

Eventi geopolitici e politiche monetarie: Quali impatti sui mercati?



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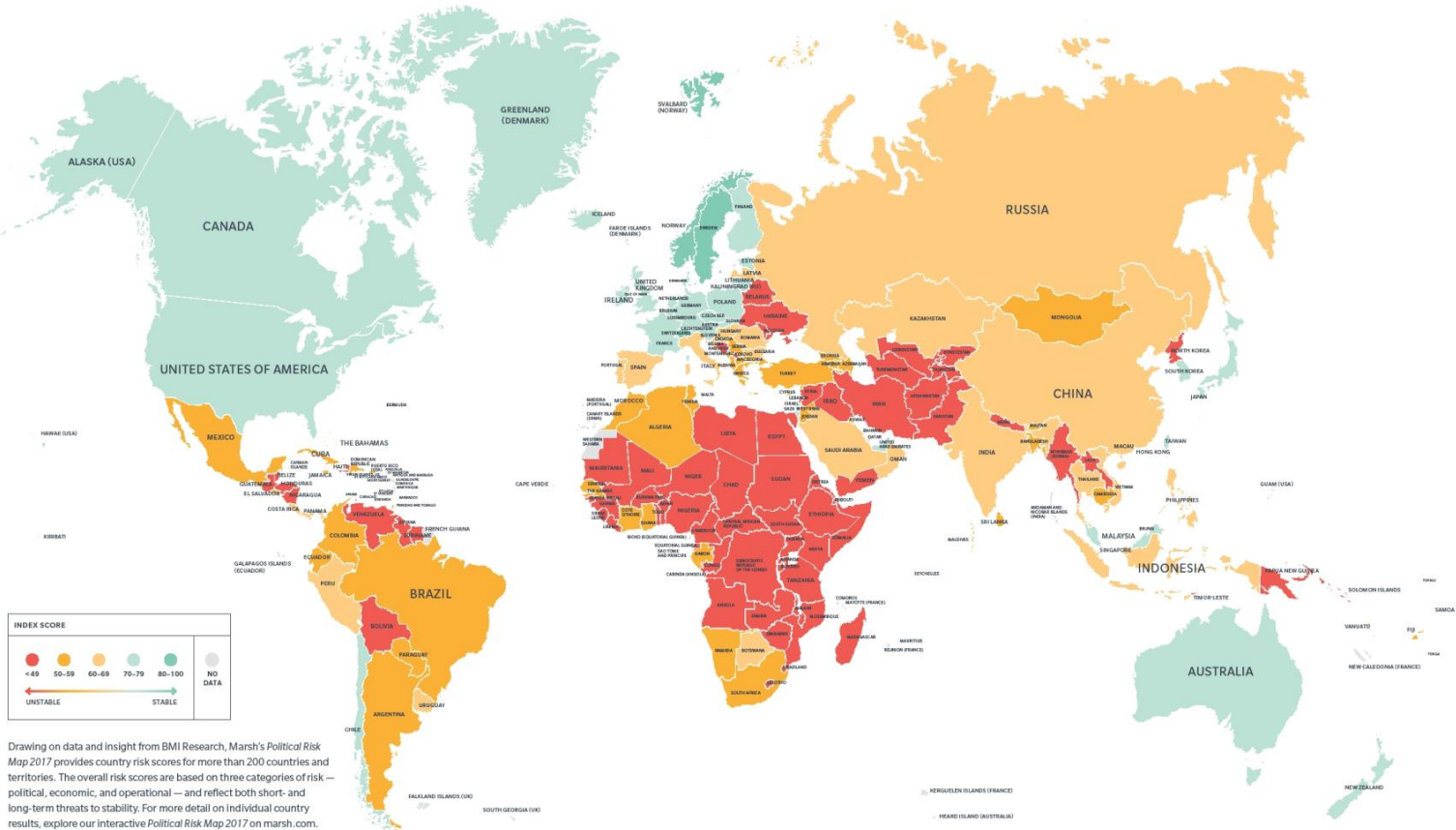
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«The Political Risk Map»



POLITICAL RISK MAP 2017

BMI Research
A FitchGroup Company



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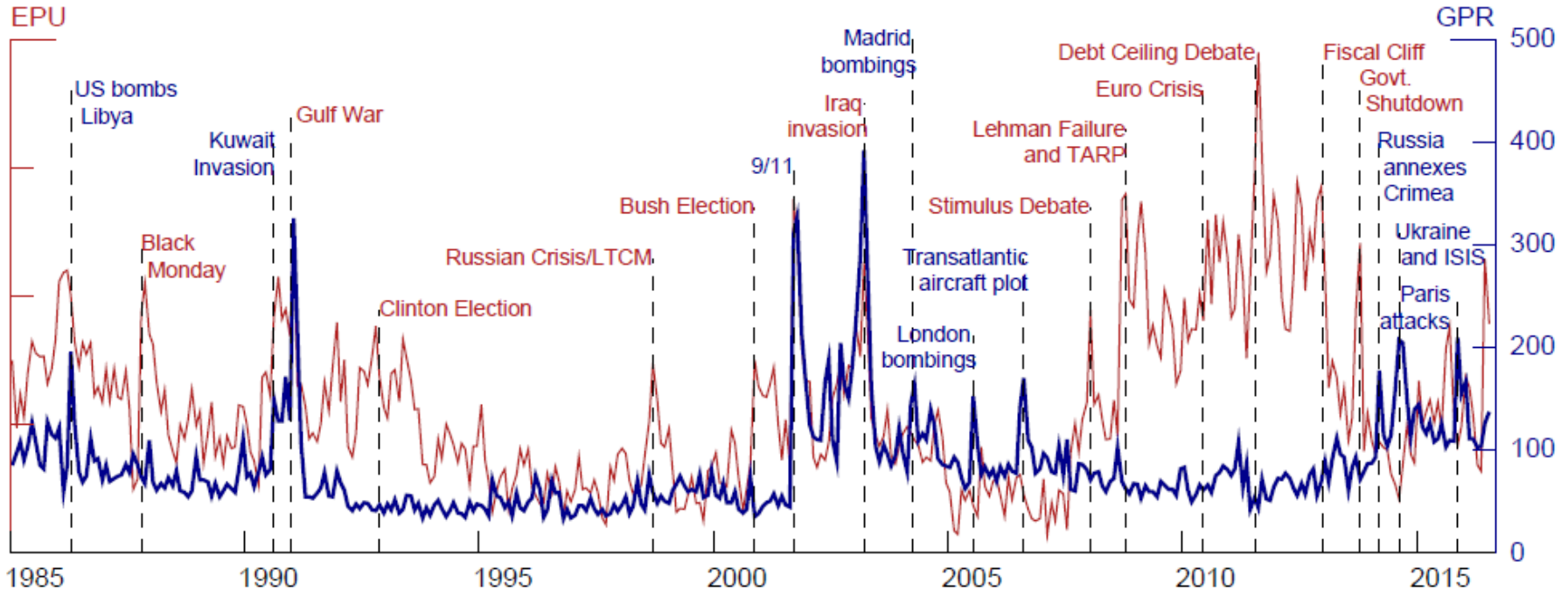


