the world as accelerate the trends that were already reshaping it.

We have been discussing a new political paradigm since 2016, the year of the Brexit referendum and Donald Trump's election. At the dawn of this populist era, I *highlighted* an academic paper by Funke, Schularick and Trebesch that found that, after a financial crisis, voters seem more attracted to extreme right-wing ideas and rhetoric.[1]

Seeing a market crash occur alongside a pandemic, I also recommend the very topical but similarly depressing research of Kristian Blickle at the New York Fed, who has documented a positive correlation between deaths from the Spanish flu and the Nazi party's share of the vote in German municipalities during the 1930s.[2]

We very much hope never to see such extremism again – and perhaps furlough schemes have averted the worst political consequences of mass unemployment – but we cannot overlook the gains now being made in polls by far-right parties like Brothers of Italy.

Importantly, such politicians do not necessarily have to win power to matter to investors; they just need to move the Overton window of policies that are acceptable to electorates. For example, just the threat of rising populism in Europe could prevent much-needed progress from being made on debt mutualisation in the single-currency area.

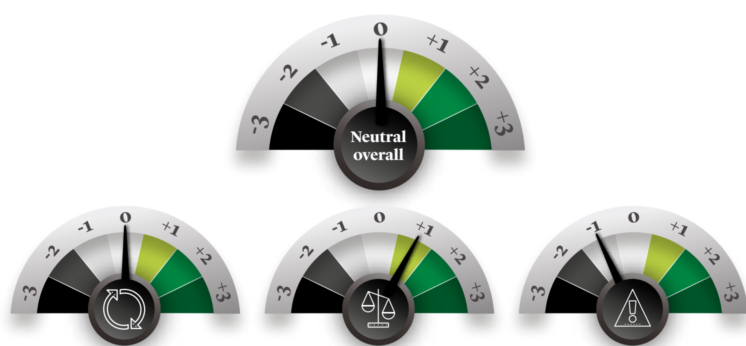
Equally, mainstream parties could become hooked on the greater fiscal spending integral to the COVID-19 response, as politicians attempt to buy support and central bankers gradually lose their independence. This would be very inflationary over the long term, in our view.

Furthermore, the massive borrowing spree underway will most likely kick-start economies. But it could in the longer term lead to a "balance-sheet recession" like the one suffered in Japan, as a subsequent focus on paying down debt hampers growth. State intervention also generally lowers productivity and encourages the misallocation of capital, supressing trend economic growth and average real returns.

1. "Going to extremes: Politics after financial crises, 1870-2014" by Manuel Funke, Moritz Schularick, and Christoph Trebesch (European Economic Review, September 2016)
2. "Pandemics Change Cities: Municipal Spending and Voter Extremism in Germany, 1918-1933" by Kristian Blickle (Federal Reserve Bank of New York Staff Reports, May 2020)

Our core views for the medium term

Risk stance: neutral overall



Economic cycle

Nature of recovery dependent on economies opening up, virus suppression and success of vaccine deployment

Valuations

Relative valuations still very attractive, in our view

Systemic risk

Concerns around both political and credit risk

Economic cycle

- Cycle moving much faster than a normal recession
- Social distancing sectors have upside potential
- Cyclical outlook dependent on vaccine progress and economic scarring

Valuations

- US absolute valuations very expensive, ROW reasonable
- Relative valuations still very attractive, in our view
- Relative valuations more relevant than absolute

Systemic risk

- Troubled relationship between US and China
- Chinese housing market a concern
- Focus on downgrades and defaults in the US

Source: LGIM. Views current as at May 2020.

From crisis, opportunity

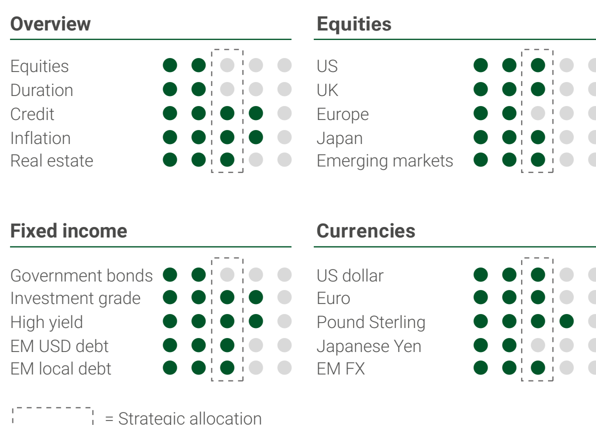
It therefore feels like we are not so much near the end of the present COVID-19 crisis, as at the beginning of an exceptionally tumultuous period in global markets and geopolitics. But as investors we must nevertheless look for opportunities as well as threats, and I have no doubt that the upheaval will present plenty of both.

For example, a balance-sheet recession would typically be associated with a trend towards less corporate leverage and lower pay-outs. This should be positive for credit, assuming the wave of defaults and downgrades is fairly priced (see the article by Madeleine on page 8).

In equities, we believe we are entering an environment in which *technology* will be seen as a strategic industry and where its growth, pricing power, cashflows, automation and limited supply-chain complexity will come at a premium.

Our longstanding approach of “prepare, don’t predict” is likely to prove more valuable than ever as we contend with these forces shaping the world for better and worse.

Asset class views



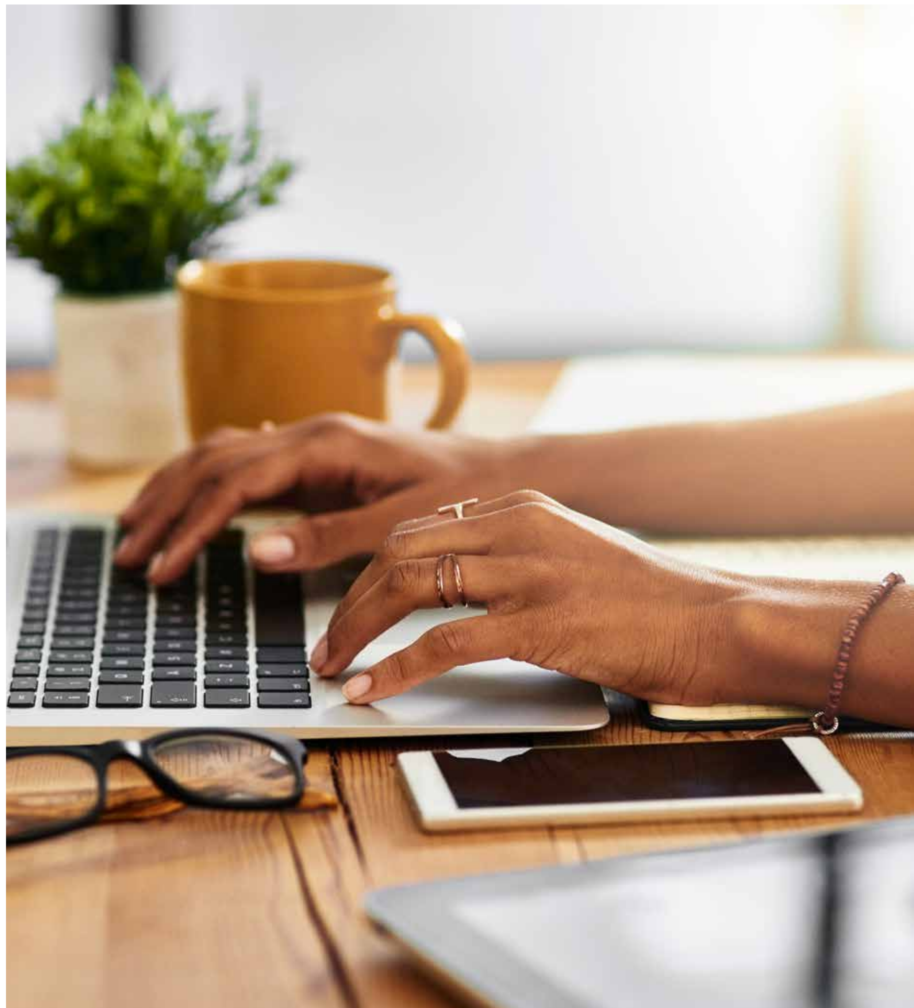
This schematic summarises the combined medium-term and tactical views of LGIM's Asset Allocation team as of May 2020.

