

Everyone's talking about... Equities

[Professional Adviser](#) | Author: Laura Miller



In the third part of our new series looking at the most topical investment themes for the quarter ahead, Professional Adviser asks multi-managers: are equities really attractive, or are they just the only game in town?

Equity investors have a lot to contend with this year.

In Europe, uncertainty in the form of general elections in Spain, Portugal, Greece and the UK, and the 'will they, won't they' on eurozone QE.

Equities look attractive relative to bond yields but in absolute terms they are more fair value

Volatility in arguably expensive US markets in part due to significantly lower, and as yet unstable, oil prices.

Anticipation - though not yet firm evidence - of improved corporate earnings.

Multi-managers - who look across the whole investment universe - give their view on an asset class that seems to offer no easy winners this quarter.

Architas chief investment officer and fund manager Caspar Rock

There are definitely risks. US equities are expensive but have much better visibility on earnings. Equities could do OK at today's valuations. UK equities are OK but are open to the risks of Europe and the General Election.

Investec Asset Management multi-asset strategist and portfolio manager Max King

Equities are not particularly expensive or cheap; this will depend on earnings growth. I'd like to see some good Q4 [2014] earnings forecasts. I'm looking for earnings growth globally in the high single digits.

There have been a lot of downgrades related to the energy sector - we should now get the good news, for the likes of airlines and car companies.

Fidelity Worldwide Investment multi-asset portfolio manager Nick Peters

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You really need to see earnings upgrades strongly to see investors increasing their exposure. The US is looking expensive. But emerging markets and the UK are beginning to look more attractive.

It is a stock pickers' market. What fund managers need to look for is stocks with sustainable growth - pricing power, competitive advantage etc. Investors will pay a higher premium for these. You want to steer clear of energy but it won't be as easy identifying other sectors.

The IT and healthcare sector valuations look stretched unless companies start hitting their numbers.

City Financial multi-managers Peter Toogood and Anthony McDonald

There is a liquidity flush - asset prices continue to rise because of QE, not necessarily fundamentals. From the bottom up, equities are not very interesting. There is not much fundamental earnings growth. Managers are not bullish but people have got nowhere else to go but equities.

You have to be very very watchful. We think there will be a lot of rotations in equity markets this year. Make sure you have strategies in place to protect portfolios using derivatives and options.

This year we need to see the money - there is an awful lot of anticipation but you need real earnings growth.

F&C multi-managers Gary Potter, Rob Burdett, Anthony Willis, Scott Spencer

We're overweight equities. We're not wildly bullish but there is no alternative to good quality risk assets. Equities look fair value in general.

Henderson multi-manager James de Bunsen

The most attractive thing about equities is that they aren't bonds!

People still have money to put to work, they're still being punished for holding cash and getting negative yields on German Bunds. People require an income. You don't have the protection of lower valuations, but people will continue to have an appetite for bond proxy type stocks that pay dividends.

The US is the brightest spot. People underestimate the strength of the recovery there. We are expecting wage growth in the US this year. It could do OK even though valuations are stretched.

There is nowhere you can bang your fist on the table and say this is good value but there is still a lot of money in bond funds that could come out [and go into equities].

I expect volatility. A lot of people haven't participated in the rally in the last five years because they think it's not sustainable, but there is no reason markets can't go up just because there is volatility.

Legal & General multi-asset fund manager Justin Onuekwusi

Valuations are neither here nor there but they are more attractive relative to bonds.

Emerging markets look attractive in valuations but given the rise in the dollar you'll probably see some volatility in the near term.