«Geopolitical risks are on the rise»



«Geopolitical risk indexes»

GPR vs EPU



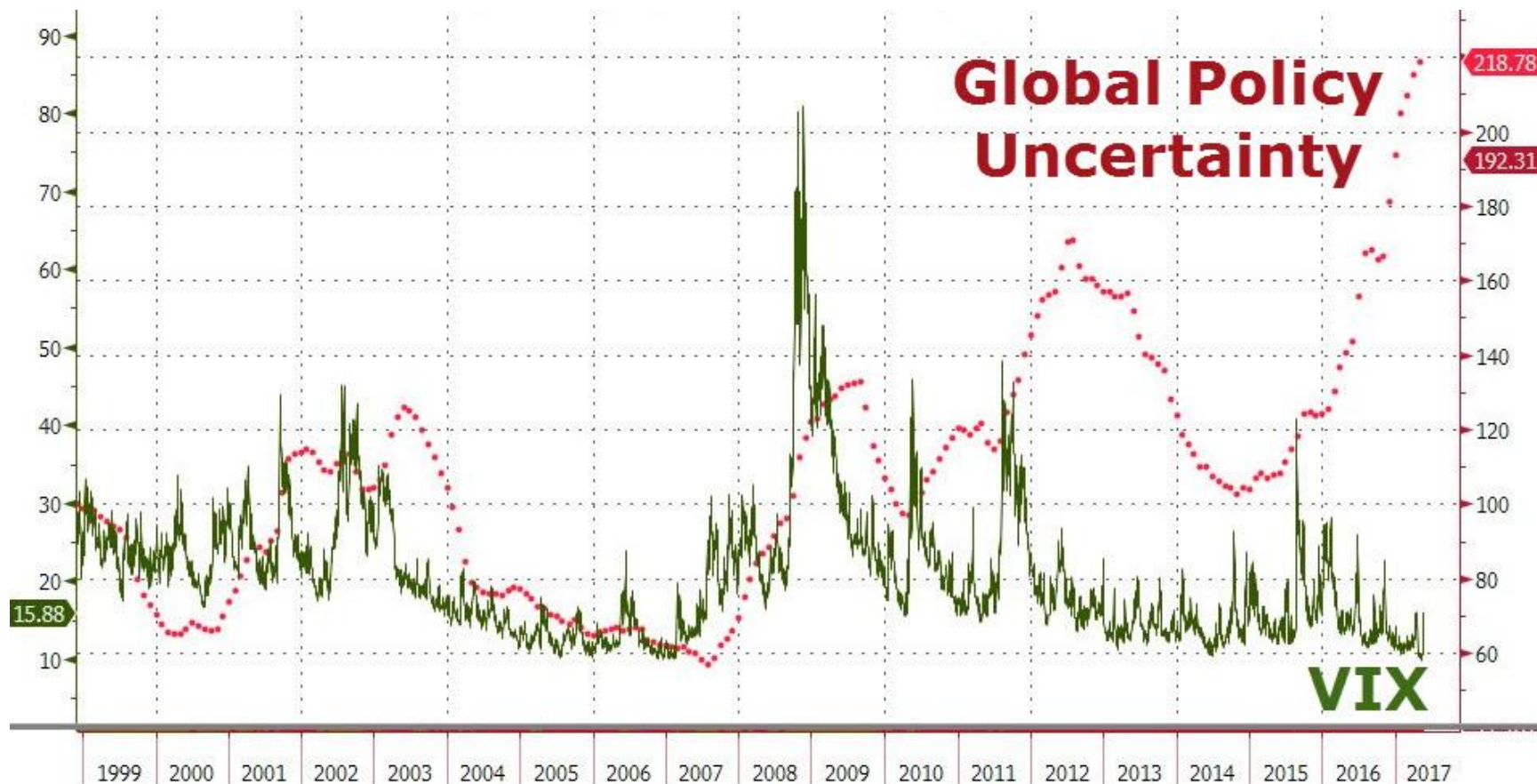
• Fed Geopolitical Risks (GPR) vs. Economic Policy Uncertainty Index (EPU)

«Politics is changing»

- Politicians used to sell dreams, now they sell threats and fear?
- But they also have the solutions
- The bigger the threat, the bigger the solution and the wings of more populist and extreme left and right have grown.



«Global policy uncertainty vs VIX»