The midpoint of each row is consistent with a purely strategic allocation to the asset/currency in question. The strength of conviction in our medium-term and tactical views is reflected in the size of the deviation from that mid-point.

Emiel van den Heiligenberg
Head of Asset Allocation

Credit:

Sell in May and go away?

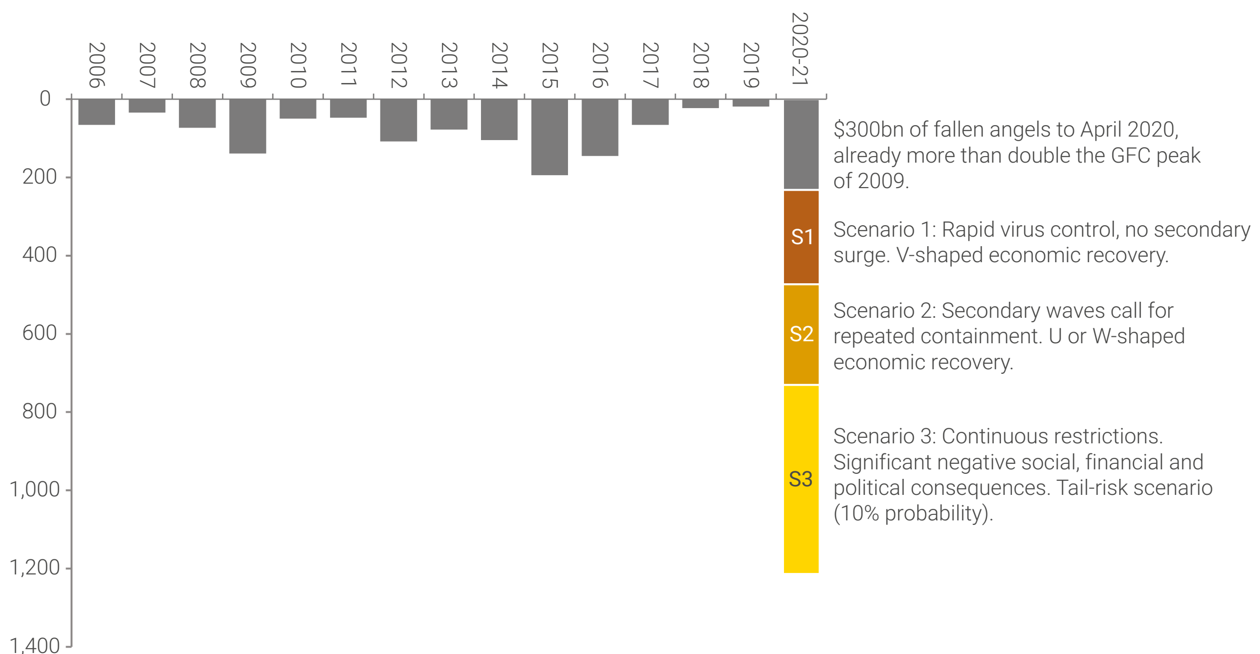


It is unlikely to be a quiet summer in corporate bond markets.

We may not be able to go away this summer, but we can sell bonds. Should we?

Economic indicators have registered record lows across the board and, with a second wave of infections looming, it is easy to picture a bleak outlook for credit markets. Volumes of 'fallen angels' – bonds that have lost their investment grade (IG) status – have already hit *new records in 2020* and, even in a best-case scenario of a V-shaped economic recovery, we expect this to double.

Historical and potential fallen angels ($bn)



Past performance is not a guide to future performance. Source: LGIM & BAML, May 2020. Note: figures are market value of BAML HY index eligible bonds, amount outstanding ≥USD250, GBP100m, EUR250m or CAD100m, >1 year maturity, excluding convertibles and floating-rate notes. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

With such enormous changes underway, it is natural to wonder what this will mean for default rates in IG credit. It is safe to say that they will increase substantially. But will they increase enough to wipe out the compensation offered to investors from credit spreads?

The global default rate required to erase current credit spreads in the IG space is over 3% in all currencies. Based on history, it seems absurd to think that IG defaults could hit that level during this crisis: in the Great Depression they peaked at just 1.6%. Even if we assume all of our expected fallen angels happen within 12 months, and apply the all-time maximum default rates to the lower ratings, we can only engineer a peak default rate in the mid-2% range – still comfortably below the level required to erase credit spreads.

