

THE ASSET CLASSES IMMUNE TO COVID-19

The post-pandemic world: China, megatrends and private markets

Where to find opportunities that can withstand complications and black swan events as well as produce long-term value

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This is not a time for thinking tactically. What is needed is a strategy that will provide long-term sustainability and resilience in the face of black swans. It is not an impossible quest, at least in the investment field, where there are offerings that can resist short-term difficulties and produce satisfactory results for many years to come. We have singled out three of them: China, secular trends and private markets.

Let's start with secular themes, which are, by definition, "economic, social and political changes that are lasting, capable of changing habits and lifestyles and have a subsequent impact on corporate strategies. So there may be some interesting options for investors with long-term investment goals", says Natale Borra, Head of Distribution at Fidelity International, "In the current scenario, long-term trends will become even more important because they calm investors' emotional reactions to events and to short-term volatility. And because, in the new economic environment created by the crisis, further opportunities open up for companies that can exploit the change and quickly adapt their business models. At Fidelity, we think there will be three main winning themes: Asia, technology and sustainability".

If Asia is to be considered a secular trend, then China is its cornerstone. "In the current market situation, investors want a robust equity portfolio that can survive periods of high volatility and political instability but will show reasonable valuations and clear, sustainable prospects for growth," says Giacomo Mergoni, CEO of Banor Capital, arguing that China, in fact, fits this description. "The country is growing at a pre-COVID pace and corporate profits have almost fully recovered, returning to a growth rate of 20%. The yield curve and monetary policy have a normal profile. But the Chinese market is still under-represented in global indices at only 5%, compared to its 16% proportion of global GDP". Meanwhile, governance is improving and domestic consumption is on the rise. "We estimate that the average real wage will double in the next ten years".

And, finally, amidst the crisis, we see the emergence of private markets. "In 2008, the crisis was financial, but this time it is real and will cause deep structural changes in several sectors", says Luca Gianelle, Managing Director for Italy at Russell Investments. "On the micro level, most

SMEs worldwide, including unlisted firms, are still focused on dealing with the consequences of the COVID crisis. These companies will assess their readiness to use the private channel (private market funds) to finance relaunch and growth and, at the same time, re-examine internal governance, capital structure and their organisational model. But this scenario will also yield other interesting possibilities. It will create opportunities in distressed debt and also in secondary private equity and special situations. History tells us that, in times of crisis and recession, investing in private markets offers potentially higher returns than in the previous era", concludes Gianelle.



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