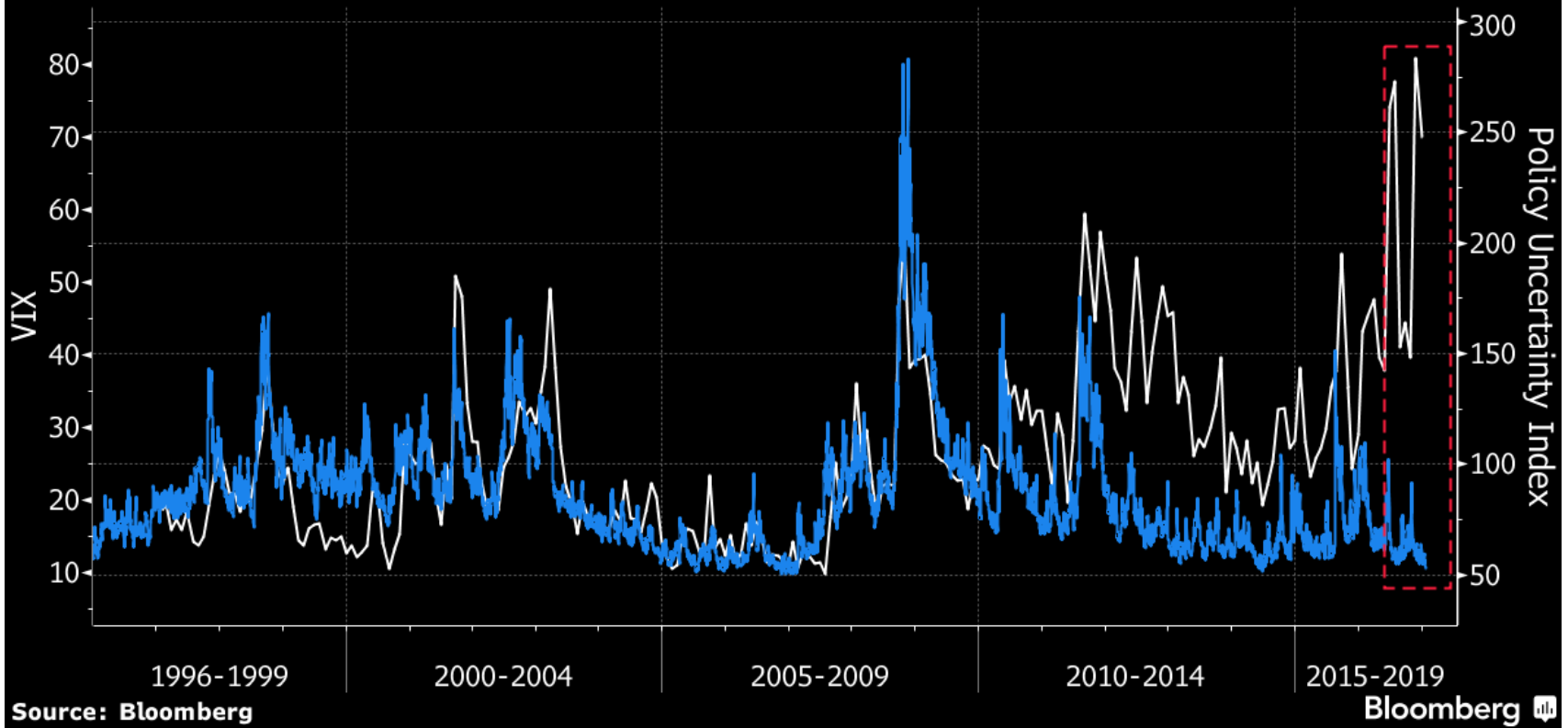


•Baker Bloom and Davis Economic Policy Uncertainty Index EPU

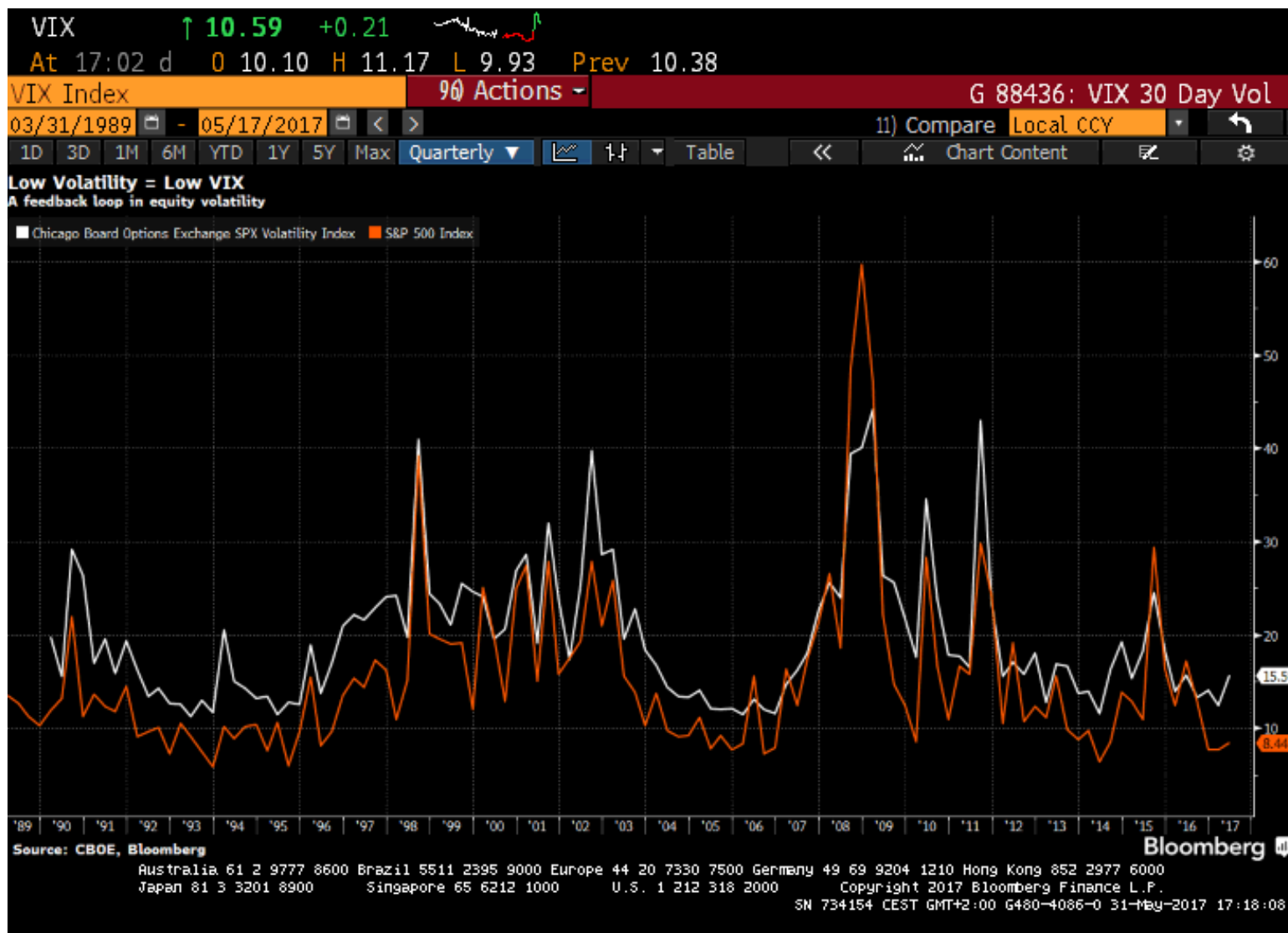
«High Uncertainty but Low Volatility»

VIX Low, Policy Uncertainty High Spread between measures widest since 1996

■ Global Economic Policy Uncertainty Index on 12/31/16 (R1) ■ VIX (L1)