Nobody's default

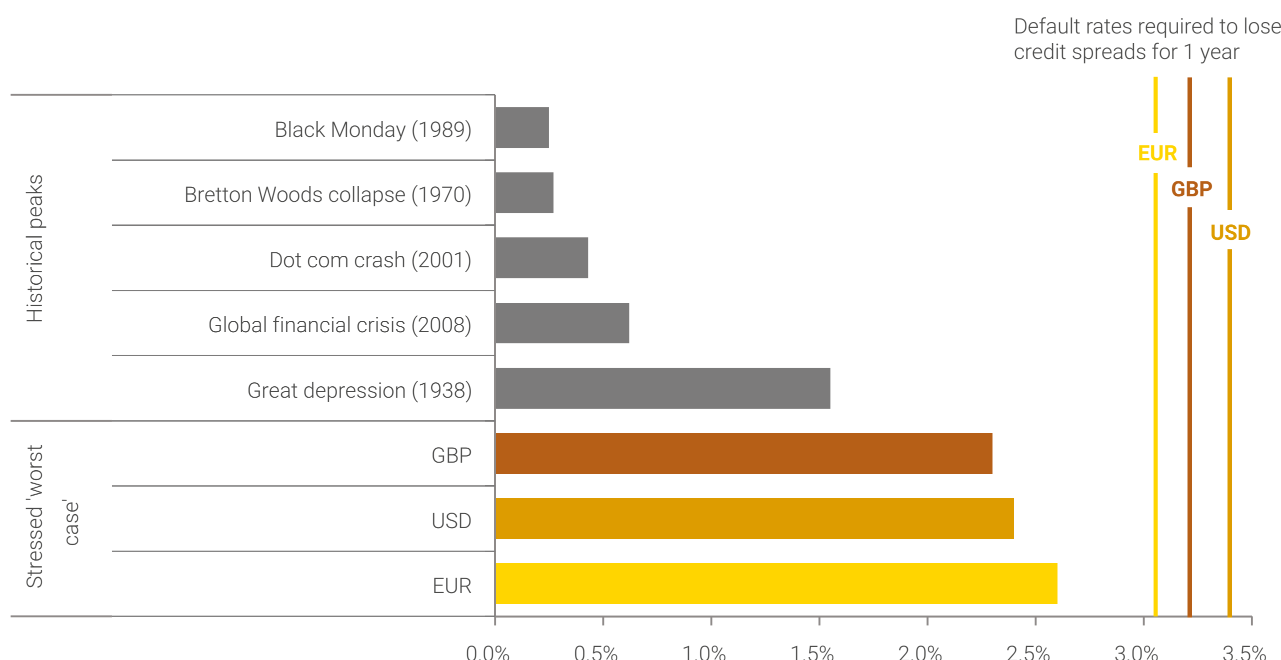
In reality, we think defaults will be much lower than this deliberately aggressive estimate, and more likely to be on a par with the global financial crisis. Central banks have stepped in quickly so, unlike in previous crises, IG and crossover companies are not facing a liquidity squeeze and are unlikely to for the foreseeable future. Government support will not last forever, but it is taking the pressure off the weakest credits and buying them time to adapt business models.

We can be confident that current spreads compensate for defaults, but that's not to say we won't see more volatility. Spreads have tightened substantially from March's wides and we think there are pockets of the market priced incorrectly. In late March, we turned constructive on IG credit based on valuations. We still think spreads are reasonably attractive, but much less so than two months ago, and we're increasingly concerned by the potential for a second wave of infections.

So it's not just the 'go away' part of the adage that is more complicated this year. Based on our default analysis, we believe investors could afford to ignore conventional wisdom and consider using this period as an entry point to IG credit – but only if they plan to go away for quite some time. It is unlikely to be a quiet summer.

Madeleine King
Co-Head of Global Investment Grade Research

Historical and 'worst case' forecast default rates



Source: LGIM, iBoxx & Moody's, May 2020. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Emerging markets:

No EM emergency

Emerging markets are proving more resilient than may have been expected against the twin threats of COVID-19 and the global recession.

Investors could have been forgiven for presuming that emerging markets would be hit particularly hard by the sudden combination of a pandemic and a global economic shutdown, given their relatively less advanced healthcare systems and the dependence of many on exports to developed markets.

On both fronts, however, emerging markets in general have proved resilient. Consider the immediate impact of the coronavirus first. Our research indicates that, adjusting for the extent of the outbreak in each country, fatalities in emerging markets have been around 90% lower than in developed economies.

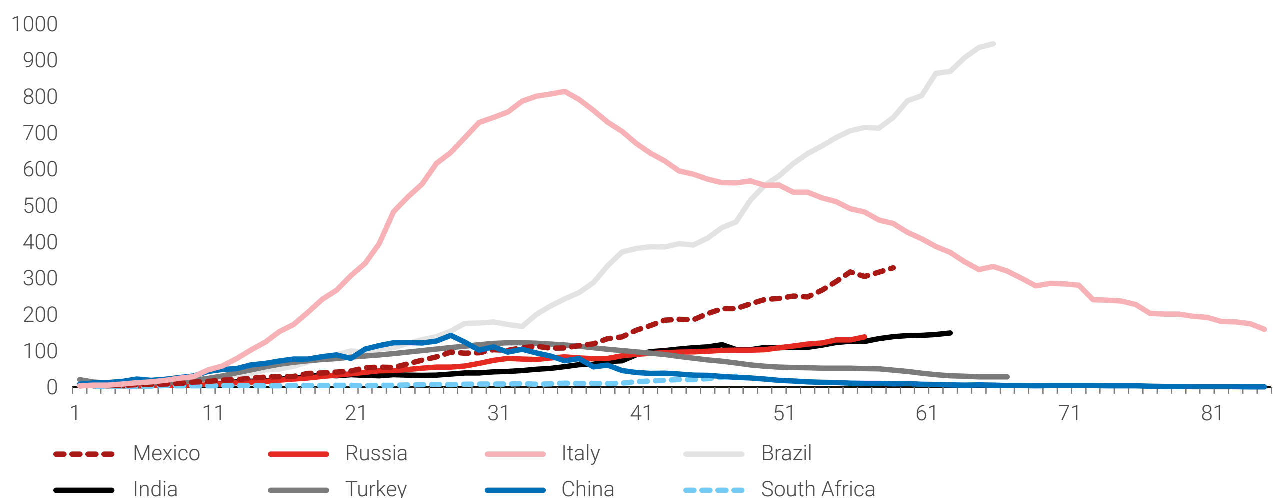
This trend cannot be solely attributed to underreporting; we believe a more important driver is favourable demographics in most emerging markets. If fatalities remain low, emerging markets could be able to lift their lockdowns relatively earlier than developed markets.

But what about the collapse in international trade? Here too we have seen emerging markets fare better than may have been feared.

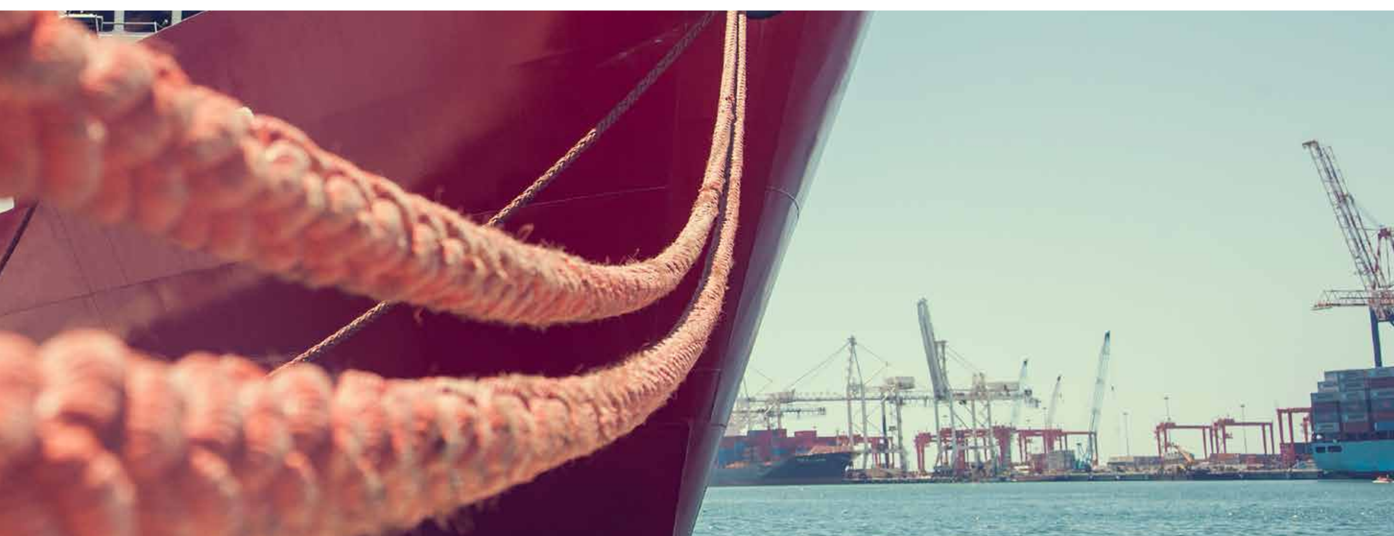
Part of the reason is simply that emerging economies are now approximately 70% larger in purchasing power parity terms than during the last global crisis in 2008. This greater wealth, and the associated broader middle class with more secure jobs, has enhanced emerging countries' capacity to absorb shocks.

