As an economist, finding a year to rival 2020 is close to impossible. Seeing how the year has played out in terms of government and fiscal response paints a curious picture for the years ahead.

THE GROWING FORCE IN GLOBAL LISTED REAL ESTATE

Historic shifts in home ownership underpinned by seismic demographic changes are behind a new force rising in the residential real estate industry.

RUNNING A CREDIT DESK THROUGH THE CRISIS OF A GENERATION

Sonia Baillie has been through a few crises in her 23-year career as a fixed income specialist. But the head of credit at AMP Capital hasn’t seen one quite like the COVID-19 pandemic.

THE FOUR PILLARS OF INFRASTRUCTURE IN THE WAKE OF COVID-19

There are four main segments of the infrastructure industry – communications, utilities, energy and transport – and each has been impacted by COVID-19 in different ways.
Welcome to the latest issue of Capital Edition and the final few months of a monumental year.

The COVID-19 cost to humanity, at the tail end of 2019 and throughout this year, has been profound. This should always remain of the utmost importance in our minds and memories as we work our way through the extraordinary challenges ahead. That said, it is fascinating to see how governments, economies and markets have faired and, reacted and stood up to the COVID-19 challenge. Our chief economist, Shane Oliver, and senior economist, Diana Mousina, share their thoughts and analysis on a year for the textbooks.

Running a credit desk during this once-in-a-generation crisis is something Sonia Baillie, AMP Capital’s head of credit, has tackled head on. She explains how markets have reacted and how this crisis compares to others she’s endured – including being at Lehman Brothers during its collapse.

In the wake of COVID-19, infrastructure is in a unique position. It has been among the most impacted asset classes – think stadiums turning into police headquarters and airports turning into support facilities for hospitals – and yet holds some of the most exciting opportunity for expansion and investment in the aftermath. Our head of global listed infrastructure Giuseppe Corona, and portfolio manager, Andy Jones, share their thoughts on the pillars of infrastructure in life beyond COVID-19.

Structural trends have been amplified throughout this pandemic, and demographics are no exception. Our head of listed real estate, James Maydew, talks through some of the most exciting opportunity for expansion and investment in the aftermath. That said, it is fascinating to see how governments, economies and markets have faired and, reacted and stood up to the COVID-19 challenge. Our chief economist, Shane Oliver, and senior economist, Diana Mousina, share their thoughts and analysis on a year for the textbooks.

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As an economist, finding a year to rival 2020 is close to impossible. Seeing how the year has played out in terms of government and fiscal response paints a curious picture for the generations ahead.
Without a doubt, 2020 will be a year for the economic textbooks. It started with so much promise. Global share markets were at record highs. Economies were expanding. Unemployment was low in many developed economies.

It wasn’t perfect. There were concerns about whether trade talks between the US and China would result in better outcomes. Britain and the European Union were still working through details of Brexit.

But it was promising.

Then on 3 January, China officially notified the World Health Organisation of an outbreak of a “pneumonia of unknown etiology”.

The health crisis created an economic crisis. During March, share markets around the world crashed. The globe was thrown into recession as governments and citizens grappled with the size and extent of the COVID-19 outbreak.

Within months, possibly weeks, all the major developed western economies contracted. Government spending soared as authorities worked hard to support economies and keep them afloat. Jobless rates jumped, along with underemployment. In not much more than eight weeks, the outlook for the global economy went from good to bad.

For members of the dismal science, it was an incredibly fascinating year to be a participant in, and learn from, albeit tragic with the loss of more than one million lives.

“The biggest surprise for me this year is how quickly governments responded and the huge scale of their support measures,” said AMP Capital’s chief economist and head of investment strategy, Dr Shane Oliver.

Government spending soared as authorities worked hard to support economies and keep them afloat. Jobless rates jumped, along with underemployment. In not much more than eight weeks, the outlook for the global economy went from good to bad.

“The biggest surprise for me this year is how quickly governments responded and the huge scale of their support measures,” said AMP Capital’s chief economist and head of investment strategy, Dr Shane Oliver.

