# 2017 RiskMonitor: Geopolitical Concerns Create Risk-Return Conundrum for Investors

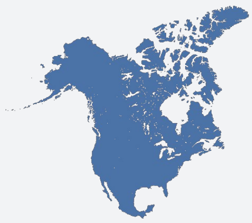
06/09/2017

| Global | | North America | | Europe and the Middle East | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|
| Geopolitical tensions (eg, Syrian war, North Korea, etc.) | 44% | Global economic slowdown | 41% | Geopolitical tensions (eg, Syrian war, North Korea, etc.) | 45% | Geopolitical tensions (eg, Syrian war, North Korea, etc.) | 47% |
| Global economic slowdown | 41% | Geopolitical tensions (eg, Syrian war, North Korea, etc.) | 40% | Global economic slowdown | 43% | Global economic slowdown | 39% |
| Rise in interest rates | 32% | US politics | 39% | Rise in interest rates | 31% | Rise in interest rates | 35% |

## Summary

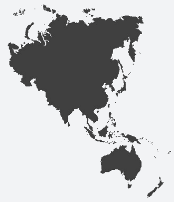
Geopolitical tensions are institutional investors' top concern, according to our new *RiskMonitor* study. As a result, investors are focusing more on risk management and lowering their return expectations.

Global



North America

Europe and the Middle East



Asia-Pacific

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| US politics | 31% | Rise in interest rates | 30% | Political developments in Europe | 29% | US politics | 31% |

| | | | |
|---|---|---|---|
| New asset bubbles 24% | New asset bubbles 22% | US politics 23% | Currency swings (eg, stronger US dollar, yuan devaluation) 30% |

% Yes, Multiple answers allowed

## Our findings: Investors call for new portfolio strategies to balance risk-return trade-off

While financial markets have never operated in a vacuum, geopolitics now appear to be having a greater impact on how investors are behaving than at any other point in recent memory. Our latest AllianzGI *RiskMonitor* study reveals the extent of this anxiety, showing that geopolitical tensions are the number one concern for global institutional investors.

This is the first time that geopolitics have eclipsed other risk factors – including rising interest rates and an economic slowdown – since the study was launched globally in 2013.

Perhaps most tellingly, only 26 per cent of investors are ruling out a tail-risk event in the next 12 months. Globally, 45 per cent of investors believe such an event is likely – a figure that has risen substantially in the past year (2016: 37 per cent).

On a positive note, investors are feeling more confident about the financial system as a whole: Only one in 20 voice concerns about counterparty risk, compared with one in five in 2015. This suggests that regulation and other factors are helping to restore a sense of confidence to markets.

Geopolitical events are prompting a majority to place a greater emphasis on risk management. Even so, many investors feel they need to sacrifice return to gain the downside protection they need, with nearly 3 out of 5 (58 per cent) looking for new portfolio strategies that can better balance this risk-return trade-off.

> "This study highlights the extent to which geopolitical uncertainty is weighing on investment decisions. Financial markets have never operated in a vacuum, but geopolitics now appear to be having a greater impact than at any point in recent memory on how global investors are behaving.
>
> "As a result, investors are increasing their focus on risk management and downgrading their return expectations as they struggle with a risk-return conundrum, despite the recent strong run in equity markets. The question on investors' minds is whether markets have priced in all of the risks.
>
> "With yields globally still repressed, it is only by taking risk that investors can earn some return. But they want to be confident that they can react quickly to any recalibration of assets, and capture any opportunities while optimizing their downside protection."

– Neil Dwane, Global Strategist

As investors aim to balance risk and return, active management is coming to the fore: Two-thirds (65 per cent) of investors say that actively managed investments play an important role in their portfolios in the current market environment.

But the prevailing market conditions continue to test traditional approaches to risk management. Indeed, our findings show that investors face a risk-return "conundrum", as they seek to optimize the risk-return trade-off in uncertain markets.

This dilemma is reflected in the number of investors who are trimming their return expectations for the coming year: More than half (51 per cent) have lowered their return targets despite a strong recent performance by equity markets, and 53 per cent are willing to sacrifice upside potential in order to have tail-risk protection.

For now, a majority rely on traditional risk-management techniques – including diversification by asset class (68 per cent) or geography (66 per cent). Far fewer respondents invest in strategies such as direct hedging (29 per cent), currency overlay (29 per cent) or tail-risk hedging (26 per cent).

## A group of Risk Leaders emerges

As investors look beyond traditional approaches, a group of Risk Leaders is emerging. Comprising around one-fifth of respondents, they clearly have experience getting ahead of the risk-return challenge:

- Risk Leaders make risk management an integral part of their investment processes.
- These investors also have strong risk cultures, led by senior management.
- Risk Leaders are more likely than other investors to invest in alternatives for diversification.
- Crucially, these investors are more confident in their ability to achieve their return expectations for the year.

## Learn more

To explore the complete *RiskMonitor 2017* findings, choose one of three regional editions:

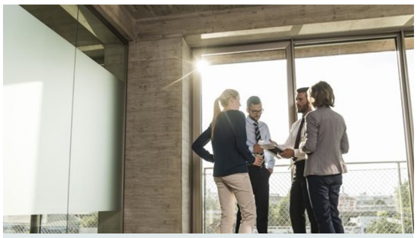
- *2017 RiskMonitor*: Asia-Pacific version
- *2017 RiskMonitor*: Europe version
- *2017 RiskMonitor*: North America version

## Background

AllianzGI's fifth global *RiskMonitor 2017* study is based on the responses of 755 institutional investors in North America, Europe and Asia-Pacific, representing USD 34.2 trillion in assets under management. They were interviewed via an extensive global survey facilitated by CoreData Research during April and May 2017. To understand institutional investor attitudes towards risk, portfolio construction and asset allocation, AllianzGI regularly surveys a variety of "asset-owning" institutions: pension funds, foundations, endowments, sovereign wealth funds, family offices, banks and insurance companies.



## Want to view more?



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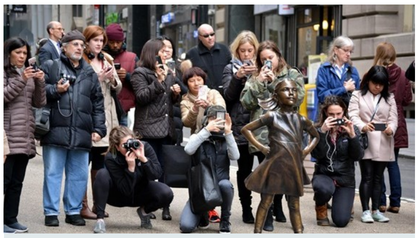

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## Summary

In our survey of more than 750 institutional investors, we identified a group of Risk Leaders who clearly stand out from the pack. Their approach to risk management gives them the edge in a range of investment areas and paves the way for others to enhance their own risk approaches.


**Key takeaways**

- Our RiskMonitor 2017 study identified a group of Risk Leaders who have the edge in risk management
- Geopolitics are making it hard to manage risk budgets, but Risk Leaders have greater confidence in their risk capabilities
- Risk Leaders have strong risk cultures: 88% say senior managers are dedicated to supporting sound risk-management practices
- The Risk Leaders we identified in our study have more confidence than their peers in meeting their return expectations
- Nearly three-quarters of Risk Leaders have a strong understanding of alternatives, vs less than two-thirds of other investors

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