



STATE STREET GLOBAL MARKETS®

Normal fear

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Co-Head of Cross Asset Strategy

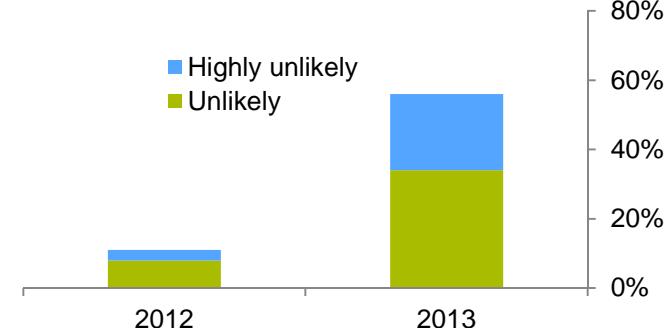
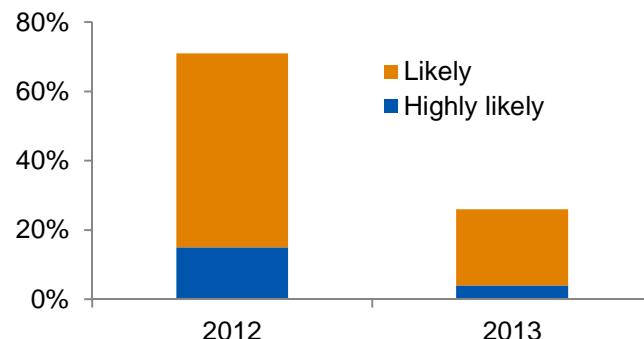
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Perceptions of tail risk have normalised in the past year



What do you think is the likelihood of a tail risk event occurring in the next 12 months (leading to a 25%+ peak to trough drawdown in equities)?



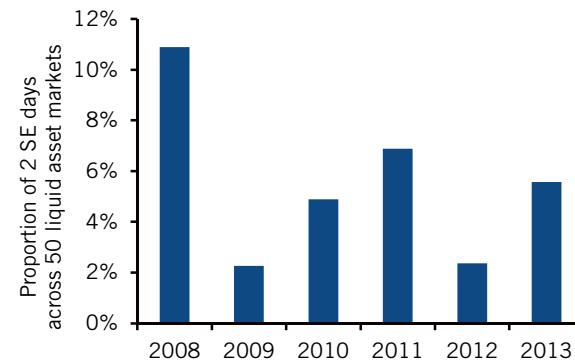
Source: Managing investments in volatile markets. How institutional investors are guarding against tail risk events. A report from the Economist Intelligence Unit October 2012 . 2013 results from State Street Global Markets Annual Research Retreats in London (April 25th, June 7th)

Selection of Most Read Stories on Bloomberg by month

- 24/01 - Apple Tumbles After Posting Slowest Sales Growth Since 2009
- 25/02 - Italy Renews Market Concern as Voters Reject Monti Austerity
- 18/03 - EU Officials Pressing for Cyprus Bank Tax Signal Flexibility
- 15/04 - Gold Sinks Most Since 1980 as Stocks Post Worst Tumble of Year
- 22/05 - Stocks Decline With Treasuries, Gold as Dollar Jumps on Fed Bets
- 03/06 - Emerging Market Dominoes to Fall as SocGen Sees Rout: Currencies

Source: Bloomberg

Proportion of outsized days across 50 assets

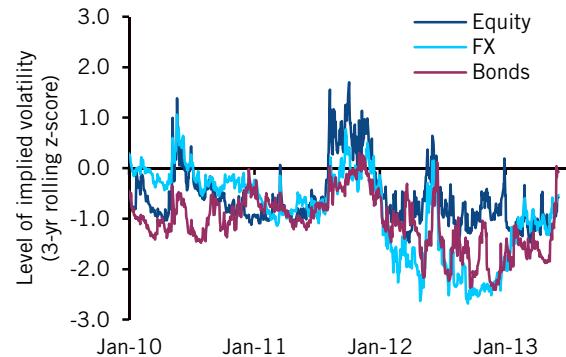


Source: State Street Global Markets, DataStream (2013 data as of 10 June 2013)