He doesn’t want to give his age away but concedes he has seen a few global economic crises in his time. “Governments were quick to throw ideology out the window to do what they could to save the economy.”

Australia was a good case in point. For decades the ruling conservative government had preached of the need for fiscal prudence. Before this year, the government had outlined a path to budget surplus.

By October, that proposed surplus in the 2021 financial year was a deficit of $214 billion. It wasn’t a political debate. The spending was broadly supported by the federal Labor opposition. It was a case of doing everything possible to help households and businesses.

AMP Capital’s senior economist Diana Mouanis has been impressed by the power of governments, through spending, to keep an economy ticking over.

“The past year has shown the control that governments really have,” Mouanis said. “They have the ability to turn industries on and off. It’s not something that people thought much about beforehand, but what the coronavirus pandemic has put into focus is the control that government has.”

“Next time people go to the polls they will better understand just how much power a government holds. Just how rapidly they can turn on the fiscal tap. This year has taught us that when there’s a big crisis, the government will step in.”

“The biggest surprise for me this year is how quickly governments responded and the huge scale of their support measures. Governments were quick to throw ideology out the window to do what they could to save the economy.”

– Shane Oliver, chief economist, AMP Capital
With that comes other challenges, Mousina said. "There’s a moral hazard involved when voters think governments will always step in, particularly if the next economic crisis is nowhere near as severe as the COVID-19 pandemic. And of course, there’s a large fiscal repair that needs to be addressed in coming years," she said.

"But during this crisis, governments have bailed out companies. That might have happened during the Second World War or the Great Depression, but not since then," she said.

Oliver said he’s been taken with how resilient the Australian economy has been. “It bounced back much faster than I thought it would. It’s bumpy and confusing and messy, but it’s heading in the right direction.”

He attributes that, in large part, to government spending measures such as JobKeeper, a wage subsidy, and JobSeeker, an income support payment for the unemployed. The recent Federal Budget continued the trend.

"While there is a tendency to get lost in the details of the Budget, and each spending measure, the key takeaway from it is that it is actually pumping significantly more stimulus into the economy." "The total direct fiscal support for the economy this calendar year as a share of GDP is now just above 10 per cent, which is well above that in other comparable countries including the US," he said.

Mousina agreed, saying economies in the Asia-Pacific region have bounced better than initially anticipated. "There’s no doubt that consumers have responded to the cash handouts and wage subsidy schemes. And the consumer sector has been stronger across most developed economies.”

This has meant some retailers have performed much better than you would expect in an economic recession. “Normally in a downturn, retailers sell fewer discretionary goods – things like furniture and electronic goods. But this time around the money allocated to the family holiday went on some of those goods,” Oliver said. “That was a surprise.”

Mousina said the response from business was more muted. "Business confidence and conditions are still low. There were big falls globally in manufacturing and industrial production, though in those sectors there has been a rebound," she said. "It’s been tricky to read because often the headline number and even the data didn’t tell the full picture.”

Economists rely on data to create forecasts. Statistical bureaus are the prime source, though much of that information is old news by the time it’s released. The coronavirus pandemic has forced providers to develop a swath of real time data.

“We have been bombarded with information,” Oliver said. “Economists have suddenly got access to high frequency data. It’s good but it can also add to the uncertainty around an economy. Social media has helped facilitate this information.”

All this information will change the way economists work, Mousina said. “We have access now to mobility data – how people are moving around cities. We have access to credit and debit card information. It will all become part of what we look at.”

The share market also taught economists a few lessons this year. Some were more rational than others. The share markets on Wall Street and in Australia were trading close to record levels in February, only to plunge to lows around 23 March. The S&P500 fell by 34 per cent in a little over a month but has recovered all that ground and, as at mid-October, is trading close to 60 per cent above its low. The local S&P/ASX200 fell 36 per cent and hasn’t yet recovered all those losses. It is still 13 per cent below its peak in February.