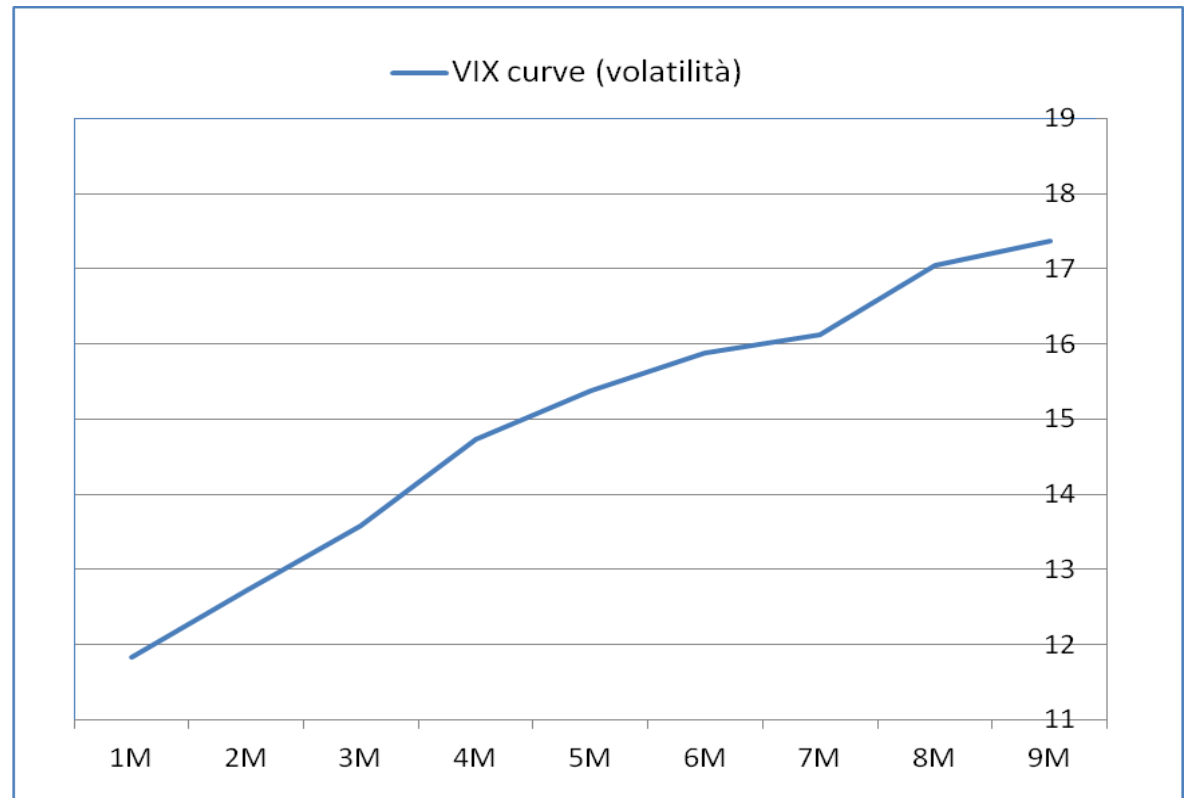
«Is volatility so low? realized versus implied»



«Is volatility so low? the curve is steep»

- The VIX index regards 30 day options on the S&P 500
- The VIX curve is steep though.
- Beyond the short term investors are more worried

Maturity	Volatilità (%)
Spot	10.4
1m	11.8
2m	12.8
3m	13.6
4m	14.7
5m	15.4
6m	15.9
7m	16.2
8m	17.1
9m	17.4



«Vix 6 month expiry not quite so low »



«Low Correlation helps »

Low Correlation = Low Volatility

Both S&P 500 3-month realized correlation and VIX at multi-year lows

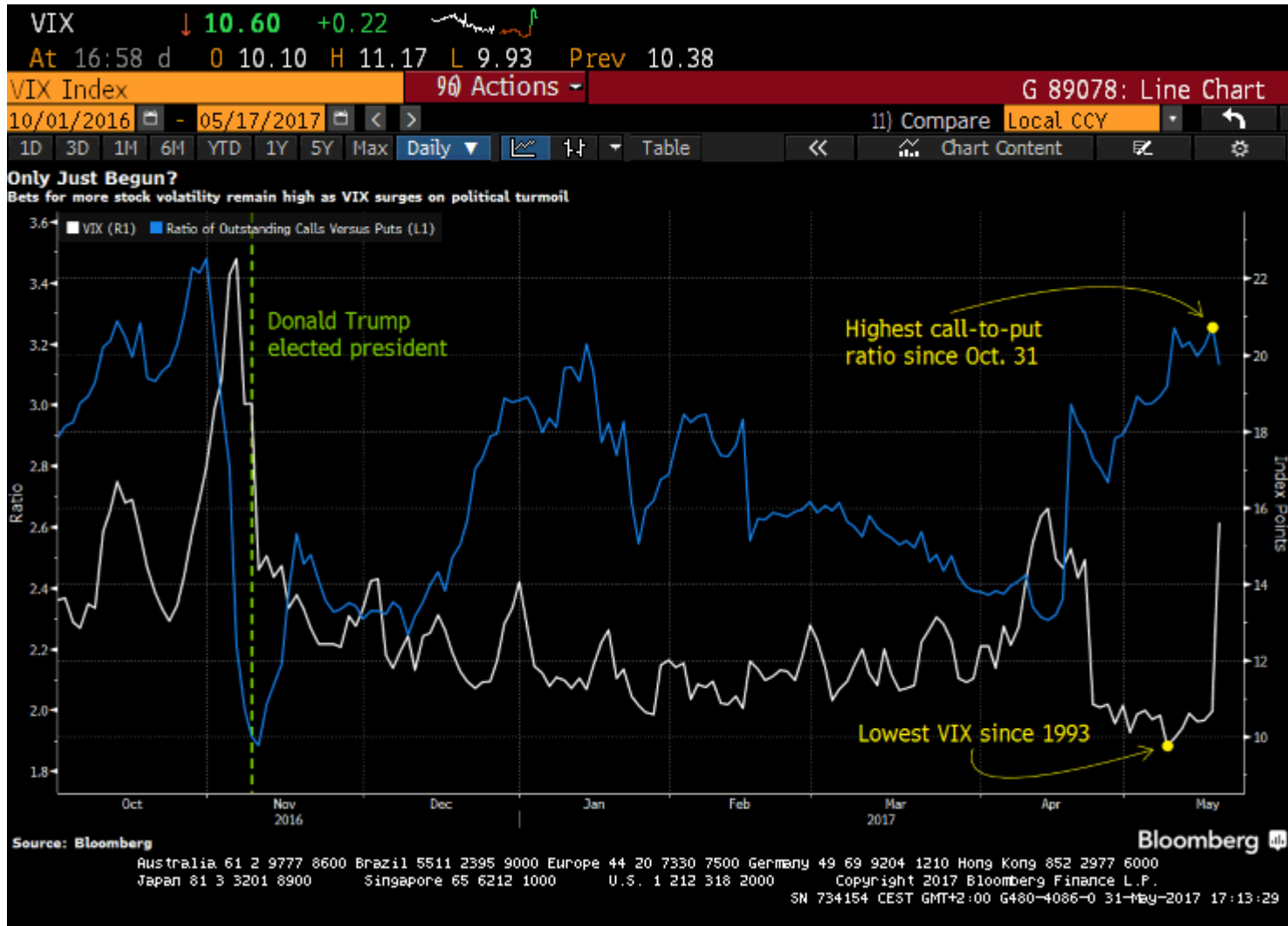
■ S&P 500 3-Month Realized Correlation (R1) ■ VIX (L1)



