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Fundies on alert for risks to equities in 2022

Outlook

Alex Gluyas

Relentless supply-chain disruptions and inflation pose a bigger threat to the economic recovery and investment returns than a new COVID-19 variant, according to some of the world's largest investors, who are also bearish on the outlook for cryptocurrencies next year.

Fund managers are also positioning for a boom in COVID-19-related revenue spending in 2022, which is expected to cushion portfolios from mounting macro-economic risks.

A survey of 500 institutional investors by Natixis Investment Managers revealed that nearly 60 per cent viewed supply-chain disruptions as the greatest risk in 2022 as far as economic growth was concerned, ahead of tightening central bank policy and the coronavirus.

The institutions surveyed, which collectively manage \$13.2 trillion, separately ranked inflation as the top risk with investment portfolios in mind. Elevated valuations are also top of mind, with seven in 10 respondents agreeing that current valuations did not reflect company fundamentals.

"There's no shortage of risks facing equities next year in the sense that markets are priced for perfection with elevated valuations against a backdrop of policy withdrawals, elevated inflation and normalising earnings growth," said Matthew Sherwood, head of investment strategy at Perpetual.

"Supply-chain disruptions could take a while to resolve, which will weigh on margins, which, combined with rising labour costs, puts pressure on firms' revenue lines."

The majority of participants are positioning for the reopening trade redux. "Institutions are less focused on

Leaders and laggards



streaming and digital products, predicting instead that we will see in-person experiences, such as theatres, restaurants, and travel outperforming at-home trade, such as online

shopping and Netflix," the report said. Most global institutions are counting on the energy sector to outperform in 2022 as the economic recovery lifts demand. Nearly half of those surveyed

also underlined the healthcare sector as a strong performer in response to COVID-19 and subsequent vaccine drives around the world.

Traditionally defensive markets are projected to be the biggest underperformers, and real estate and utilities have been identified as the big laggards.

Although more than half the institutions surveyed expected a correction in cryptocurrency markets, there was a notable warming to digital currencies.

Four in 10 consider crypto to be a legitimate investment option, and of the 28 per cent who invest in it, 90 per cent say they will maintain or increase their allocation.

"Interest in cryptocurrencies from super funds is on the rise. This is mainly in response to their younger members, many of whom are exploring digital currency investments themselves," said Louise Watson, country head for Natixis in Australia and New Zealand.