For investors, this progress has been reinforced by policies across many emerging markets that have introduced exchange-rate flexibility, greater regulation of banks and business-friendly reforms. In the World Bank's 'ease of doing business' rankings, China has thus climbed from 90th out of 181 countries in 2009 to 31st of 190 today; India has improved from 122nd place to 63rd.

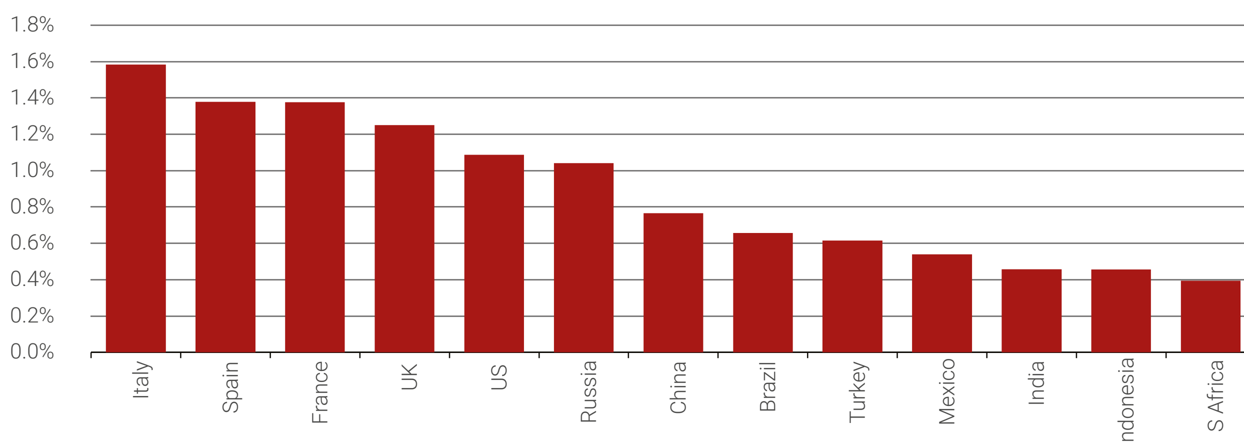
Daily fatalities in EMs (7-day rolling average)



Source: Bloomberg, LGIM, as at 25 May 2020. There is no guarantee that any forecasts made will come to pass.



COVID-19 mortality rates (%) – significantly lower in EMs



Source: Bloomberg, LGIM, as at 25 May 2020. There is no guarantee that any forecasts made will come to pass.

Importantly, this is not just true of the largest emerging markets. In recent years, countries such as Ethiopia, Rwanda, and Angola have all worked more closely with the International Monetary Fund, provided more transparency for investors, and received credit ratings.

Credit where credit is due

Looking at the range of opportunities in emerging markets today, as well as the risks, we have a higher conviction on credit than on currencies. Although local-currency valuations are at an all-time low, according to our real effective exchange rate model, the prospect of quantitative easing in emerging markets makes the upside less certain.

There is also a significantly higher yield available from hard-currency emerging-market debt at the moment, with that part of the universe paying around 6.5% compared with less than 5% for local-currency bonds.*

Finally, credit selection will remain crucial. Set against the broad strength of emerging markets in general are several countries that look particularly weak, including Brazil which is struggling with its response to the virus, and Turkey, which is facing governance challenges.

Uday Patnaik
Head of Emerging Market Debt

Willem Klijnstra
Strategist

* Source: LGIM, as at 14 May 2020. Past performance is not a guide to the future.

Fixed income:

End of the 40-year bond bull market?

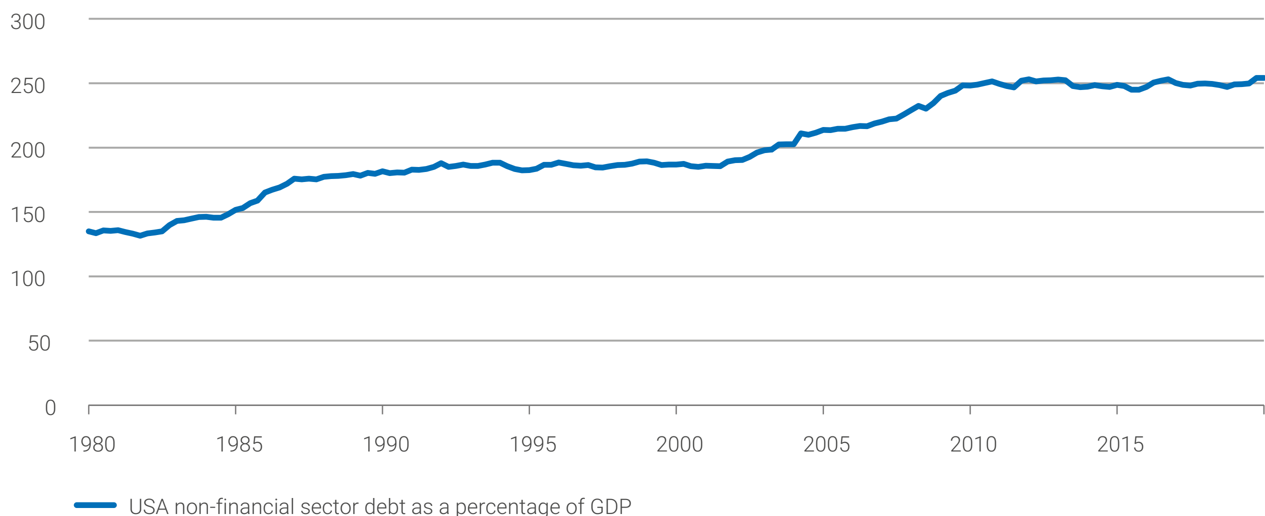
The fate of a decades-long trend in debt markets and interest rates hinges on the advent of a dynamic, strong economy.

Debt is a means of getting something now and, in return, promising some part of your future income as interest. This makes sense when you borrow to buy a new manufacturing robot, for example, improving prospects for future income. But the fact that debt as a proportion of income has been increasing on a national level (debt/GDP in the chart) suggests that we have not always made wise choices – what we have borrowed to buy has not produced adequate income on a macro scale.