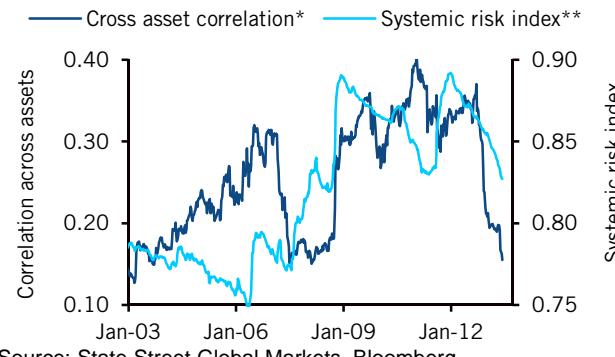


Less systemic but more turbulent

Volatility – rising back to normality



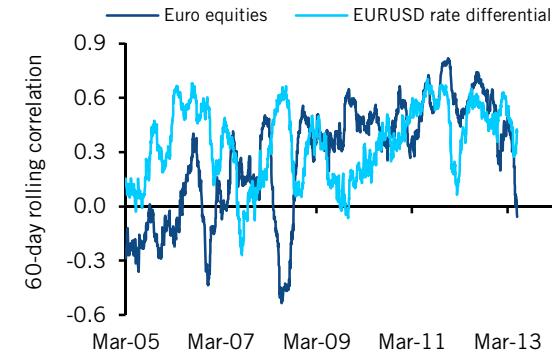
Cross-asset correlation and Systemic risk



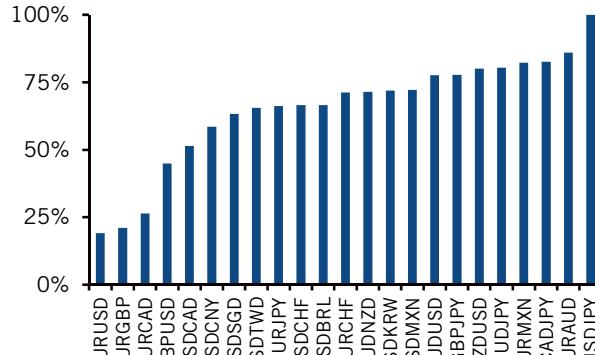
* Cross-asset correlation – average of pair wise correlations between DM, EM equities, Sovereign bond returns, Commodities and USD, 52-week rolling correlation.

** Systemic risk index calculates the variance explained by the top 10% of principal components of global industry returns.

EUR equity link has finally broken

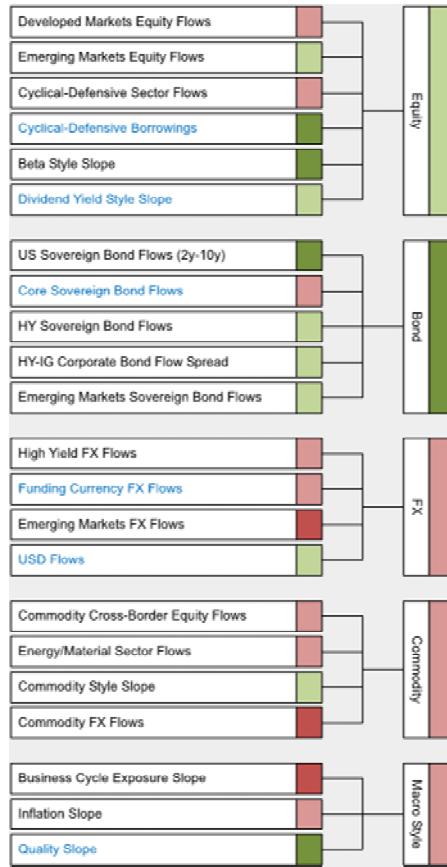


EUR FX volatility is low (1-mo implied percentile rank)

