With Interest Rates Rising, This Asset Management Stock Is a Smart Buy

Description

A higher interest rate environment indicates a quantitative tightening cycle. It means less capital to go around, making it more costly and difficult for companies to grow. Rising interest rates don't bother **Brookfield Asset Management** (TSX:BAM.A), though. Through economic cycles, it has access to large-scale and flexible capital.

Let's not forget that interest rates are rising because inflation is high. Again, Brookfield Asset Management is in a position to benefit from high inflation, because many of its assets are linked to inflation.

Track record of solid returns and easy access to capital

Brookfield Asset Management started with direct ownership of businesses that it operated and eventually focused on key areas of real estate, financial services, hydroelectric power and industrial investments in the 1970s. It operated its assets so well that it evolved into managing assets for others in a more substantial way in the late 1990s.

It has a track record of delivering long-term returns of 12-15% on its investments, which is why it is well loved by investors, including institutional investors like "pension plans, endowments, foundations, sovereign wealth funds, financial institutions, insurance companies," as listed in its 2021 annual report. Of course, retail investors like you and me can make solid returns from it as well, especially buying it after corrections and having a long-term investment horizon.

BAM makes investments in "high-quality assets that earn solid cash returns on equity, while emphasizing downside protection for the capital employed. The primary objective of the company continues to be to generate increasing cash flows on a per-share basis, and as a result, higher intrinsic value per share over the longer term."

Indeed, despite correcting 27% year to date, the large-cap stock has delivered market-beating total returns of about 14.6% compounded over the last 20 years. In other words, an initial investment of $10,000 has transformed into approximately $152,310.

Because of its track record of delivering great returns for the long haul while providing investors peace of mind, BAM has no problem accessing capital to grow. It generates substantial cash flow from its assets and has an ongoing capital-recycling program.

Furthermore, each time it creates an investment fund, it’s able to raise tonnes of money. During its 2021 Investor Day, it highlighted that the round of flagship funds around that time raised US$100 billion and noted the next round targets over US$125 billion.

Benefit from higher inflation

BAM has more than US$750 billion of assets under management across real estate, infrastructure, renewable power, private equity, and credit. Because many of its assets are linked to inflation, the global alternative asset manager actually benefits from higher inflation.

For example, it owns a large stake in **Brookfield Infrastructure**, which has about 70% of its cash flow indexed to inflation. This resulted in robust 10% organic growth for the third quarter and a year-to-date funds-from-operations-per-unit growth of 12.4%, which outperforms the utility industry.

The Foolish investor takeaway

Brookfield Asset Management is a smart buy in this correction, as analysts believe it trades at a discount of more than a third from its intrinsic value. Investors should note that it will be spinning off its asset management business by the end of the year. The spun-off company will continue to manage its assets while giving more flexibility for both companies to grow.

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