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BlackRock.

The Case For Active Equity Investing – A Fund Manager's Perspective

Quick read

The public equity opportunity

The key, in our view, is to find companies that can grow more than the global economy and sustain long-term returns.

Looking through the noise

We focus on company fundamentals and avoid selling companies for purely cyclical reasons.

Rigorous company research

We talk to companies across all the different industries, which in their entirety are the economy. This gives us a high-conviction, evidence-based process.

Alister Hibbert

Head of the Strategic Equity Team,

BlackRock Fundamental Equites

Active equity investing isn't just about picking stocks. It's about making informed strategic decisions to try to beat the market or generate alpha. But what does that really mean for your portfolio, and how can you consider long-term investing strategies when faced with volatile markets?

Alister Hibbert, head of BlackRock's Strategic Equity Team, joined the BlackRock Bid podcast to discuss the nuances of active investing, how to identify opportunities in various sectors, and how to think long term when faced with short-term headwinds. Below is an edited excerpt from the conversation.

Alister, how do you define your role as stock picker?

I believe that public equities represent the richest, broadest, and deepest opportunity set within financial markets. Yet over the long-term, let's call that a 5-10 year horizon, history shows us that most companies are likely to deliver fairly ordinary performance. We try to ignore the ordinary and find the extraordinary. These are companies that have the potential to grow ahead of the global economy, with high returns that are sustainable over that long-term time horizon.

How many of these "extraordinary" public companies are out there?

The world can change dramatically over a ten-year period, so it's very rare for us to have a view on how a company might perform that far into the future. Out of the thousands and thousands of securities that we've analyzed over the years, there is only a small subset that we would have strong conviction in over the long term. But when we find them, we think they're enormously undervalued because the market overall tends to look at a much shorter duration outcome.

When you are assessing the long-term prospects for companies, how do you factor in the short-term news around things like geopolitics, central bank policy, or even cyclical issues?

There's a lot of noise in markets and we need to be thoughtful about that. There are more data points available now, which means that stocks may go up and down quite violently from time to time, in ways which are unpredictable over the short-term. And so we need to thoughtfully pick through all of these changing narratives in the market and try to understand which of these will actually have an impact on a business over a longer period of time. And if the answer is that the noise is not going to impact on these companies to any significant extent, then we need to hold steady and we need to be calm.

If companies are just experiencing cyclical problems, then these normally get resolved naturally over time. The risk is that a portfolio manager might sell a security for cyclical reasons, but then never buy it back, and therefore rob themselves of an amazing opportunity. And this risk of being whipsawed within stock markets is as furious today as it's ever been, and is one of the biggest potential downfalls for active managers.

What kind of analysis do you do that sets your team apart?

Our day job is to try to understand what's going on in the economy and how that might impact stocks. But we do that in a different way from many fund managers, who might look at top-down macroeconomic variables to get a feel for what's happening. We believe that this approach can lead to forecasts that often don't pan out – for example that we were in a bear market at the beginning of 2023 and that a recession was imminent. Neither of these things turned out to be true.

Our approach is to talk to companies across all the different industries, which in their entirety are the economy. That gives us a high-conviction, evidence-based process, helping us to understand and navigate through cycles. For example, at the heart of recent inflation concerns has been the U.S. labor market. Will wage growth decelerate to a level consistent with the Federal Reserve's inflation target, or do we need a recession to get to that place? And that's something that we spent a lot of time talking to companies about because it's companies that make the decision of whether or not to increase people's pay. And as a result of this process, we believe we can contextualise opportunities and risks better and capitalise on these in portfolios.

How are the earnings of some of your favorite companies linked to mega forces such as artificial intelligence or shifting demographics?

We want companies that can invest and grow, and that's where we see the relevance of these themes. So, it could be artificial intelligence, which is in an incredibly strong theme. There's uncertainty about how things will look in three or four-year's time, but right now many major technology companies are all-in on the AI investment thematic. And even if they don't have immediate revenues to prove the return on that investment, that is unlikely to stop them from investing so long as they believe that large language models (generative AI tools) are going to continue to increase in power exponentially.

You see it in other areas, such as weight-loss drugs. We think this could be the biggest drug category in history. That has the potential to create an enormous amount of shareholder value over time.

So, these trends are incredibly important – because they can help provide a strong reinvestment opportunity to facilitate long-term growth. It's not just high returns, but it's the degree to which companies can reinvest at those high returns that contributes to the long-term success of a business.

What is it that keeps you energized as you continue to look for these companies?

It remains the most fascinating occupation of them all, because we know that in the equity market, somewhere, there are the keys that can create extraordinary return potential for us and our clients. And we believe you need to be active if you're going to find those types of opportunities.

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