Problems arise during recessions, when incomes fall and concerns increase about debt servicing. One solution is to allow defaults, refocusing activities on improving economic returns. But the easier solution is for central banks to cut interest rates and make debt easier to service.

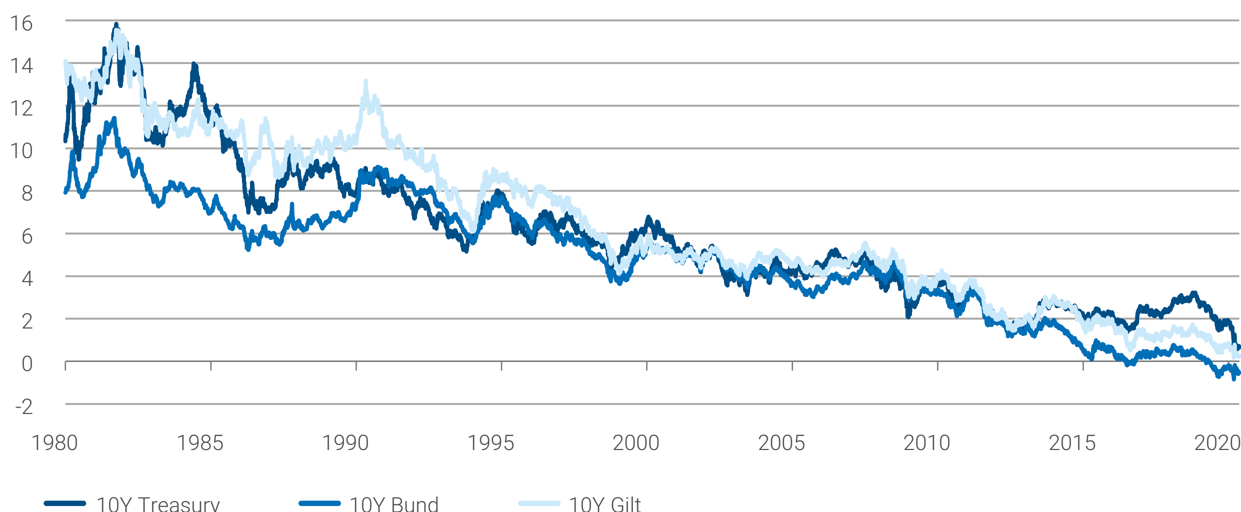
Today we face a tricky situation. We are in the middle of a severe recession, but interest rates have already been cut to zero. To avoid a disruptive default cycle, governments have decided to increase their debt in order to support struggling businesses and people. Looking ahead, the crucial question is how governments intend to repay this debt. One choice is to raise taxes or lower spending – some form of austerity. We tried this in parts of Europe following the global financial crisis and it resulted in weak growth and increasing populism.

Debt continues to rise



Source: Bank for International Settlements, as at 30 April 2020

Yields plumb new lows (%)



Source: Eikon, as at 13 May 2020

The alternative is not to pay the debt back at all. Governments can do this if they work with their central banks, the printing press controllers. If we did this as private citizens, we would quickly run out of people happy to hold our own brand of money. But governments have a captive domestic audience. However, this does not stop questions about the value of all this fresh cash. People will want more money in exchange for their goods and services; in other words, we could see rising inflation and higher interest rates.

So, after years of surprising many investors with its longevity, is the bull market in bonds finally over?

Not necessarily. We still face the problem of disappointing economic activity. If interest rates rise, debt that still exists outside the government's balance sheet could go bad, requiring further support. Indeed, we may have made the situation worse as some companies, regardless of their mistakes, can now rely on government bail outs.

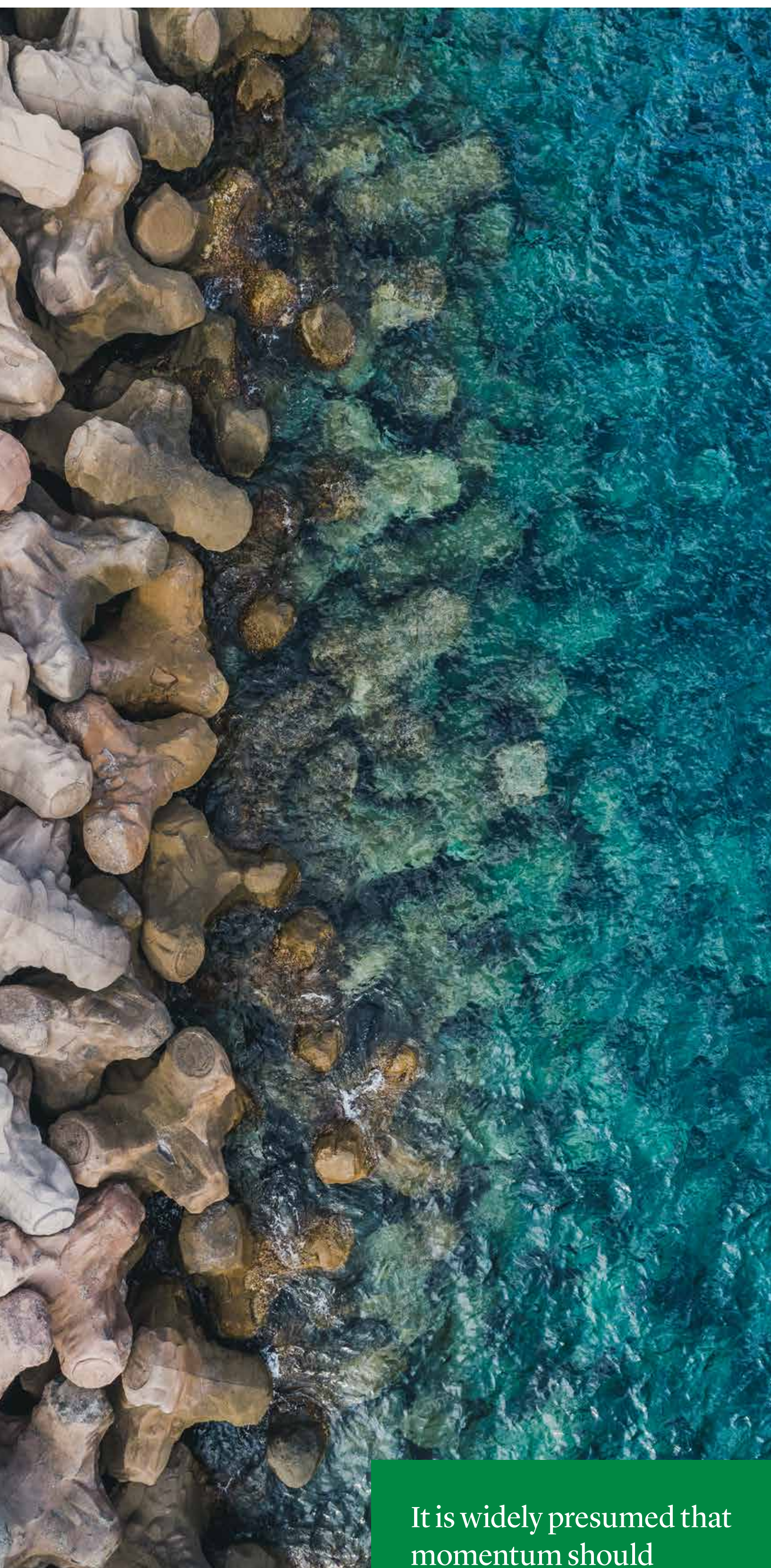
Market confidence

At the extreme, international markets could lose confidence in an issuer's currency and demand better security. Indeed, across many emerging markets, global investors buy debt denominated in international currencies like the US dollar.

