Industry trends to watch in 2023

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The last few years have delivered a fair share of 'once-in-a-lifetime' setbacks for asset managers and investors. As we come out on the other side, I am excited about the opportunities

1. The return to positive interest rates

Bonds and cash are now legitimate alternatives to stocks

We have been living with zero percent rates – and what is essentially free money – for too long. There are investors today who have never lived in an environment with a real cost for borrowing money. This environment is exciting because a business cycle downturn, which is often tied to a rising cost of money, clears out weak and inefficient companies, and gives active managers the opportunity to separate the wheat from the chaff. It has been too long since we have had a more traditional business cycle. The Covid pandemic and global financial crisis were completely different situations. The key in this environment will be to avoid areas where there has been excessive risk-taking – because that risk-taking will be penalised in an environment where nominal and eventually real interest rates are rising.

2. Delivering cost-effective customisation

There is growing industry desire – and demand from investors – to align investment capabilities and services more closely with investor needs

The typical large asset management business model is based on scale. We know how to put together a great product and deliver it to a lot of investors. But more and more we are being asked to create models and solutions that will help both retail and institutional customers cope with a wider range of more specific challenges and opportunities. Custom is the opposite of scale, so that's a big change in how we, and our peers, are going to need to think and operate.

The way to create cost-effective customisation is to dramatically increase operational efficiency. To be among the long-term winners, asset managers will have to get their act together and clean up their front, back and middle offices to better serve clients, report to them in the ways that they need and want, and drive down costs.

I think that client preference will apply to responsible investment (RI). While RI and ESG (environmental, social and governance) have become integral to investing in Europe, in the US there is a continuing debate on the merits of RI versus return. Are ESG factors going to be decisive factors in what makes a good investment? Depending on the objectives and the investor, that may not always be true. For our part, ESG is an essential component of our research capability, and we can dial up or dial down the ESG analysis that goes into selecting securities for our client portfolios as they see fit.

3. The uncertain global economic influence of China

The country seemed on its way to competing with US and European economies, but the political environment has regressed and economic progress has stalled

The rise of China has been a big theme throughout our lives, but we now have a situation that is highly problematic: complete control resting in the hands of one person. One of the side effects of this kind of consolidated power is the arbitrary application or changing of the rules of doing business. Businesses and individuals that gather too much economic power can get sidelined, shut down or jailed. This kind of interference with business and the free-market economy is a major obstacle to China becoming a real competitor in the world economy. Other limits to China's potential include a currency that is not freely convertible and a financial system that is overly reliant on bank credit due to a limited bond market.

4. The continued relevance of talent

Ten to 20 years on, the core of our business and relationships will remain relevant. But changes in who is delivering what they are delivering and how they deliver are coming

Today our business is a robust three-legged stool: we've got the investment side of the organisation, the customer-facing side, and the operational side. Every part of that is continually evolving, but the fundamental activity remains the same: putting investment talent to work on behalf of our customers. I don't see the value of that approach being seriously challenged, despite the emergence of AI-driven and automated solutions.

However, where and how that investment talent works, and who is delivering it, is changing. The barriers to entry in asset management are fairly low, so there is always going to be room for specialty firms that do one or two things really, really well. But among the large firms that offer multiple products and services, I think there is going to be further consolidation. So we should expect fewer players at the top competing for that talent and each other's customers.

Just like operational excellence, quality and depth of research is – and will continue to be – a key competitive differentiator and measure of value for investors. I think we will see increasing investment in advanced analytics and big data analysis that help research teams distil more relevant data and get to the investment conclusion more quickly.

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