“The fall was steep and so was the bounce back, particularly in the US," said Oliver. “Was it irrational? Well, the share market often leads the real economy and it had been supercharged by ultra-low interest rates and the printing of money. Maybe it’s not as bad as it seems.”

Mousina said that one thing the market crash and rally highlighted was the strength of technology stocks, particularly in the US. In share markets without such a large portion of tech stocks, including Australia, Japan and parts of Europe, markets didn’t rebound as hard. There’s a lesson in that, Mousina said.

In all, 2020 has been a year in which even veteran economists learnt a lesson or two.

"I think this year played out about right in terms of direction. It’s just the levels that were a surprise," Oliver concludes. -- Diana Mousina, senior economist, AMP Capital
Running a credit desk through the crisis of a generation

Sonia Baillie has been through a few crises in her 23-year career as a fixed income specialist. But the head of credit at AMP Capital has’t seen one quite like the COVID-19 pandemic. In this Q&A, Sonia recalls 2020 running the credit desk.

Story by SEAN AYLMER
Portraits by NIC WALKER
“At the peak of the sell off, subordinated bank credit spreads and some short-dated corporate bonds were at 400 basis points. You could buy into an investment-grade asset and get a yield four per cent higher than a government bond. Since the Global Financial Crisis, that number had mostly been between 100 and 200 basis points.”

What were credit markets like going into the COVID-19 pandemic?
A year ago, credit markets were “late cycle” - a year or two into a bull market, investors were being paid to hold bonds. Credit spreads had narrowed because investors had been reaching for yield. That, in itself, provided challenges. What would default rates be like in 2020? What was the best way to pick up returns without undue risk?

While there will never be a good time to enter a global pandemic, at least being in late-stage in the credit cycle meant we had already taken action to strengthen the quality of our portfolio, taking more conservative positions and shoring up against risk.

We moved up the credit quality spectrum and shortened our exposure on the credit curve by increasing our allocation to shorter-dated bonds. We were being more selective about what to buy. Non-investment grade bonds, which can contribute up to 10 per cent of our portfolio, became less attractive as credit spreads were at wider levels than we had ever experienced before.

How did the 2020 crisis compare to the Global Financial Crisis of 2007-08?
The coronavirus pandemic was initially much more a liquidity event than a credit event. The Global Financial Crisis in 2007-08 was much more of a credit or solvency event. This time around it was liquidity that caused spreads to widen, to the point where we had already taken action to strengthen the quality of our portfolio, taking more conservative positions and shoring up against risk.

During the period – March, April and May – investing was possible, but you needed to have conviction in your cash flow analysis and the quality of the balance sheet of the bank or corporate you were buying into. That was a big difference during this financial crisis, relative to the Global Financial Crisis or the European sovereign and corporate, due to COVID-19, wasn’t always the most attractive. Sectors that were directly impacted by lockdowns were beaten into the ground. Sectors that were much more of a credit or solvency event, such as airlines and retail, were beaten into the ground. That was a big difference during this financial crisis, relative to the Global Financial Crisis or the European sovereign and corporate, it was all about health.

How did credit markets respond?
Fairly quickly central banks had moved to support markets. By late March, the US Federal Reserve had instituted a corporate bond-buying program. In Australia, the RBA established a Term Funding Facility to support the banks and business lending. Both moves, and others in Europe and Asia, stopped credit spreads from widening and in fact by late March, spreads were again narrowing. By way of example, Australian major banks’ five-year senior paper was trading close to 90 basis points above Libor. When the RBA came out with its funding support package, their spreads dropped back very quickly to 100 basis points. That was the best thing to happen in the credit markets in 2020. As a consequence, subordinated bank credit spreads and some short-dated corporate bonds were at 400 basis points. You could buy into an investment-grade asset and get a yield four per cent higher than a government bond. Since the Global Financial Crisis, that number had mostly been between 100 and 200 basis points.