While it therefore appears that we have reached a policy crossroads, with one path leading us to higher interest rates and inflation, the crucial determinant of its sustainability will be developing a dynamic, strong economy producing valuable goods and services.

From an investment perspective, no longer being able to count on falling interest rates and inflation through the cycle would have interesting implications. For example, the ability to dynamically hedge such risk within pension funds becomes more interesting. And multi-asset portfolio managers may have to rethink their correlations and stress scenarios. In general, there could be more opportunities for actively managing rates, inflation and currency risk. The investment world could be changing significantly.

Ben Bennett
Head of Investment Strategy and Research



Equities:

As a matter of factor...

Did 'defensive' factors perform as expected in the bear market?

It is possible to stretch the long and storied history of factor investing back more than 90 years if you include the pioneers of value, Benjamin Graham and David Dodd.

Over the course of almost a century, many investors have espoused the benefits of techniques that seek to exploit what appear to be consistent anomalies in security pricing not properly explained by the capital asset pricing model.

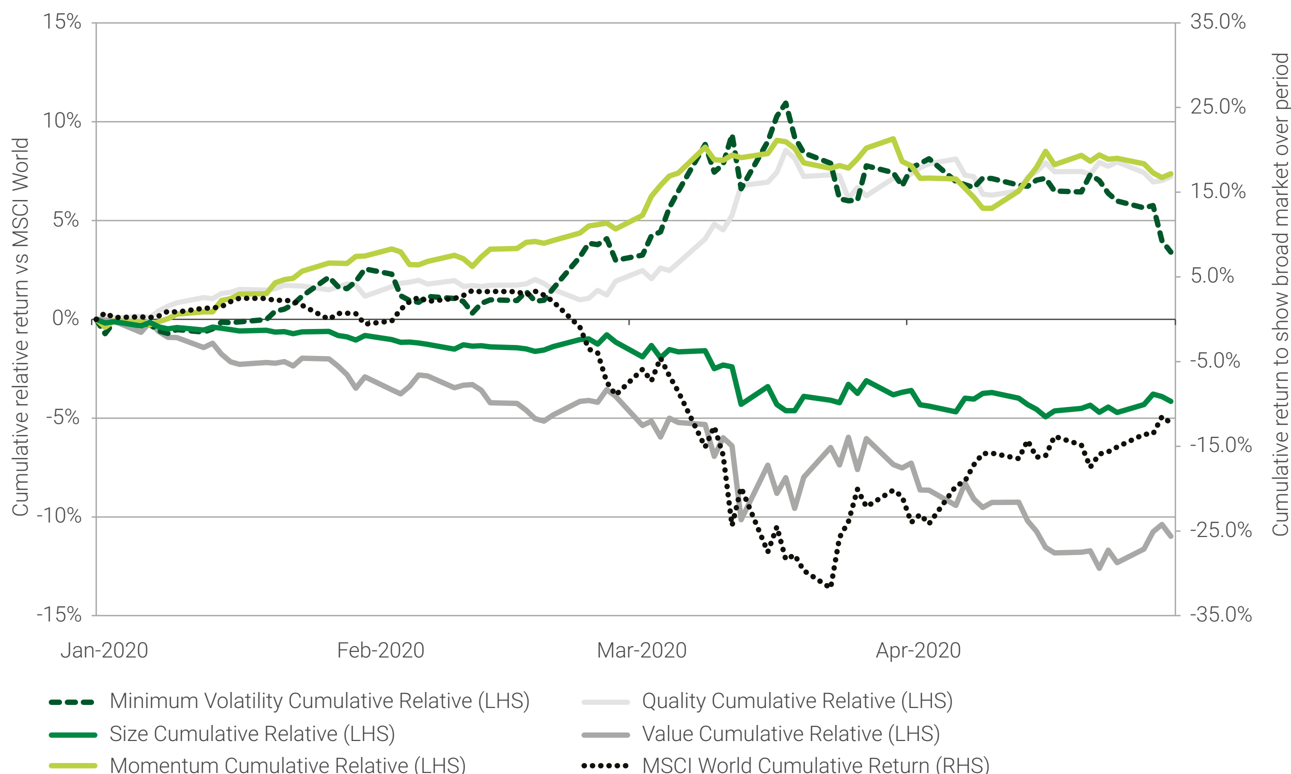
However, long-only, rules-based strategies looking to take advantage of these anomalies to harness better risk-adjusted returns have only been around for a much shorter period of 20 or so years. Moreover, some of these have extremely limited out-of-sample performance records.

Some investors have nevertheless turned these short histories into received wisdom. For example, it is widely presumed that momentum should outperform during the mid to late growth phase of the economic cycle. More defensive factors like quality and low volatility are thought of as typically working better after the economic peak and through the pullback, before value and size accelerate out of the trough.

These are, of course, broad generalisations; there are many dynamics to consider when assessing the performance of any strategy – especially during market turmoil such as we witnessed this year. Yet it is still worth looking at the performance of factors between January and April, given that – outside in-sample versus out-of-sample analysis – one way of assessing these strategies is whether or not they performed as expected.

It is widely presumed that momentum should outperform during the mid to late growth phase of the economic cycle.

Performance of equity factors in 2020



Source: LGIM, Bloomberg & MSCI, as at 30 April 2020. For illustrative purposes only. Past performance is not a guide to the future.

Go mo!

Unsurprisingly, the defensive factors did cushion the fall a little and then lagged on the rebound. Interestingly, however, momentum – in this case, the traditional momentum factor based on total returns – should have struggled given its bias to high-beta stocks, but it also fared well.

A more detailed analysis is warranted on that quirk, but it is pertinent that many momentum baskets seemed to have loaded up on healthcare and technology stocks going into the crisis, which proved fortuitous in this case.

Returning to the traditionally defensive factors, though, it is worth exploring how well they performed not just in absolute terms but relative to expectations. This is an important measure of the health of a factor, especially when thinking about capacity or overcrowding. After all, if too many people have piled into the exposure, that excess demand could affect performance.

The strategies that tend to have more extreme methodologies on volatility reduction – such as MSCI Minimum Volatility – did fare better during this downturn, but also tended to lag on the bounce because of their extremely low market betas. It is safe to say that these strategies were fairly consistent in softening the blow.

Two interesting questions remain, however. How will these defensive strategies perform if we see another selloff? And if the worst is behind us, will value make the triumphant return that many are hoping for?