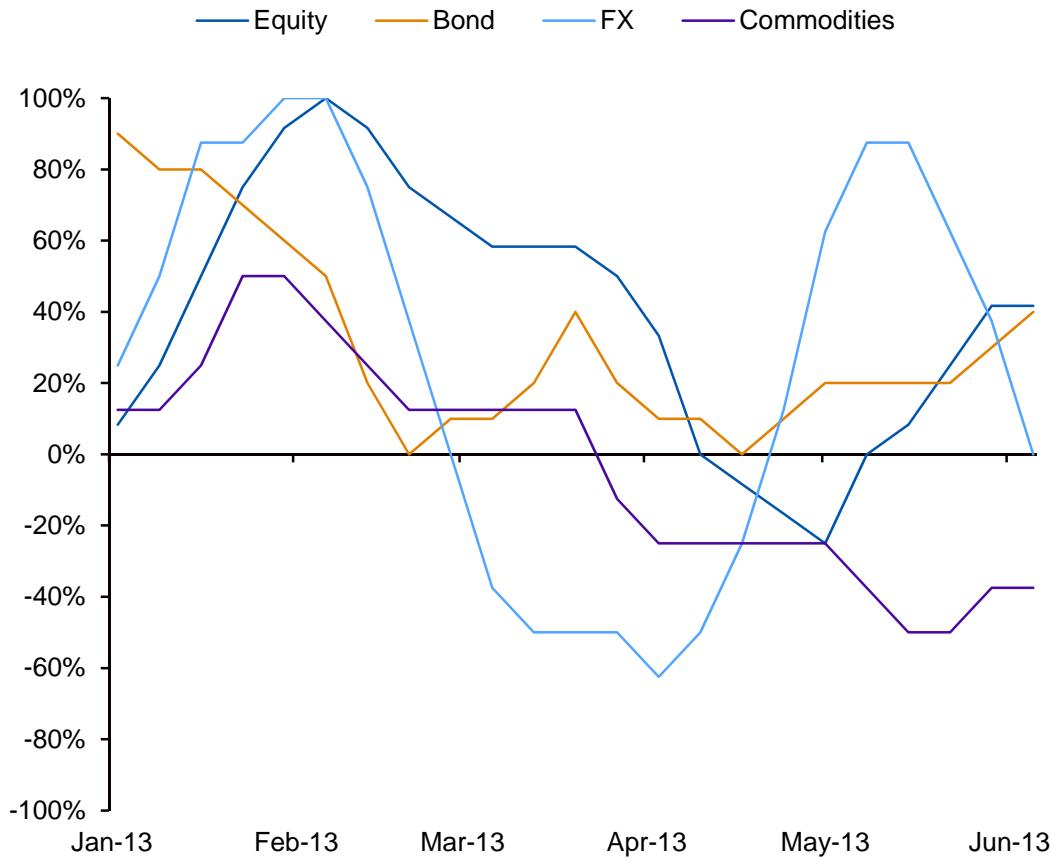


Risk appetite across asset classes is decidedly mixed

Commodities are not contagious yet



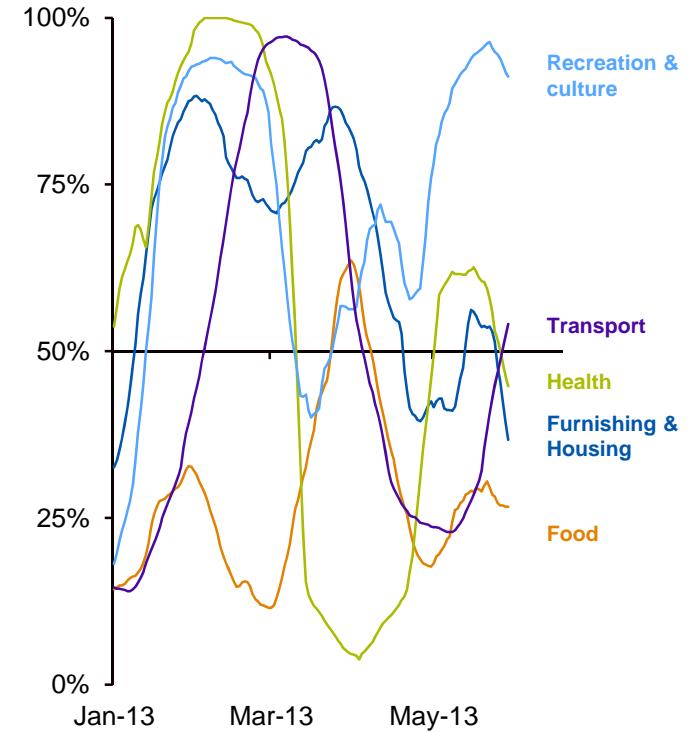