So, was it worth investing in credit markets?
During the period – March, April and May – investing was possible, but you needed to have conviction in your cash flow analysis and the quality of the balance sheet of the bank or corporate you were buying into. That was a big difference during this financial crisis, relative to the Global Financial Crisis, that number had mostly been between 100 and 200 basis points.

What are the differences?
Firstly, there was the global pandemic. Second, there was the Global Financial Crisis of 2007-08. Third, the Global Financial Crisis was a credit crisis, whereas the 2020 crisis was a liquidity crisis.

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There were three key differences:
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Dr. Bronwyn King’s epiphany is the stuff of folklore now. A young doctor, horrified by the deaths of her patients from lung diseases, sets out to free the world from tobacco by engaging with ‘the missing piece’ in international tobacco control efforts, the finance industry. From the first small step of withdrawing her own superannuation fund from investments in tobacco companies, her message has snowballed into a global phenomenon.

Today, insurers, pension funds, banks and fund managers – including AMP Capital, which was a founding signatory – have committed to withdrawing finance from the tobacco industry under Dr King’s Tobacco-Free Finance Pledge.

All up, there are now 141 signatories to the Pledge from 22 countries representing more than US$10.9 trillion – or approximately 10% of the world’s total assets under management.¹ It is an extraordinarily important movement.

The Tobacco-Free Finance Pledge is a key initiative of Dr. King’s Tobacco Free Portfolios which encourages finance leaders to reconsider their relationship and financing of tobacco companies, targeting lending, insurance and investment.

The goal is for signatories to move towards a future where tobacco companies are ultimately divested from portfolios, denied insurance coverage and excluded from borrowing. >

Undoing the dark realities of tobacco

Tobacco is one of the greatest threats to human life we have ever faced, yet it’s been normalised and accepted for hundreds of years. The financial services industry has the chance to step up, and join a fight that is showing real results.

Story by SIMON ANDERSON

1. https://twitter.com/TFP_TobaccoFree/status/1265886699608928256
3. https://www.who.int/news-room/fact-sheets/detail/tobacco
4. https://apps.who.int/iris/bitstream/handle/10665/43818/9789241596282_eng.pdf?sequence=1
5. https://www.who.int/news-room/fact-sheets/detail/tobacco
6. https://www.who.int/news-room/fact-sheets/detail/tobacco
7. https://www.who.int/news-room/fact-sheets/detail/tobacco
8. https://www.who.int/news-room/fact-sheets/detail/tobacco
9. https://www.who.int/news-room/fact-sheets/detail/tobacco
If tobacco control measures are maintained, the rate of tobacco users should decline to about a fifth of the global population by 2025.8 But the headline numbers mask some tragic detail.

One of the most concerning public health implications of tobacco is its effect on the poorest communities in the world. Tobacco use is growing fastest in low-income countries as population growth combines with tobacco industry marketing.9 Some 80% of the world’s smokers live in low- and middle-income countries, with usage concentrated in the poorest communities.

Poorer smokers spend more of their income on tobacco than wealthier smokers and suffer most from tobacco-related illness.10

Health systems facing unprecedented pressures due to the COVID-19 pandemic are also suffering as countries continue to fight diseases caused and worsened by smoking.

The World Bank estimates the total economic damage of smoking – medical costs and productivity losses from death and disability – at more than US$8.4 trillion per year, or 1.8% of global GDP.11

Child labour is also a problem in the tobacco industry. The International Labour Organisation believes that child labour in tobacco production in some poorer countries “is rampant”.12

Research conducted in Malawi revealed that 57% of all children in two tobacco producing districts were involved in child labour and among tobacco growing families, 63% of children were engaged in child labour.13

The environment is also a victim of the tobacco industry. Cigarette filters are made of a type of plastic and of the 18 billion bought per day, only a third make it into the waste management system. The rest are tossed. Cigarette butts are among the world's most discarded plastic items, polluting oceans worldwide.14

Dr King’s Tobacco-Free Finance Pledge goes beyond traditional investment tools like the integration of environment, social and governance (ESG) factors, company engagement and impact investing. Signatories to the Pledge acknowledge the view that tobacco cannot be handled under regular ESG principles for three reasons.