David Barron
Head of Index Equity and Smart Beta

Real estate:

After the storm

We see good long-term prospects for a number of sectors, despite their struggles in the short term.

Real estate has been one of the areas most visibly affected by the pandemic and measures deployed to limit its spread. And yet, even as we tackle today's challenges, we believe it is possible to identify the factors that should underpin the long-term performance of the asset class.

It is clear that COVID-19 has added to some of the headwinds long faced by structurally imperilled sectors. Non-food retail, for example, was already dealing with a range of problems; the virus has driven even more sales online and increased the financial pressure on occupiers.

Equally, there are sectors that are seeing severe impacts in the short term, but where we see potentially good long-term prospects, specifically leisure and hospitality.

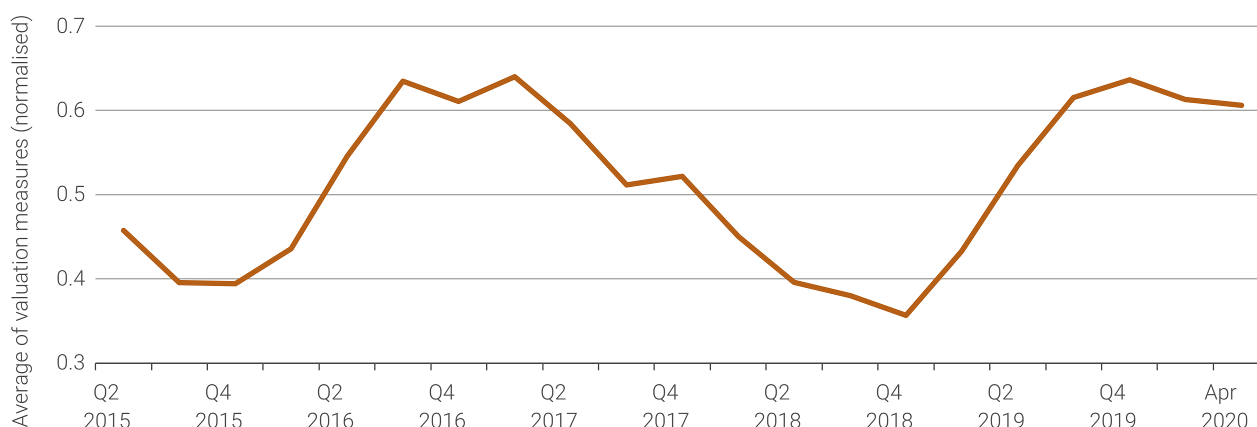
Restrictions on trading led many operators to shut down most if not all of their operations. However, we see enduring demand for leisure in the broadest sense. Student accommodation will face disruption to overseas travel and the A-level process for the academic year 2020-21. But we believe the long-term demand for higher education, and the UK's relative strength as a provider, should see the position improve significantly over time.

The rise of remote working

Many sectors will be affected by the GDP slowdown including city centre offices, multi-let industrials and logistics. However, we expect COVID-19 to accelerate existing trends rather than introduce a completely new dynamic into the mix over the longer term. While the forced move to remote working is driving a rapid adoption of agile working patterns, this is likely to lead to a more intentional approach to office space rather than signal its death-knell.

Build to Rent residential property is demonstrating the resilient return profile that we expected. Although new letting enquiries have fallen and some tenants are exercising break clauses, we see this as being short term. Occupancy and rent collection remain very high; we would expect performance relative to other sectors to be robust.

Commercial real estate: relative value has risen



The chart represents a composite relative value measure of commercial real estate against inflation, FTSE All-Share earnings, nominal gilts, BAA credit spreads and cash. Source: CBRE, Thomson Reuters Datastream, LGIM calculations as at April 2020.

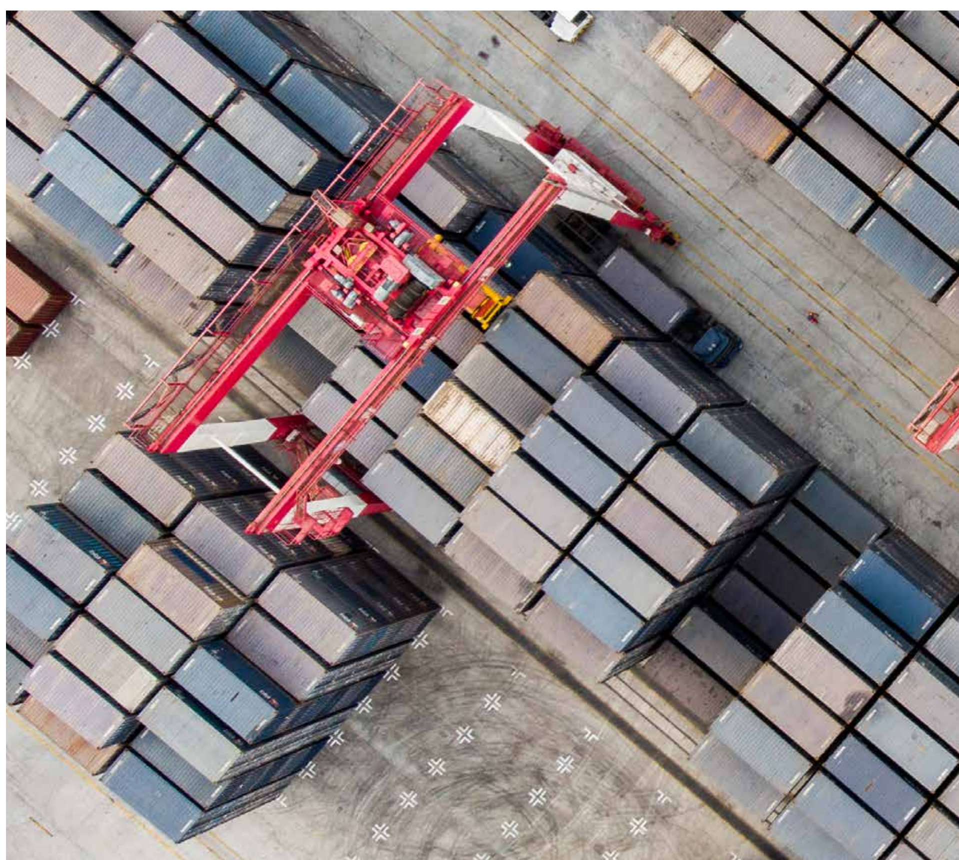
Income arbitrage

More broadly, with fixed income rates so low, even with modest expectations for rents, the risk premium for the asset class remains around average levels. The income advantage over bonds is very wide by historic standards. In such an uncertain environment for investing in companies, either through equity or debt, we believe real estate still merits a place in portfolios.

Finally to responsible investing. Just as we need to address the here and now of the coronavirus, we also need to avert future crises, as Sonja notes in her foreword. So we are determined to keep working towards our target of achieving net zero carbon across our real estate portfolio by 2050, despite the challenges posed by the pandemic.