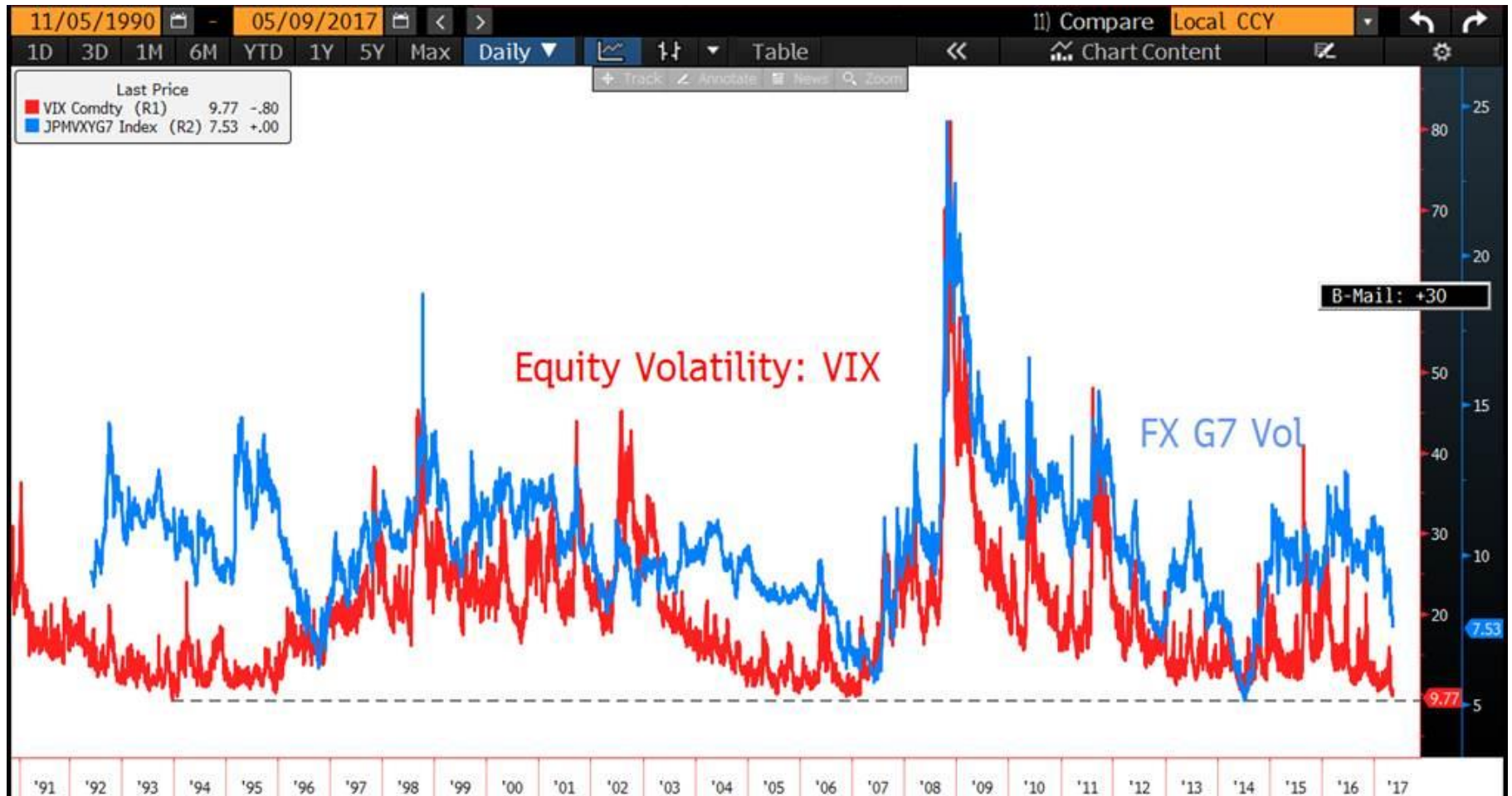
Source: Bloomberg

Bloomberg

«VIX Skew is maybe more forward looking than the index itself »

