COVID-19 Investment Section Member Survey Summary Report

September 2020
COVID-19 Investment Section Member Survey Summary Report

AUTHORS
Steven Siegel, ASA, MAAA
SOA Senior Practice Research Actuary

Barbara Scott
SOA Senior Research Administrator

SPONSOR
Committee on Finance Research

Caveat and Disclaimer

The opinions expressed and conclusions reached by the authors are their own and do not represent any official position or opinion of the Society of Actuaries or its members. The Society of Actuaries makes no representation or warranty to the accuracy of the information.

Copyright © 2020 by the Society of Actuaries. All rights reserved.
## CONTENTS

Survey Highlights .......................................................................................................................... 4  
Complete Results .......................................................................................................................... 6  
About The Society of Actuaries ................................................................................................... 14
COVID-19 Investment Section Member Survey
Summary Report

Survey Highlights
As part of its ongoing effort to provide useful information on COVID-19, the Society of Actuaries issued a brief survey to its Investment Section members to gain insight as to how COVID-19 is impacting investment professionals. The survey was fielded in August 2020 and deliberately kept brief for ease of response. The survey results are intended to help members compare their thinking and future expectations of COVID-19 with their peers. Thanks to the 83 Investment Section members who responded to the survey. The following are highlights of the survey results. The remainder of the report contains the complete survey results.

Recovery Expectation
When asked about their outlook for the timing of the resolution of COVID-19 with respect to its overall impact on investment markets, the majority (57.9%) of respondents expect that there will be a recovery back to normal in 12 months or more. 23.7% of respondents expect the recovery to be within 6-12 months. An equal number of respondents (6.6%) indicated that either a recovery has already occurred or expect that there will not be a recovery back to normal.

Asset Risks
Respondents were asked for their thoughts about a list of asset risks over one-year and five-year time horizons. Of the asset risk choices, the top three risks for which respondents showed the greatest concern over a one-year time horizon were: Default (65.8%, very concerned), Volatility (63.4%), and Equity-US risks (51.3%). Respondents showed the least concern over a one-year time horizon for: Inflation (54.7%, not at all concerned), Deflation (36%), and Liquidity (26.7%).

Over a five-year time horizon, respondents indicated the greatest concern for: Inflation (28.4%, very concerned), Default (14.5%) and Equity Global (10.7%) risks. Respondents were least concerned over a five-year horizon for: Liquidity (56.7%, not at all concerned), Deflation (52.3%), and Equity US (41.6%) risks.

Model Changes
The survey asked respondents whether they have or plan to change any of their base financial models or do additional sensitivity testing because of COVID-19. Around the same number of respondents indicated they have changed already (32.9%) or are planning to change (31.7%). Only 2.8% of respondents indicated they were not going to make changes, while 13.8% did not know or did not find the question applicable to their situation.

For those who have made changes or are planning to make changes, 45.9% of respondents indicated they did so within the past 3 months, while 6.6% did it more than 3 months ago. Of those planning to make changes, 31.2% are planning within the next 1-6 months. Significantly lower numbers of respondents indicate planning beyond 6 months or do not know at this point.
Negative Interest Rates

Respondents were asked whether any of their models include scenario testing for the impact of negative interest rates. Close to an equal percentage of respondents indicated they include testing (46.0%) or do not (43.4%).

Fallen Angels

When asked about how concerned they were about the impact of COVID-19 on recoveries of fallen angels (downgraded from investment grade to junk), most respondents (49.4%) were somewhat concerned. 28.6% of respondents were very concerned, while 14.3% were a little concerned. Only one respondent was not concerned.

Assets Under Management

Most respondents (41.4%) have $50 billion or greater of assets under management at their firms. 25.7% of respondents either did not know or thought the question did not apply to them. The remainder have assets under $50 billion.

Future Survey Topics and Work

Respondents were primarily interested in future work that explores interest rates and modeling, including negative rates. Other thoughts included long-term impact of government monetary and fiscal policy.

Acknowledgements

Thanks to members of the Society of Actuaries Committee on Finance Research for their invaluable help in the development and review of this survey.

Stephen Marco, ASA, CERA, Chair
Stephanie Ching, FSA, MAAA, CERA
Steven Craighead, ASA, MAAA, CERA
Chris Foote, FSA, MAAA
James Kosinski, FSA, MAAA
Dennis Radliff, FSA, MAAA
Robert Reitano, FSA, MAAA, CERA
Max Rudolph, FSA, MAAA, CERA
Daniel Schobel, ASA
Walter Wang, FSA, MAAA, CERA
Hannah Wickard, FSA, MAAA, CERA
David Schraub, FSA, MAAA, CERA, SOA Staff Fellow
Complete Results

QUESTION 1.
What is your outlook for the timing of the resolution of COVID-19 with respect to overall impact on investment markets?