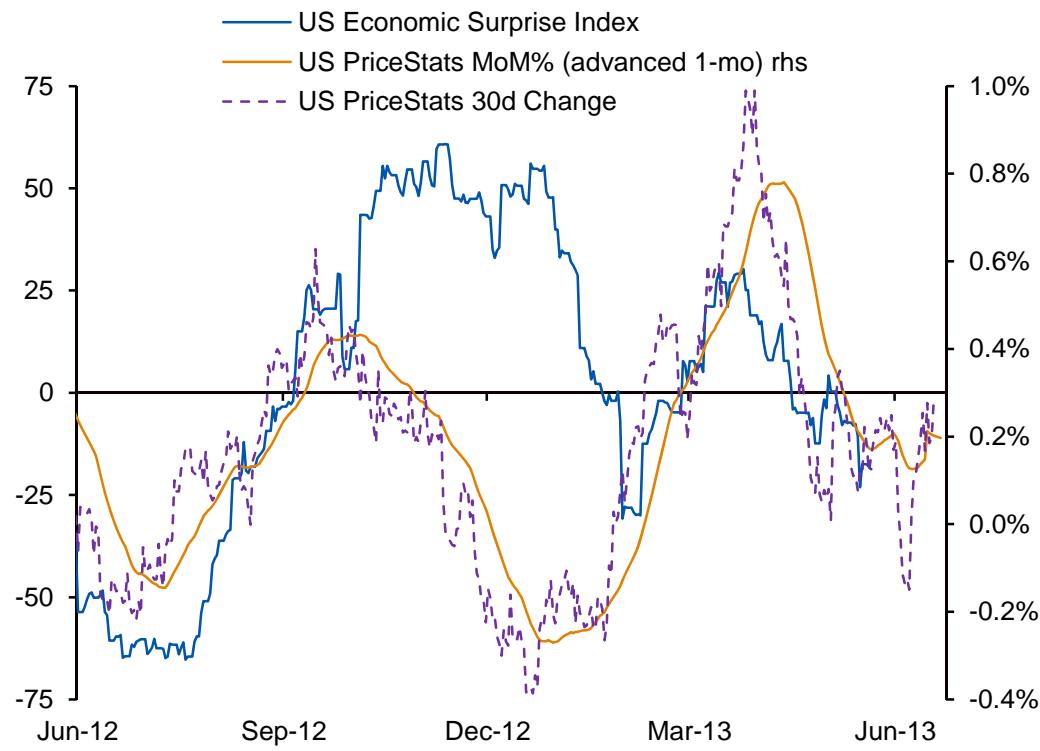
Proportion of indicators that are risk seeking, 4 wk average



Source : State Street Global Markets (Data as of 10 June 2013)