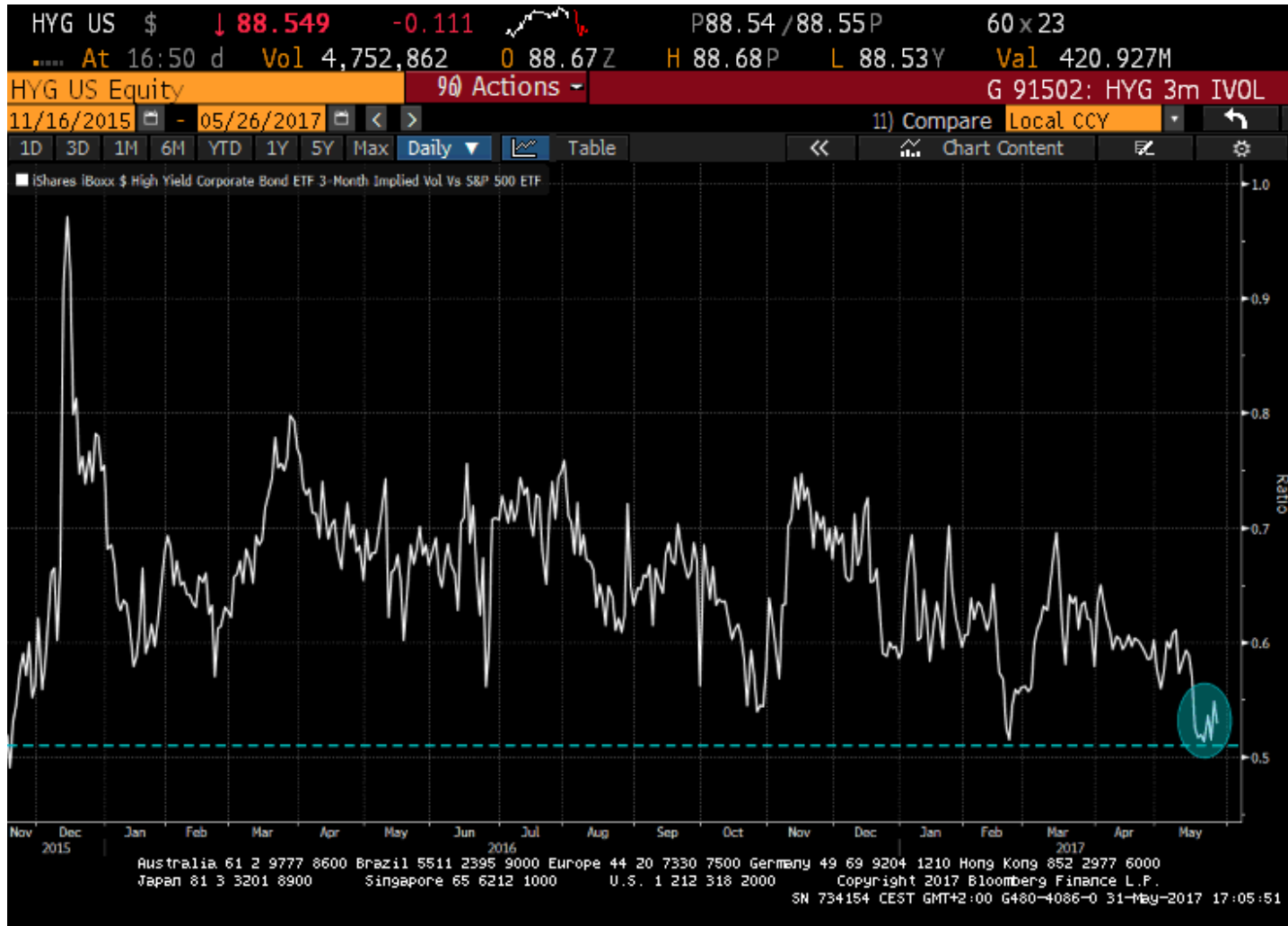


«and FX markets»



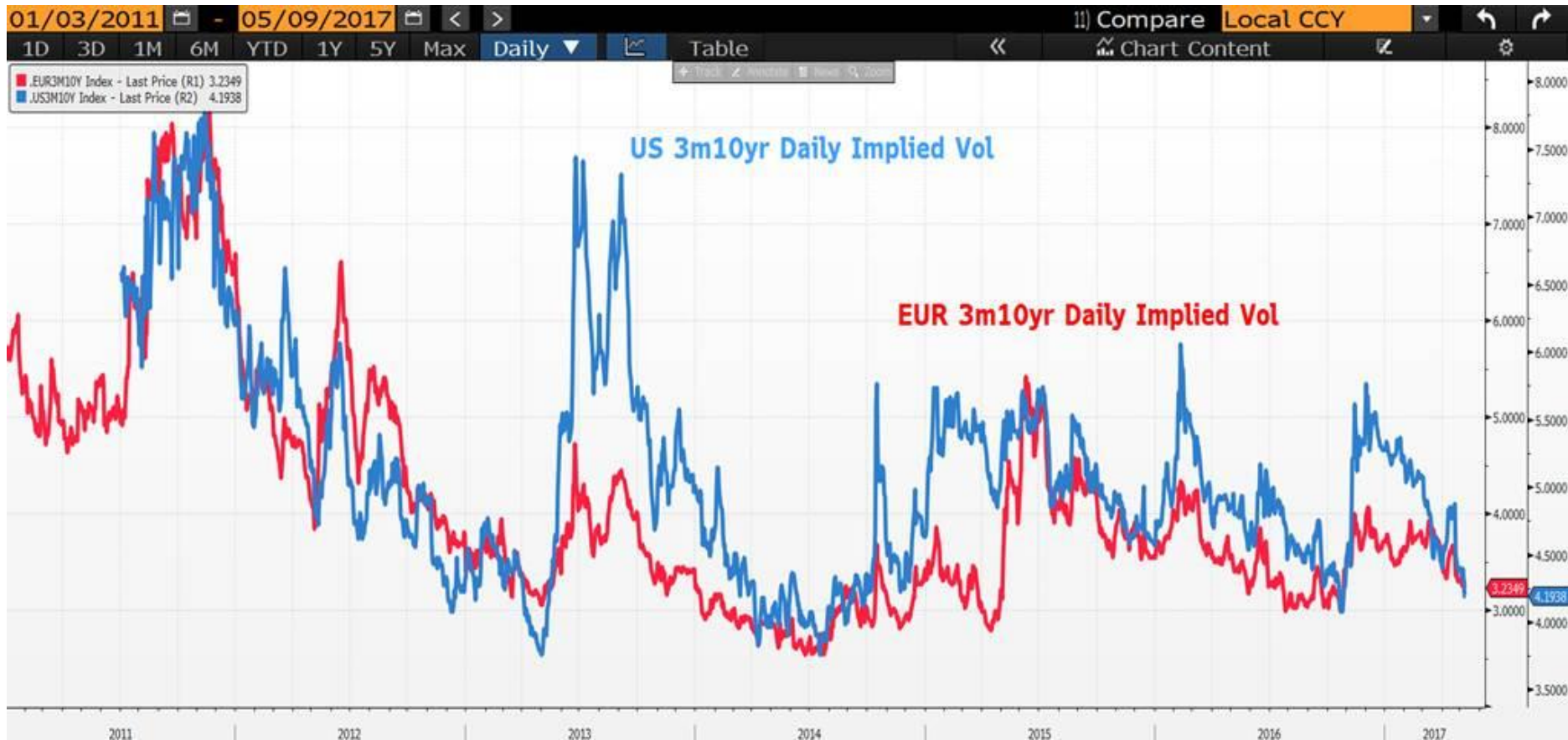
JP Morgan index calculated based on currency 3 month ATMV vols

«Volatility even lower in US High Yield bond markets»

