Henderson Global Investors

Industry Views

Multi-Manager viewpoint

Bill McQuaker, Head of Multi-Manager

After the crisis, comes the uncertainty. The daily dance of the FTSE and the Dow Jones (two steps forward, four steps back) continues to hold a morbid fascination. We've seen unprecedented levels of government intervention on both sides of the Atlantic in what has been at times a desperate attempt to prop up the financial system and stabilise markets, but as yet there's no sign that equilibrium has been reached. It seems that anything being termed as a 'bailout' or a 'rescue', rather than acting as a salve for markets, has been having almost the opposite effect. Despite the fact that a significant number of stocks look extremely undervalued, ongoing redemptions from hedge funds and from long-only investors who are being forced to sell at distressed levels, continue to drive prices down further. So are we now set for 'Great Depression: Version 2.0'?

Back in 1933, Franklin D. Roosevelt swept into power on the promise of a sweeping set of economic measures – including banking sector reforms – designed to reduce unemployment and put an end to the Great Depression. Roosevelt even scrapped Prohibition laws in order to help grease the wheels and aid the healing process. We are nowhere near as deep into 'New Deal' territory just yet (unemployment was at 25% when Roosevelt was elected) but in the past few months, financial markets have been shaken, violently and repeatedly. The next American President will certainly have his work cut out to keep out-of-pocket taxpayers onside if the economic outlook continues to worsen, even if the drinks cabinet remains open 24/7, as always.

Looking beyond the financial crisis, it is clear that most of the worlds' markets – developed and emerging – are either already mired in, or heading towards, recession. The rate of economic growth around the world is predicted to fall in just about every major region, and this is one reason why any brief rally in share prices is being quickly choked off.

That said, while the market is treating every new announcement as another nail in capitalism's coffin, there are a few new developments that are worthy of attention, as long as you share the view that the end of the world is not yet nigh. The combination of lower commodity prices and the worsening economic outlook has effectively untied the hands of Central Banks. Inflation is now no longer the primary concern, which is why Central Banks were able to initiate co-ordinated international action to cut interest rates by half a per cent last week, and why further cuts are certainly in the pipeline.

So with so many valuations looking cheap, is now the time to be moving back into equities? While a global meltdown might have been averted, we can expect further bad news is still to come, in terms of weakening economic data across all regions, bankruptcies and rights issues. However, there will also be areas of opportunity. The big challenge for investors will be to identify correctly those areas of the market that will survive – and indeed prosper in a few instances – in a global recessionary environment. Therefore we will be looking to change the shape of the portfolio somewhat, albeit on a very selective basis. This is the time for high quality, defensively-minded managers to prove their mettle.

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