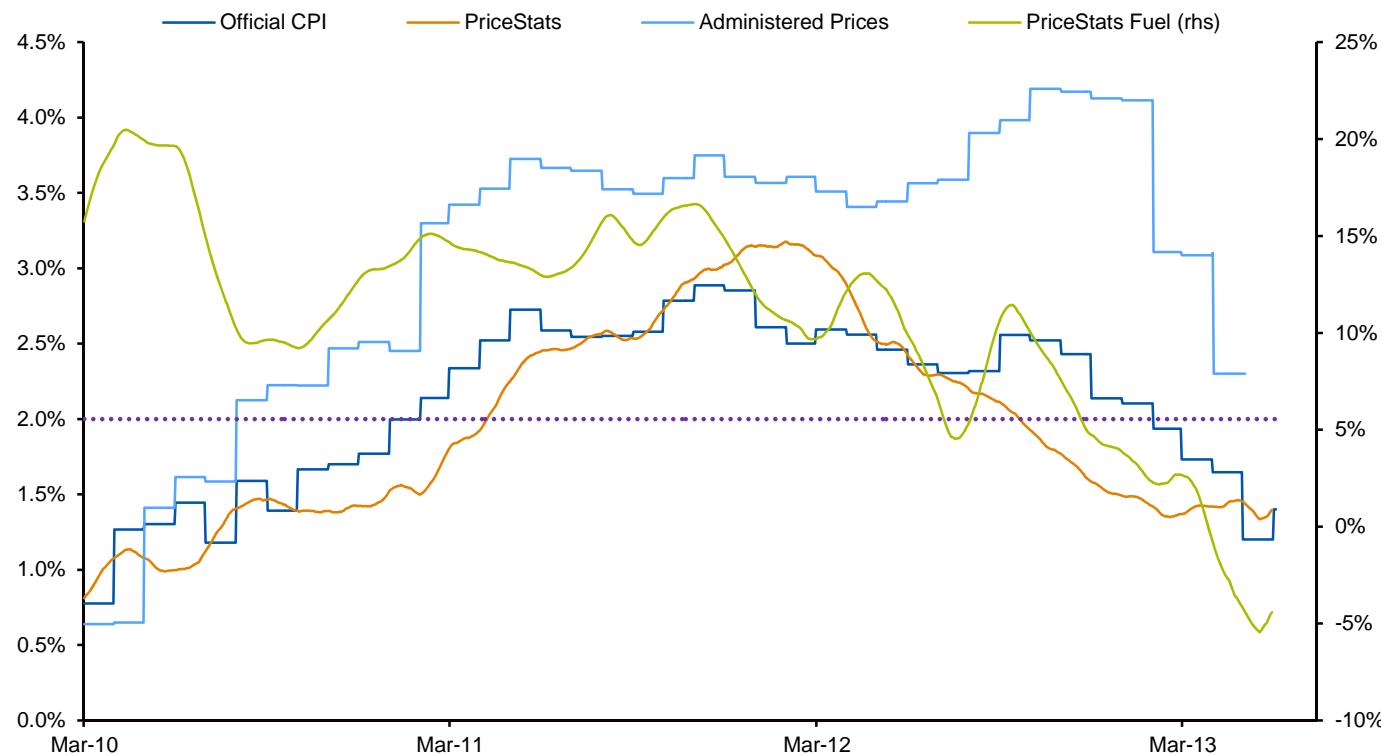
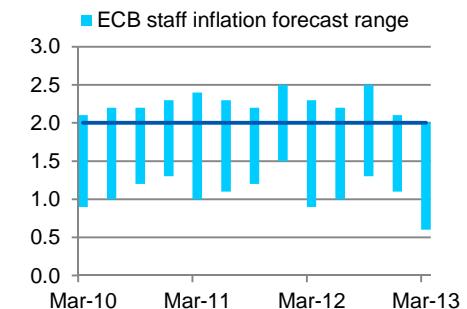
US growth expectations back in the balance

US economic surprises, US PriceStats series and its recent breakdown (percentile mom%)