Firstly, there is no safe level of tobacco consumption15. Second, tobacco is the subject of a UN treaty – The Framework Convention on Tobacco Control (FCTC) – that is legally binding on the 181 countries that are Parties to the Treaty to implement tobacco control measures.

Finally, engagement with the tobacco industry is futile, partly because success would mean the industry stopping the operation of its primary business model. The Pledge, launched at UN Headquarters in New York in September 2018 is working. Tobacco shares were once one of the world's best performing sectors, with the MSCI World Tobacco Index returning 1,437% from the end of 1999 through 2015, according to data from Bloomberg.16 But in the three years to June 2020, the index has declined 13.35% per year.17

Alongside tougher regulation and higher taxes, industry watchers put down the poor investment returns to increasing regulation, litigation and divestments by the global pension funds, banks and insurers that support the tobacco finance movement.18

From AMP Capital’s perspective, the move to tobacco-free portfolios has made good financial sense given those returns, but it was not originally about investment performance. Rather, AMP Capital took the view that ethical issues including “degrees of harm” and the type of engagement it undertakes with other industries is not capable of resolving the unique and inherent dangers associated with tobacco products.19

16. https://www.msci.com/documents/10199/60e06c7e-e189-4193-b7d4-fcee21c3c2fa

“AMP Capital was one of the first mainstream fund managers in the world to implement a tobacco-free policy and the only one to proactively state that the decision was grounded in ethics. It was inspiring to see that leadership. The impact opened the door for more honest conversations around challenging sectors, where leaders are now willing to ask themselves ‘what is my baseline standard?’, ‘are there any companies that sit below the line?’”

– Dr Bronwyn King, founder, Tobacco-Free Portfolios

“Impact opens the door to tobacco-free portfolios.”

– Adam Kirkman, head of ESG, AMP Capital

AMP Capital, a founding signatory to the Tobacco-Free Finance Pledge completed its own divestment of A$440 million worth of tobacco manufacturing-related holdings from its portfolios in 2018 under a new Ethical Framework, representing the largest divestment of tobacco securities by a fund manager in Australia. Tobacco control measures around the world are having an impact. WHO data shows that in 2000, around a third of the global population aged 15 years and older were users of some form of tobacco products. By 2015, this rate had declined to about a quarter.

Research conducted in Malawi revealed that 57% of all children in two tobacco producing districts were involved in child labour and among tobacco growing families, 63% of children were engaged in child labour.13

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Dr King’s Tobacco-Free Finance Pledge goes beyond traditional investment tools like the integration of environment, social and governance (ESG) factors, company engagement and impact investing.
The growing force in global listed real estate

Historic shifts in home ownership underpinned by seismic demographic changes are behind a new force rising in the residential real estate industry – institutionally-owned single-family home rentals. Here, we explore this fast-growing phenomenon.

The world’s population is aging. Almost every developed country is facing an unprecedented growth in the number of older people in their populations.

The United Nations (UN) calls population aging one of the most significant social changes of the 21st century and predicts impacts across all sectors of society and business.

According to UN data, by 2050 one in six people globally will be 65 years of age or over, in Europe and North America, this figure will be one in four. Already, people aged more than 65 outnumber those younger than five.

These are confronting numbers.

But sometimes global statistics aren’t the best way to illustrate a trend, so here’s another fact:

Ten thousand Americans turn 65 every single day.

It’s a phenomenal shift.

3. UN Population Division

JAMES MAYDEW
Head of global listed real estate,
AMP Capital
And it’s posing enormous challenges – and opportunities – for the investment world.

Housing is the core challenge.

As Baby Boomers retire, they shift from homeownership to renting.

Housing is the core challenge.

The so-called Millennial generation who were becoming increasingly tricky.

But there’s a problem: finding a buyer is

And for most, the biggest asset they have to

assets to fund their retirements.

