

# CFA Institute: Geopolitical Risk is Back

Stockholm (HedgeNordic) – Historically, funds have diverged strongly as to the necessity of political risk assessment, depending on strategy, investment targets, geopolitical location and a host of other factors. Some, such as Sweden's Informed Portfolio Management, see little need for it at all, considering broader calculations. Nevertheless, there are indications that views on the need to re-incorporate political risk into the investment profession are resurgent, following last year's cataclysmic events.

According to a poll conducted of 1,500 investment professionals around the world by the CFA Institute, changes to the geopolitical environment are expected to have more profound impacts on financial markets. The change in perception has happened especially since the U.K.'s decision to leave the European Union, with 70% of respondents expecting investment returns to be compromised over the next 3-5 years. Nonetheless, 71% of portfolio managers have not changed their strategy yet, according to the survey, though worries about the effects of Brexit abound. A vast majority expect the U.K.'s competitiveness to decline, not least due to expectations that the City of London will bleed jobs and prestige to other financial centres such as Frankfurt, Dublin and Paris.

Among other things, the survey's results suggest: 1) firms will reduce their presence in the U.K. following Brexit, 2) Brexit may well provoke further EU exits, and 3) increasing numbers of respondents think full-blown EU disintegration is likely, up to 36% from 21% in the last 9 months. A successful second Scottish independence referendum leading to the fragmentation of the UK is also viewed as increasingly likely, by 53% of respondents. 67% of respondents continue to consider President Trump as the number one political risk, followed by the upcoming French election this year.

"The current state of political uncertainty ahead of Article 50 being triggered is having a clear impact on investment professionals' market expectations," said Paul Smith, president and chief executive of the CFA Institute. "That said, it is important to remember that geopolitical risk is by no means new: apart from the 20 years following 1989 and the fall of the Berlin Wall, geopolitical risk has in fact been a constant feature of financial markets. It is also only one of many challenges and potential drivers of change in the investment industry."

Brexit remains the focal point (for now). "The City [of London] faces serious challenges in the coming years. Expectations that many firms will reduce their presence in the UK is a major cause for concern," says Gary Baker, managing director of the CFA Institute (EMEA), "especially against the backdrop of markets in the rest of the world experiencing little deterioration. As the world's largest association of investment professionals, our role is to ensure our members and charterholders are equipped with the educational skills to adapt as a new world order begins to unfold, and to continue to advocate for the highest standards of ethics, integrity and professionalism across the industry."

Nordic Business Media published its own Political Risk Report for 2017, which can be accessed [here](#). In increasingly uncertain times, investment approaches cannot be more than the sum of their parts – erring on the side of caution, including elements of geopolitical risk.

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