Achieving this goal, which is aligned to the climate objectives set out in the Paris agreement, will require ambition and innovation at every step of how we build and operate our assets.

Nick Fisher
Real Assets Strategist



Solutions:

You gotta believe

How can investors develop robust and consistent investment beliefs – and apply them successfully?

When we outlined our framework for portfolio construction in LGIM's last CIO outlook, we had no idea that within months, portfolios worldwide would be tested in an unprecedented set of macroeconomic and market conditions.

In this article, we look at the first step in our framework: establishing investment beliefs. We believe this is more important now than ever, given the uncertainty with which investors are confronted today on numerous fronts.

Any investment process ultimately rests on a set of either explicit or implicit beliefs about how markets function, how investors behave, and how decisions can be made and implemented effectively.

As beliefs are so fundamental to the way we invest, their impact on investment outcomes can be disproportionately large. Despite this, many investors find themselves so busy with day-to-day portfolio decisions that they forget to take a step back occasionally and re-examine the axioms underpinning their approach. This is a shame, because those who are willing to scrutinise their beliefs, consider diverse viewpoints and reach a considered, well-articulated consensus are more likely to succeed, in our view.

What do we mean by investment beliefs?

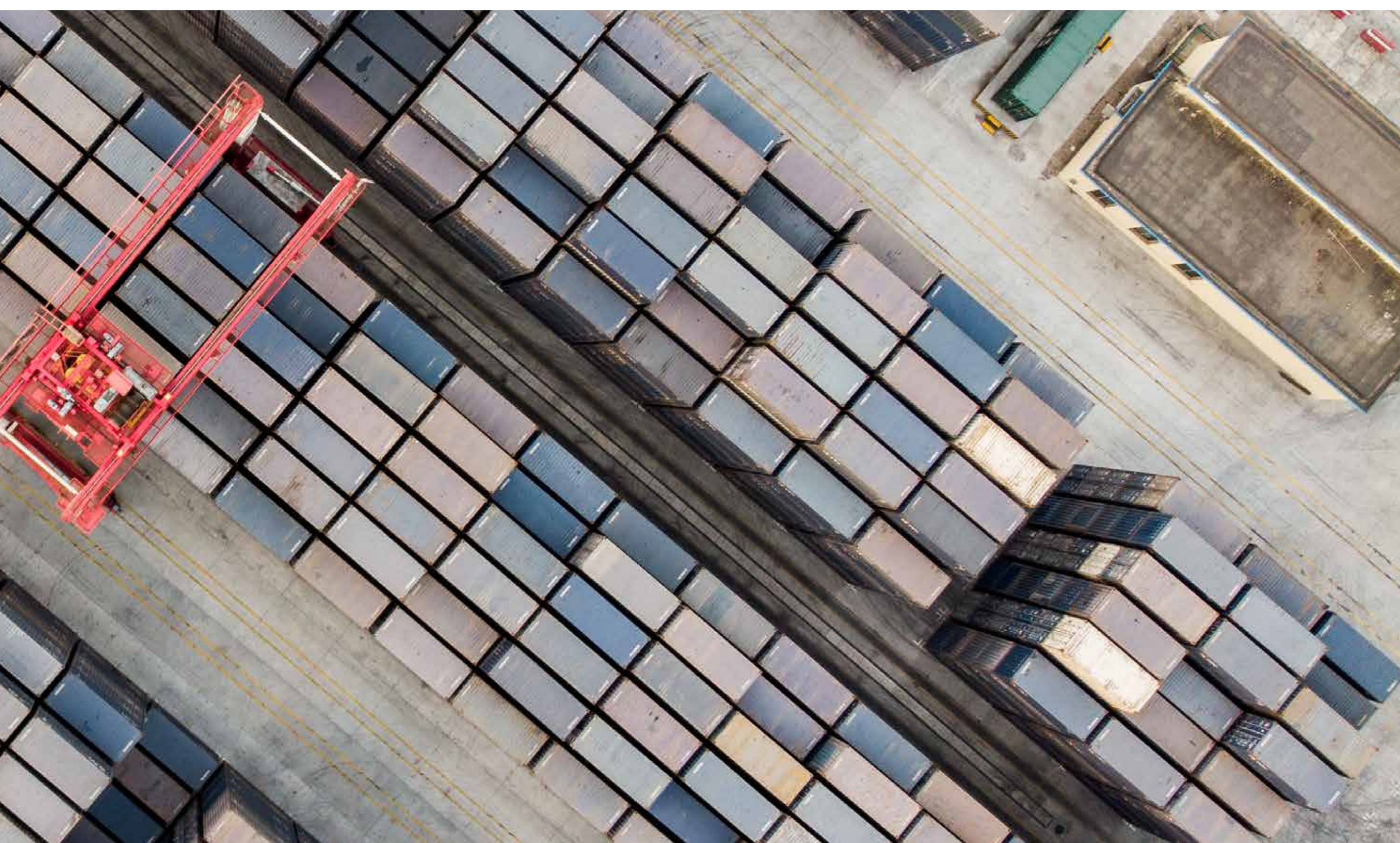
Investment beliefs can range from the high level, such as views on which types of risks are likely to be rewarded or the efficiency of markets, to the more detailed, such as specific short-term market views.

Investors should be careful not to confuse their own deeply held investment beliefs with universal certainties; the complex nature of markets makes prediction difficult, and hubris often comes before a fall. But that does not mean that all investment beliefs are equal either – robust and well-considered beliefs should be based on evidence, and open to challenge and adaptation as circumstances change.

Though behavioural finance tells us that it can be challenging, investors may often aim to achieve a high level of objectivity within their core investment beliefs. That does not mean that more subjective personal values need be excluded from the investment process, however. For example, one potential benefit of increasing ESG integration across portfolios is that the wider impact of investment decisions can be assessed.

Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.



How can investment beliefs help?

A framework of investment beliefs can provide a structure through which to evaluate opportunities. And in a world of bounded rationality, where investors may face constraints on their time and capacity to search for and consider information, considered investment beliefs can help to formulate better heuristics or 'rules of thumb' when making decisions.

For example, a well-evidenced belief that a certain market is highly efficient might allow an investor to pursue a more focused search for alpha in less efficient markets, rather than having to research and rule out all fund managers operating in that particular market individually.

For institutional investors, investment decisions will often be made by groups rather than a single individual. In such cases, a perfect alignment of beliefs is unlikely to be possible, but through discussion, consensus around organisational beliefs can be reached, providing useful clarity in decision-making. Where investment decisions are delegated, achieving consistency of investment beliefs across a portfolio is important, to ensure that different parts of a portfolio are not working against each other.

Practical next steps

Organisations should ask key decision makers to agree investment beliefs across a range of topics covering objectives, market behaviour, risk and uncertainty, governance and ESG factors, as well as views on areas of competitive advantage.

These core organisational investment beliefs will provide a valuable lens through which to assess subsequent investment decisions. They can also be particularly beneficial in times of market stress – as we have recently experienced – helping to avoid overreaction to events and being swept up in short-term sentiment.

Tim Dougall
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Contact us

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or contact your usual LGIM representative

Important information

Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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