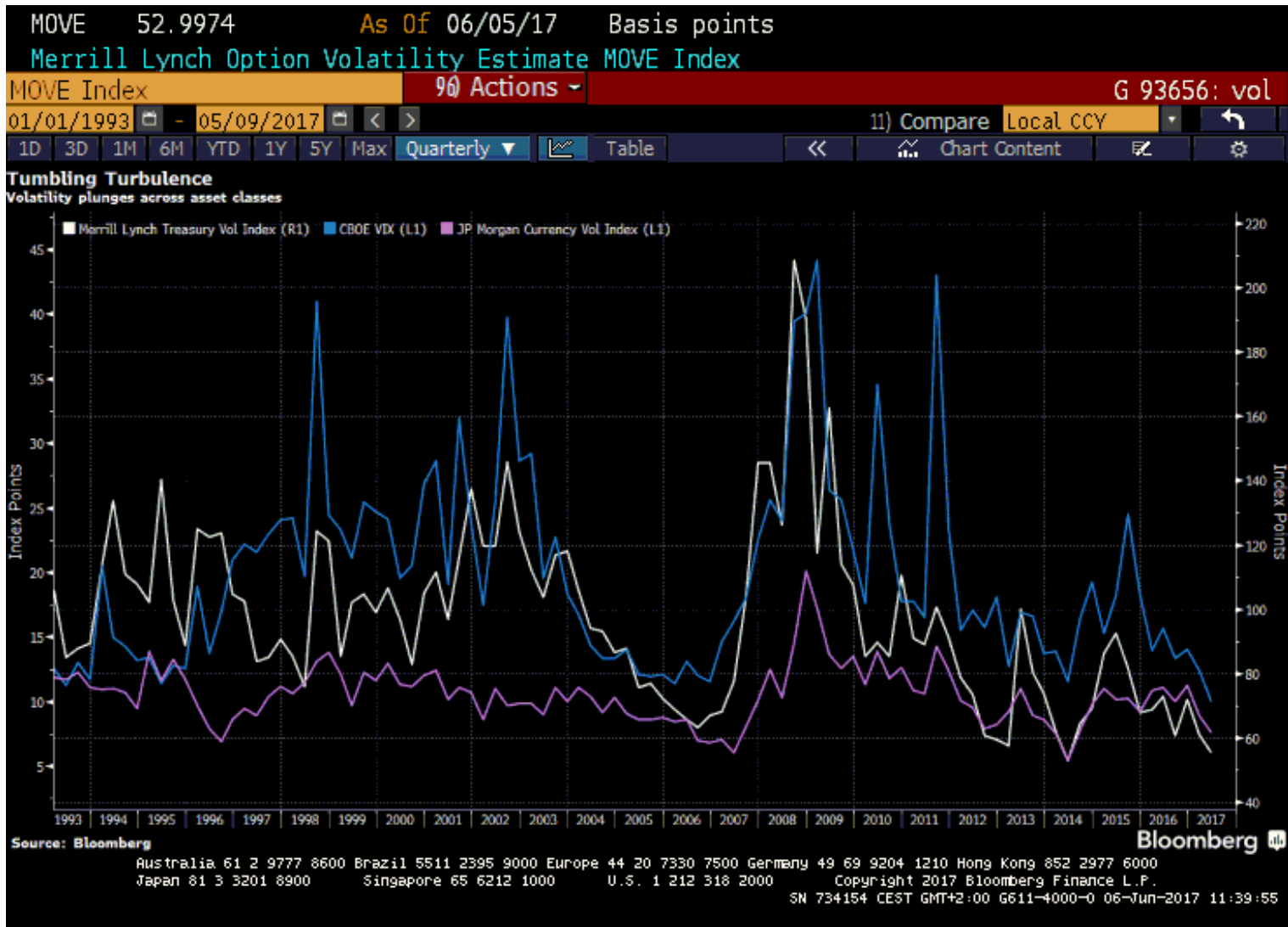


iShares iboxx \$ High Yield Corporate Bond ETF 3 month Implied Vol Vs SPDR S&P 500 ETF

«and rates markets»



«Bonds, Equity and FX Volatility all lower»



«Investor psychology»

- Investors are dangerously complacent about geo political risks
- Markets have fallen into a “*normalization of deviance*” pattern to use the phrase of sociologist Diane Vaughan; so many political boundaries and precedents have been broken that investors have lost perspective on events because the bizarre seems almost normal.
- Also an element of Groupthink and Doublethink

«Normalization of Deviance »

Vaughan's Normalization of Deviance "Social normalization of deviance means that people within the organization become so much accustomed to a deviation that they don't consider it as deviant, despite the fact that they far exceed their own rules for the elementary safety"
—Diane Vaughan, 1996

Cruise ship Costa Concordia grounded on Isola del Giglio, Italy. The ship captain consciously deviated from the approved course.

The Space Shuttle Challenger. On Jan. 28th, 1986, the spacecraft blew apart just 73 seconds after launch. the root cause of the Challenger disaster was related to the repeated choice of NASA officials to fly the space shuttle despite a dangerous design flaw with the O-rings



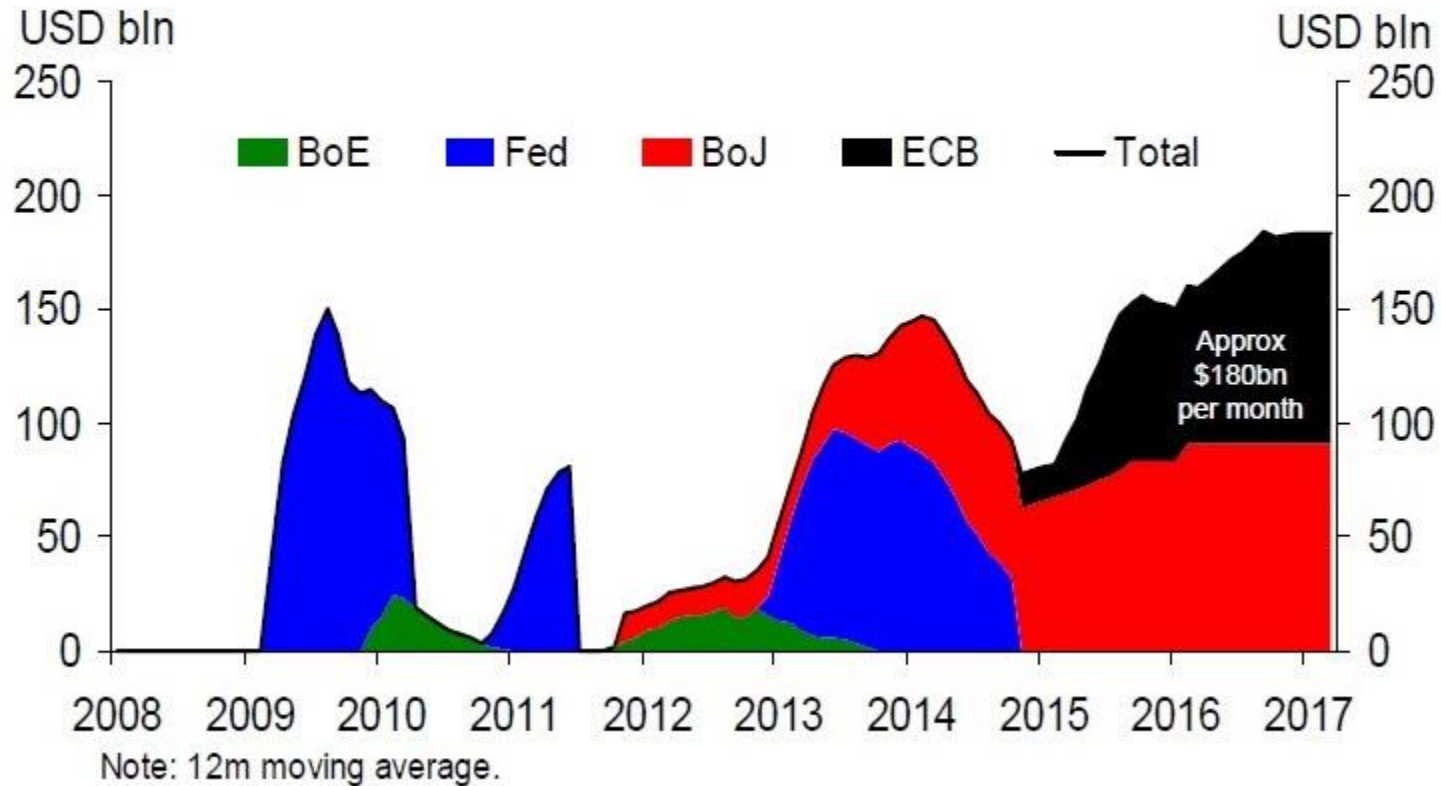
«Secular trends could be more determinant »