This is driving a new behaviour: instead of

US home ownership shift

For starters, many Millennials simply don’t have the savings or income to buy property.

But not only have they been buffeted by

recession, but the rise of the finance and

Technology sectors and the decline of

traditional work has meant well-paying jobs

are increasingly concentrated in America’s coastal ‘gateway’ cities where constrained

property supply has sent prices sky-high.

But there’s another, more important, factor:

many Millennials are simply choosing to rent.

The American home ownership dream of

previous generations is slowly giving way to a

more European model where people become

long-term, secure tenancy renters.

The proportion of American Millennials

who say they want to one day own a home

has fallen from 40 per cent in 2016 to just

19 per cent in 2019.5

This intention matters because the Millennials

now outnumber the Baby Boomers in the US population6.

And from a pure investing standpoint, the Millennials’

aversion to home ownership

makes perfect sense.

Making a 30-year commitment to a single,

lifestyle that provides no income

flows in the face of much financial wisdom.

But it has been a good source of wealth

creation over many generations because

each generation followed the previous into

home ownership.

Now, the alternatives are proving more

compelling. The rise of cheap and free

brokerage accounts in the US is training a

generation to invest in financial markets

and crypto, while the rise of low-cost index

investments provides millions with an effective

way to grow their savings.

COVID-19

It is important to note that the trend away from

home ownership towards renting pre-dates the COVID-19 pandemic.

And is critical not to extrapolate the

extraordinary events of 2020 into

long-term predictions.

But it is nonetheless true to say that

COVID-19 is an accelerating trend we were

already experiencing.

Americans have been shifting away from

urban, highly dense living to less urbanised,

less dense lifestyles for some time now.

Even before COVID-19 and the lockdowns and disruptions of the pandemic, many

American cities were beset by congestion, density, violence and a too-high cost of

living. In 2020, some of the major cities also became pandemic hotspots.

This has led to growth in the so-called sunbelt opportunities of the south, with better lifestyles,

lower taxes and a cheaper cost of living.

The sudden dawn of working from home has only bolstered this trend.

If nothing else, 2020 has been a giant global experiment in telecommuting. Not only have we discovered that it works, we have discovered that we like it.

The emergence of effective, powerful technology and the rise of remote work, creativity and collaboration is fuelling the already extant trend of people moving

away from the big cities in search of a better quality of life.

Many knowledge economy workers in the US can now work from wherever they like and no longer have to live within a commute of their office in a major city. This is good for the workers but it’s also good for their employers who now have a vastly wider pool of potential employees from which to hire.

Institutional investment

So, we have a number of trends converging.

The rise of working from home fuelled by

technology, a shift away from cities towards

suburbs and lower density towns; a rising

preference to rent rather than buy; and a flood of

single-family homes hitting the market as Baby Boomers retire.

Together, they are creating an entirely

new institutional asset class: the

single-family rental.

To be sure, it has been an arduous road. A little over a decade ago, in the Global Financial Crisis, as many as 10 million Americans lost their homes.7 That crisis forever changed the way the nation viewed housing.

But as the bubble of unsustainable mortgage debt in the economy unwound it also

allowed the creation of the first large pools of institutionally owned housing, many of which were bought out of foreclosure.

Institutional investors own around

200,000 to 400,000 homes now.

Instead, institutional real estate investors can

buy a large proportion, potentially up to 1.8

million single-family homes by 2030, growing

their share of the rental market some 10 times in less than a decade.

Ultimately, as representative investors, our duty is to assess and respond to the long-term trends driving the world economy, shifting
demographics is one of the most important.

But the single-family rental is ripe for consolidation.

The genesis of these trends can sometimes be

unpleasant but are real.

We have seen this in the current combination of low

interest rates, home ownership affordability

challenges, the pandemic and even back to

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And, we believe, this new normal will fuel the

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SFR REITS to scale up by almost 10x

Source: Morgan Stanley Research REIT Report, March 2019

But the single-family rental is growing fast.

