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Growth Equity, High Yield and REITs Pique Investor Interest amid Pandemic

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U.S. high-yield, core fixed income, REITs and growth equity strategies have drawn increased attention from institutional investors using eVestment's database since the onset of the pandemic.

While elevated database viewership doesn't necessarily signal an uptick in flows, U.S. high-yield and core fixed income did see an influx of money in the second quarter, as investors sought yield and safety.

High yield claimed the most inflows of any category, reeling in nearly $46 billion in the quarter to reach roughly $564 billion in AUM, according to eVestment. Core fixed income claimed the second-highest flows in the quarter, drawing $27.8 billion across a $1.45 trillion universe.

The increase in flows to core fixed income since the pandemic began reflects the growing risk in equities, says Jay Love, a partner at Mercer. Meanwhile, investors turned to credit and high yield to take advantage of pandemic-related opportunities, he added.

"In March, spreads widened out dramatically on high-yield fixed income. The flows into high yield was investors recognizing those high returns. We're recommending to our clients increasing allocations to credit, not just high-yield fixed income," he says.

U.S. and global REITs also saw an uptick in database views. U.S. REITs drew $1.2 billion in inflows in the second quarter, a partial rebound from $5.7 billion in outflows in the prior quarter, according to eVestment, which tracked $75 billion in AUM across that category. Global REITs bled $337 million in the second quarter though, despite the heightened database views.

"There's a lot of uncertainty about the future of real estate, particularly with commercial real estate," says Love.

U.S. large-cap growth equity and global all-cap growth equity strategies also drew a higher than normal number of views on the eVestment database since the onset of the pandemic. For global all-cap growth equity, that corresponded to $6.2 billion in net flows in the second quarter, according to eVestment, which counted $172 billion in AUM across that category. U.S. large-cap growth equity strategies ended the quarter in the red, however, with $2.7 billion in outflows and $1.86 trillion in AUM.

The end of an 11-year bull market has also come with a broad reduction in institutional allocations to equity and an increase in allocations to fixed income. In the months following the onset of the COVID-19 pandemic, investors moved assets out of equity strategies and poured record money into fixed income strategies, according to eVestment.

The shift in allocations from equity to fixed income pre-dated the pandemic, but COVID-19 accelerated that trend, says Michael Rosen, CIO at Angeles Investment Advisors.

“We’ve seen outflows from equity and inflows to fixed income all year and going back a number of years,” Rosen says. “It’s a reflection of how the long bull market in equities has been one of the most hated bull markets we’ve seen, with investor behavior suggesting a high level of risk aversion.”

The pronounced inflows to fixed income that have occurred since the onset of the pandemic are the result of political, economic, and social uncertainty, with investors becoming increasingly cautious, he says.

U.S. large-cap value equity, U.S. all-cap passive equity, and global all-cap value equity had the greatest outflows in the second quarter, according to eVestment data.

Value strategies have been underperforming growth strategies for five-to-seven years — a trend that has accelerated because of COVID, says Love.

“Investors have begun to throw in the towel on their value managers,” he says. “Some investors expected them to be defensive, which may not have been valid.”

This shift in flows since the onset of the pandemic may also reflect investor moves to rebalance their portfolios closer to their asset allocation targets, says Kyle Johnson, managing director at Cambridge Associates.

“Given the powerful run in equities since late March, many investors have probably found themselves quite overweight equities and underweight bonds – especially if they managed to rebalance in early spring,” says Johnson, adding that some of these flows may reflect investors taking gains and loading up on bond allocations.

However, over the longer term, fixed income may look less attractive.

“It seems like a tough time to be strategically increasing target allocations to bonds given their historically low yields, which pose a headwind to most investors’ return objectives,” Johnson says.