

Not a year like any other

In many of the world's democracies, voters are increasingly challenging established institutions and values. The financial sector needs to react.

„When it comes to today's public debates, asset managers cannot remain neutral.“

Politically motivated market moves tend to be short-lived. However, the opposite might be true this year. Global headlines are dominated by political events: The Chinese president Xi Jinping is emphasizing that any further market liberalization will need to take into account political considerations. Russia is torn between its leadership's eagerness for foreign adventures and limited scope of manoeuvre in the wake of low oil prices. The latter have also exacerbated the situation in the Middle East, with far-reaching consequences. In normal times, the Turkish government's treatment of the opposition and press would have alienated it further from the EU. But times are far from normal in Europe due to the migration crisis. The displeasure of many European voters has been growing ever since the financial crisis. An increasingly fragmented political landscape and the growing strength of populist parties have made forming government increasingly difficult in many countries. And even a Brexit appears no longer as unlikely as it once did. On the other side of the Atlantic, the majority of the remaining U.S. presidential candidates, certainly, have what it takes to surprise both at home and abroad, to put it mildly. Meanwhile Brazil's government is busily dismantling itself and its recent legacy. A worrying wave of negative sentiment is generally gaining ground in the West.

In my view, investment managers will have to do more than revise their own forecasts downward. It also means thinking how we could help stem some of the more unpleasant trends. Arguably, this includes investment policies. Based on our ESG process (environment, social, governance), our investment decisions are already taking sustainability into account, rather than simply taking short-term potential returns as the sole criterion. If we want to contribute to stopping the erosion of faith in social institutions, part of our task is to verify that companies held in our portfolios not only follow the wording but also the spirit of existing regulations. Moreover, we should examine the basis for industry support of "business-friendly" forces and whether such actions might be short-sighted or a knee-jerk reaction. At the same time, asset managers should not promise more than they can deliver.

What does all this mean in such a volatile investment environment, in which returns are generally likely to be subdued but, on a risk-adjusted basis, probably highest for bonds? Well, for one thing, it means listening to our clients – even the ones who insist they feel better with a higher cash position at the moment. In doing so, we will gain satisfied clients in the long run.

Glossary

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

Environmental, Social and Governance (ESG) issues

Environmental, Social and Governance (ESG) issues refer to non-financial issues that may affect the sustainability of an investment.