Baby Boomers will sell some 12 million homes over the next decade8 as they

transition to retirement.

With the traditional buyers of those homes now likely to rent, many homes will not find

new families to own them.

Instead, institutional real estate investors can

buy a large proportion, potentially up to 1.8

million single-family homes by 2030, growing their share of the rental market some 10 times in less than a decade.

Ultimately, as representative investors, our duty is to assess and respond to the long-term trends driving the world economy, shifting
demographics is one of the most important.

The genesis of these trends can sometimes be

unpleasant but are real.

We have seen this in the current combination of low

interest rates, home ownership affordability

challenges, the pandemic and even back to

the Global Financial Crisis.

But confluence of these factors is creating a
genuine, long-term change in the way US

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When the pandemic first took off, the communications industry was all but untouched. If anything, many communications businesses actually benefited as the world turned to doing business remotely and stepped up use of digital collaboration tools.

In utilities, the electricity sector suffered a downturn in March and April as economies shut down but came back remarkably quickly in May and June.

Energy was pummelled by the twin effects of a dramatic drop in oil demand and a price war between exporters.

The four pillars of infrastructure in the wake of COVID-19

Four segments of the infrastructure industry – communications, utilities, energy and transport – have been impacted by COVID-19 in different ways. Our listed infrastructure team explain how they responded and what they’re bracing for in recovery.

Story by SIMON ANDERSON
Meanwhile, the transport industry was flattened. Data from Apple shows requests for directions for walking, driving and public transport collapsed as the virus took hold. Movements dropped more than 80 per cent in parts of hard-hit Europe and more than 50 per cent in the US.

“Clients ask us these questions: will people ever use airports again? Will we go back to work from an office ever again? Will this be the end of the urban lifestyle? With these types of questions, will people continue to travel the way they used to, and surpass, historical levels?” Giuseppe Corona, AMP Capital’s head of infrastructure, says the recovery in the freight transport sector will be a leading indicator of the global economy’s revival.

Our response to that is: we just don’t believe that we are going to live in a world where we work from home all the time, or we are never going to travel ever again. This is a serious pandemic. But eventually, in our view, transport volumes will return to, and surpass, historical levels.”

Corona says his investment team moved quickly to make portfolio changes as the COVID-19 crisis intensified. “We have gradually increased our exposure to transportation assets because we believe the correction that was caused by COVID-19 represented a good opportunity,” he says.

“Entering 2020 we were relatively underweighted in transport, so we used this connection as an opportunity to increase three sectors – rail in the US, airports in Europe and toll roads both in Europe and elsewhere. “Being a contrarian and being a value investor, we looked at this opportunity as a good entry point.”

Andy Jones, a London-based portfolio manager and analyst in AMP Capital’s listed infrastructure division, says the two parts of the transportation economy – freight and passenger – have behaved differently than they have in past recessions, opening opportunities for investors.

Currently, passenger and freight transport operate hand in hand. As economies grow, volumes rise. And as economies contract, both freight and passenger transport fall in predictable ways.

Not this time.

“The passenger economy has virtually ceased – people have stopped moving around,” said Jones. “The summer vacation season in the Northern Hemisphere offered promise of a more rapid rebound in aviation traffic, however, disparate and uncoordinated national measures to control movement of people effectively limited demand, returning aviation to its state of hibernation. The silver lining for airlines and airports, is that the limiting factor for demand is not fear of flying, but temporary measures imposed to suppress infection rates”.

“However, the freight economy has shrunk by far less than we expected.”

“Usually in a recession or an economic contraction, you see international freight volumes shrink much more than passenger volumes. This time round it has been completely the opposite.”

The Apple data shows mobility bottomed in mid to late March in the US and Europe and that by early June, Germany and the US were back to pre-COVID levels, while hard hit European countries, like the UK and Italy, were only a few weeks behind.

However, there was nuance in the data. According to Apple Mobility Trends in data, in the US, driving trends exceeded pre-COVID levels relatively quickly (by June) but public transport usage still languishes 38% below pre-COVID levels.