- Monetary Policy - Conventional and Unconventional
- ZIRP and the hunt for yield and carry
- Quantitative easing has crowded out Bond markets
- Large amounts of excess cash
- Less active and more passive fund managers
- Increasing dominance of ETFs over active Mutual Funds

«QE has helped to reduce to volatility»

Still plenty of liquidity being added to markets:
ECB and BoJ buying a combined approx. \$180bn every month

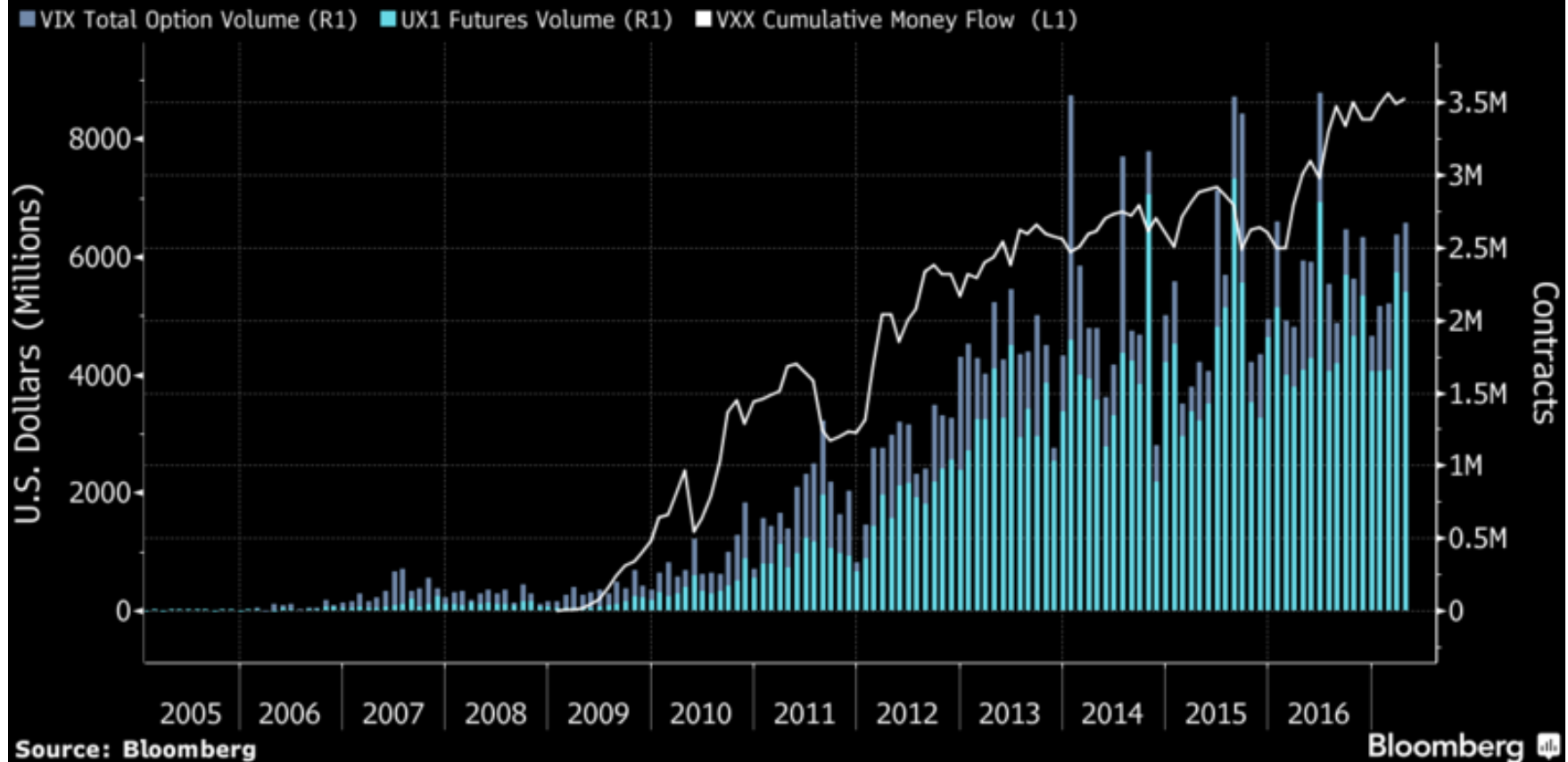
Monthly Fed, ECB, and BoJ asset purchases



«Flows into *Inverse vol strategies* have also played a part»

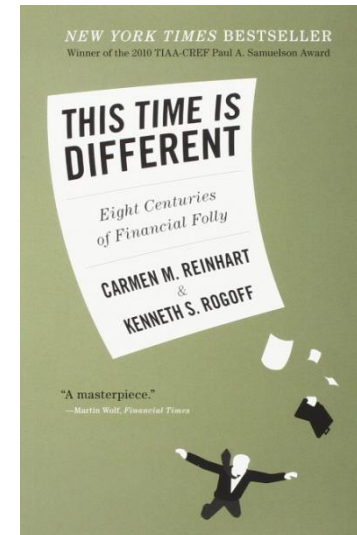
Passive Push

VIX futures market accelerates with ETP money flow



«Geopolitical risks are on the rise but economic growth ?»

- Here lies the answer Economic outlook has continued to be stable globally notwithstanding the geopolitical events
- So far so good but differences between soft and hard data persist
- Stable economic outlook is associated with stable earnings, stable credit metrics



«Post Trump»

- What happened to the wall, infrastructure spending, tax cuts and protectionism ?



«Post Brexit ?»

- Economy ? -so far so good
- Not much has happened yet and so no dramatic slowdown.



«Conclusions»

- Geopolitical events and risks are on the rise as politics changes
- Volatility remains low on all markets and risky assets continue to perform well.
- Monetary policy like ZIRP and QE, investor psychology, passive investing are important but economic stability is key.
- Leverage, market positioning and investor complacency are risks if economic expectations change.

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