Real Assets, the 'Winning Bet' for a Post-COVID World

A new post-COVID cycle could see a resurgence of inflation. Real assets can meet the economic challenges and fulfill investor expectations on both performance and impact

Dominique Carrel-Billiard

Global Head of Amundi Real Assets

Amundi

While fallout from the pandemic has accelerated several long-term trends, it has also given rise to some misguided predictions. The crisis is paving the way for a new economic cycle, which could well be marked by a resurgence of inflation. Real assets are emerging as the major beneficiaries of this new environment. They appear to meet the global economic challenges at hand as well as the expectations of institutional and retail investors with regards to performance and impact. Together, these reasons are driving a democratization of investment solutions in this asset class.

More than a year after the COVID crisis began, the health situation seems to be improving. We can only hope that a complete normalization will be achieved, allowing us to emerge from the repeated 'stop and go' phases the economic and financial world has experienced over the past 18 months. There is hope for a return to a sustainable economic trajectory. And amid the many predictions made during this period, we are beginning to distinguish the likely scenarios from those that are exaggerated, and from over-enthusiastic forecasts announcing a brave new 'post-pandemic world.'

COVID Triggered Evolution, Not Revolution

Among the long-term trends, the digitalization of economic activity and trade, as well as the strategic importance of supply chains, are clearly not to be denied. This crisis has also rekindled the willingness of governments and central banks to steer economies and financial markets by means of aggressive policies; these are currently ongoing and help to maintain a low interest rate environment. Lastly, the main lesson of this crisis is undoubtedly a global awareness of the fragility of our environment and our way of life, as well as a growing recognition of environmental, social, and governance (ESG) issues.

Some, however, may have been a bit hasty in tolling a death knell for the globalization of the economy. Likewise, the office is not about to disappear in favor of teleworking. And lastly, the latest predictions of soaring inflation remain a matter for debate.

Inflationary pressures are still contained, but very real, as evidenced by a jump in the Consumer Price Index (CPI) to 5.0% in May.[1] Supply chain disruptions, notably in semiconductors, wood, and some raw materials, could fuel this inflationary situation. It is too early to know whether the trend will be temporary or structural, but it is necessary to seek protection against a resurgence of inflation to which certain so-called 'safe' asset classes are highly exposed.

Real Assets Perfectly Positioned to Prosper

In this context, real assets appear to be the 'winning

[1] https://www.bls.gov/news.release/pdf/cpi.pdf

bet' for the post-COVID world, as they aim to combine protection against inflation with the prospect of higher returns than traditional liquid assets.

Regarding the first point, it should be noted that real estate, infrastructure, floating-rate private debt, and private equity all offer the prospect of cash flows that will adjust to a resumption of inflation and absorb a large part of its effects.

The performance of real assets remains equally attractive in the case of contained inflation. According to our experts, they offer the best return prospects of all asset classes. Thus, over 10 years, all things being equal, our experts anticipate that private equity markets should offer a possible risk premium of 230bps in the US and 200bps in Europe compared to listed equities, while real estate assets should offer a risk premium of 450bps compared to public bonds in the eurozone and 390bps compared to investment-grade bonds. Infrastructure should offer a premium of more than 300bps compared to these same investment-grade bonds. Such a sizable spread of anticipated yields should accelerate capital flows into real assets as investors seek to optimize their risk/return trade-off.

Delivering Real Improvement in ESG

In addition to these financial advantages, real assets are also in line with the high expectations observed in terms of ESG. We are convinced that real assets are a 'shorthand for ESG.' They can contribute directly to the energy transition, particularly by financing green infrastructure. On this topic, analysts anticipate that the European Union's new environmental objectives should lead to a threefold increase in the volume of investments in renewable energy over the 2020-2030 period, as compared to the last decade. Similarly, private equity funds provide corporate governance access to directly influence choices regarding companies' social and environmental practices.

Real assets can thus be seen as meeting the aspirations of investors, which should favor wider adoption, especially among individuals. The latent demand for such products is becoming increasingly clear and will result in the emergence of new distribution channels. Thanks to its strong positioning in European banking networks, Amundi is in a privileged position to make these assets accessible to a wide range of populations.

However, the expected growth of investments in real assets should not come at the expense of being selective. The current prices that prevail in several of these asset classes indeed raise the spectrum of a potential imbalance in the risk/return ratio. This should prompt a flight to 'core' strategies, where risks are contained. As it happens, these also constitute the core expertise of our teams at Amundi.

Dominique Carrel-Billiard is Global Head of Amundi Real Assets. He was previously CEO of La Financière de l'Echiquier and CEO of AXA Investment Managers Group.

Amundi is Europe's largest asset manager by AUM and ranks in the top 10 globally. With close to 4,800 professionals based in 35 countries, it now manages more than €1.8tn of assets across investment hubs in Boston, Dublin, London, Milan, Paris, and Tokyo. It provides its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in passive, active, and real assets.

A subsidiary of the Crédit Agricole group and listed on the Paris stock exchange, Amundi launched Amundi Real Assets (ARA) in 2016 to provide easier access to unlisted investments. Bringing together capabilities in real estate, private debt, private equity, and infrastructure in direct investments or in multi-management, ARA is comprised of 220 specialists and manages nearly €60bn of AUM.