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Number of Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>There has already been a recovery back to normal</td>
<td>5</td>
<td>6.6%</td>
</tr>
<tr>
<td>There will be a recovery back to normal within 3 months</td>
<td>1</td>
<td>1.3%</td>
</tr>
<tr>
<td>There will be a recovery back to normal within 3-6 months</td>
<td>3</td>
<td>4.0%</td>
</tr>
<tr>
<td>There will be a recovery back to normal within 6-12 months</td>
<td>18</td>
<td>23.7%</td>
</tr>
<tr>
<td>There will be a recovery back to normal in 12 months or more</td>
<td>44</td>
<td>57.9%</td>
</tr>
<tr>
<td>There will not be a recovery back to normal</td>
<td>5</td>
<td>6.6%</td>
</tr>
</tbody>
</table>
QUESTION 2 – EQUITY-U.S.

How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Equity-U.S.)

QUESTION 2 – EQUITY-GLOBAL (NON-U.S.)

How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Equity-Global (non-U.S.)
QUESTION 2 - DEFLATION
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Deflation)

QUESTION 2 - INFLATION
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Inflation)
QUESTION 2 – LIQUIDITY
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Liquidity)

QUESTION 2 – DEFAULT
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Default)
QUESTION 2 – CREDIT SPREADS
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Credit Spreads)

QUESTION 2 – VOLATILITY
How concerned are you about the impact of COVID-19 on the following asset risks in each of the time horizons shown below? (Selection: Volatility)
QUESTION 3
Because of COVID-19, have you or do you plan to change any of your base financial models or do additional sensitivity testing?

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, planning to do so</td>
<td>25</td>
<td>31.7%</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>3.8%</td>
</tr>
<tr>
<td>Maybe</td>
<td>12</td>
<td>15.2%</td>
</tr>
<tr>
<td>Already done</td>
<td>26</td>
<td>32.9%</td>
</tr>
<tr>
<td>Don't know or Not applicable</td>
<td>11</td>
<td>13.9%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

QUESTION 3A
When did you or do you plan to change any of your base financial models or do additional sensitivity testing due to COVID-19?

<table>
<thead>
<tr>
<th>Timing</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did it within the past 3 months</td>
<td>28</td>
<td>45.9%</td>
</tr>
<tr>
<td>Did it more than 3 months ago</td>
<td>4</td>
<td>6.6%</td>
</tr>
<tr>
<td>Did it within 1-6 months</td>
<td>3</td>
<td>4.9%</td>
</tr>
<tr>
<td>Did it within 6-12 months</td>
<td>19</td>
<td>31.2%</td>
</tr>
<tr>
<td>Don't know or Not applicable</td>
<td>4</td>
<td>6.6%</td>
</tr>
<tr>
<td>Plan to beyond 12 months</td>
<td>1</td>
<td>1.6%</td>
</tr>
<tr>
<td>Plan to within 1-6 months</td>
<td>3</td>
<td>4.9%</td>
</tr>
<tr>
<td>Plan to within 6-12 months</td>
<td>19</td>
<td>31.2%</td>
</tr>
<tr>
<td>Plan to within the next month</td>
<td>2</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
QUESTION 4
Do any of your models include scenario testing for the impact of negative interest rates?

- Yes: 35 (46.1%)
- No: 33 (43.4%)
- Don't know or Not applicable: 8 (10.5%)

QUESTION 5
How concerned are you about the impact of COVID-19 on recoveries of fallen angels (downgraded from investment grade to junk)?

- Very: 22 (28.6%)
- Somewhat: 38 (49.4%)
- A little: 11 (14.3%)
- Not at all: 1 (1.3%)
- Don't know or Not applicable: 5 (6.5%)
QUESTION 6
If applicable, what are the assets under management at your firm?

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100 million</td>
<td>1</td>
<td>1.4%</td>
</tr>
<tr>
<td>$100 million - $499 million</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>$500 million - $4.9 billion</td>
<td>4</td>
<td>5.7%</td>
</tr>
<tr>
<td>$5.0 billion - $19.9 billion</td>
<td>9</td>
<td>12.9%</td>
</tr>
<tr>
<td>$20 billion - $49.9 billion</td>
<td>9</td>
<td>12.9%</td>
</tr>
<tr>
<td>$50 billion or greater</td>
<td>29</td>
<td>41.4%</td>
</tr>
<tr>
<td>Don't know or Not applicable</td>
<td>18</td>
<td>25.7%</td>
</tr>
</tbody>
</table>

QUESTION 7
Are there other types of information you would like the Investment Section to explore in future surveys?

Respondents were primarily interested in future work that explores interest rates and modeling, including negative rates. Other thoughts included long-term impact of government monetary and fiscal policy.
About The Society of Actuaries

With roots dating back to 1889, the Society of Actuaries (SOA) is the world's largest actuarial professional organizations with more than 31,000 members. Through research and education, the SOA’s mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal challenges. The SOA’s vision is for actuaries to be the leading professionals in the measurement and management of risk.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA’s research is intended to aid the work of policymakers and regulators and follow certain core principles:

**Objectivity:** The SOA’s research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

**Quality:** The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and nonactuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

**Relevance:** The SOA provides timely research on public policy issues. Our research advances actuarial knowledge while providing critical insights on key policy issues, and thereby provides value to stakeholders and decision makers.

**Quantification:** The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

Society of Actuaries
475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
www.SOA.org