“Ordinarily, various data points showing people are much happier to get into a car rather than get on a bus or get on the train,” said Jones.

“And you’d expect that to continue at least until people become comfortable, or until congestion becomes so bad that people are forced back onto public transport.”

Interestingly, some of the more successful countries at containing COVID-19 were showing a slower return to normal mobility. By early June, New Zealand, South Korea and Australia all remained well below the mobility patterns seen before the crisis, with secondary and tertiary mobility restrictions constraining the pace of recovery.

In contrast to passenger movement, freight trends have returned close to ‘normal’ levels, but passenger transport remains in the doldrums,” says Jones.

“Usually in a recession or an economic contraction, you see international freight volumes shrink much more than passenger volumes. This time round it has been completely the opposite.”

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While Corona reassures his clients that the recovery is coming, he cautions it will take time and may differ from country to country.

“There are many factors that may influence the pace of recovery. The severity, the length, the magnitude. It has been quite different. And because of that, the recovery is going to be different. It may take one, two, three, four, five years, depending on the answers, depending on the sectors, depending on a vaccine, depending on so many variables. We remain ready to invest where we see markets pricing in a permanent loss of demand that we think is not justified by our understanding of the assets.”
AMP Capital is a global investment manager offering private market and public market solutions to clients, with a strong focus on ESG.

Our home strength in Australia and New Zealand has enabled us to grow internationally, and today we have operations in Dubai, China, Hong Kong, India, Ireland, Japan, Singapore, Luxembourg, the United Kingdom and the United States. With over 250 investment professionals working in 19 locations around the world, we’re able to deliver the capabilities and investment solutions that help our clients achieve their financial goals. We also collaborate with a network of global investment partners, leveraging our shared capabilities to provide greater access to new investment opportunities.

We are entrusted to manage A$189.9 billion in assets under management on behalf of our clients, across a range of single sector and diversified funds. We work with more than 300 international clients and manage over A$20 billion in assets on their behalf.

Direct real estate
With a heritage spanning over 50 years, we actively manage real estate across all stages of the cycle. We realise true value for clients through the investment management, property management and development of a portfolio of some of the most iconic shopping centres, industrial estates and office buildings, from Australia’s first skyscraper to the transformational Quay Quarter Sydney development.

Direct infrastructure
Backed by a truly global infrastructure platform, we’re able to capture what we consider to be the best investment opportunities from around the world. It’s earned us a name on a global stage, and a place as one of the top 10 infrastructure managers worldwide.

With 30 years’ experience, we bring a breadth of insight that spans energy, power, transport, utilities, airports, seaports, communications infrastructure, social infrastructure, aged care and more. The combined expertise of close to 100 infrastructure investment specialists also allows us to cover all aspects of capital structure giving our clients more investment options for their future.

Public markets
Our well-established public markets business, including fixed income, listed equities and multi-asset solutions, requires shifting from traditional actively managed products to a specialist active offering of targeted solutions which meet specific client needs. Our public markets team remains focused on delivering investments that match our client’s needs as we manage A$126.7 billion across our global fixed income, multi-asset solutions, Australian equities, global listed real estate, global listed infrastructure and global equities solutions.

ESG and responsible investment
We believe considering ESG factors provides greater insight into areas of risk and opportunity that impact the value, performance and reputation of investments we make on behalf of our clients.

We recognise that all investments we make have a purpose and a wider impact and it’s up to us to help make it a positive one for our clients and the global markets and communities in which we invest.

By looking at what we do as part of a bigger picture, we’ve developed a portfolio of responsible investment options for our clients. We are one of the first investment managers globally to sign the UN-backed Principles for Responsible Investment (PRI). Many of our funds have been recognised for their ESG performance. We continue to challenge and evolve our thinking, our processes and product offerings to meet our clients’ growing expectations, partnering with them as they too look to fulfill their own goals and commitments to responsible investing.