- Press Release -

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Active equity managers drive ahead amid unprecedented H1 market volatility, but fixed income managers lag

- On average, 53%[1] of active equity fund managers beat their benchmarks in the first half of 2020
- Active small-cap fund managers came out on top with a 70%[1] average outperformance
- In contrast, most active fixed income managers underperformed (only 33%[1] beat their benchmark), having been caught off guard by the central bank-induced rally
- High yield managers and emerging markets hard currency debt managers did better than others, thanks to the widening dispersion in their field
- The rate of outperformance for equity managers dropped to 36%[1] over a five-year period, highlighting the importance of careful fund selection and strategic portfolio allocation

Active equity fund managers' performances were challenged by political uncertainties (notably the US-China trade war and Brexit) in 2019, but the first half of 2020 show active fund managers have been better able to navigate the unique circumstances and consequences of the Covid-19 pandemic much better.

The "*Active-Passive Navigator*", which is compiled by Lyxor ETF's Research and Solutions team, provides a comprehensive analysis for professional investors of the performance of EU-domiciled active funds relative to their benchmarks as well as a review of global markets' trends. Their latest report concludes that, on average, 53%[1] of active equity fund managers did better than their main benchmarks in H1 2020.

Small-cap equity active managers exhibited a strong hit ratio in most regions vs. their benchmarks (70%[1] outperformed on average). As small-cap stocks were sold heavily during the market crash, successful managers were able to take advantage of clear sector rotations (out of cyclical and value stocks into defensive, growth and quality stocks).

PRESS RELATIONS

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LYXOR INTERNATIONAL ASSET MANAGEMENT
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The relative performance of large-cap active fund managers was more uneven. US funds struggled but European and Japanese managers navigated the surging stock dispersion – reflecting the uneven sanitary and economic responses to the pandemic – much better.

In stark contrast, active fixed income managers lagged in the first half of 2020, with only 33%[1] of funds outperforming their benchmarks. Most managers failed to keep up with the record monetary and fiscal stimulus unleashed across the world, which anchored yields to their lows and sent bond prices higher. Sovereign and flexible managers struggled the most, particularly those operating in the US: only 21%[1] of US sovereign funds outdid their benchmarks. High yield managers stood out, notably Euro high yield managers with a 51%[1] outperformance ratio, mainly thanks to their overall defensive positioning. While the market downturn was particularly severe in this sector, with liquidity evaporating and implied volatility levels shooting up to their highest levels since the 2008 financial crisis, active managers' defensive positioning and portfolio de-risking just before the market sell-off helped them cushion against the historical market shock. Hard currency emerging markets debt funds also mitigated their relative underperformance, thanks to the widening dispersion in asset prices, consistent with uneven countries' vulnerability and responses to the pandemic.

The Lyxor ETF Research team also assesses the performance of active managers over longer periods, based on a constant universe of funds. Over a continuous five-year period, both equity and fixed income managers have struggled to outperform their benchmarks consistently (36% and 19%, respectively[1]). This stresses the importance of dynamic portfolio asset allocation and a strong fund selection process.

Vincent Denoiseux, Head of ETF Research and Solutions at Lyxor Asset Management, commented: "Conventional wisdom is that active managers aim to protect portfolio performance during periods of heightened market volatility. A sizeable number of equity managers have indeed been able to successfully navigate one of the most volatile market environments in recent history. However, the picture for fixed income has been much less compelling. Over a longer observation window, sustainable alpha generation remains a difficult exercise for most. A robust asset allocation framework is essential to identify potential outperformers over the long term. Passive investment vehicles like ETFs can provide useful anchors when alpha is harder to find".

Jean-Baptiste Berthon, Senior Cross-Asset Strategist at Lyxor Asset Management, added: "After a memorable H1, investors still face an atypical environment, characterised by elevated asset price dispersion, distorted valuations due to stimulus, reduced fiscal and political predictability, and the difficulties of portfolio hedging when yields are grounded. Meanwhile, the economic cycle will probably need new drivers, some of which are already taking off. In this context, seeking out diversification and alternative sources of performance will be key. An agile combination of active and passive strategies might be the best fit to benefit both from increasing asset differentiation and the promises of secular themes such as clean-energy, millennials and the future of work".

1. Arithmetic average across all corresponding market segments covered in the research report.

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Notes to editors:

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1 Lyxor International Asset Management, as at 31/12/2019.
2 Bloomberg. Data over the period 31/12/2018-31/12/2019.

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