Europe's interest rate dilemma

Inflation risks are not balanced according to PriceStats



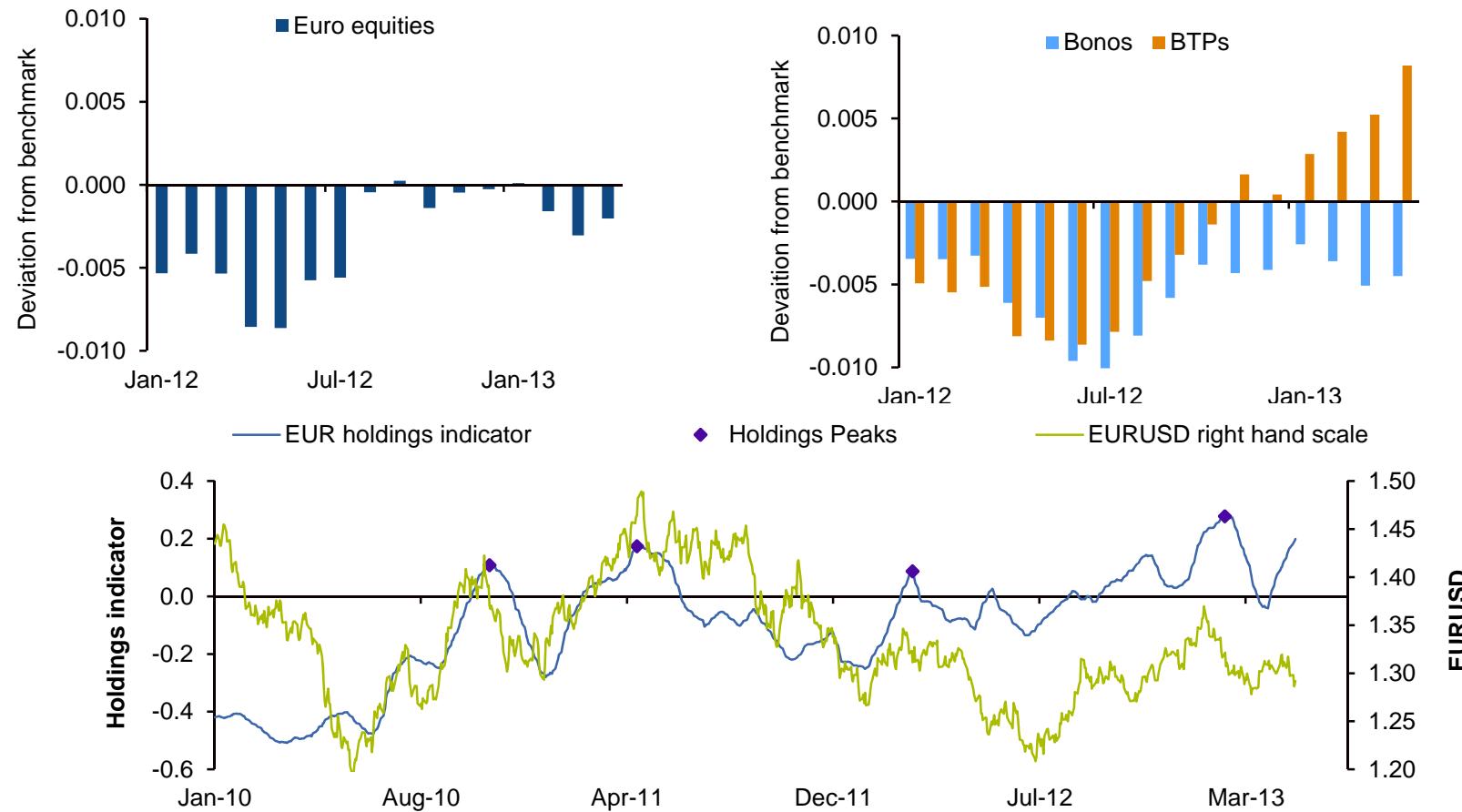
Source: ECB, State Street Global Markets

ECB staff forecasts taken from the report : 'ECB staff macroeconomic projections for the Euro area' March 2010 to March 2013



Sentiment toward European assets has changed, but has Europe?

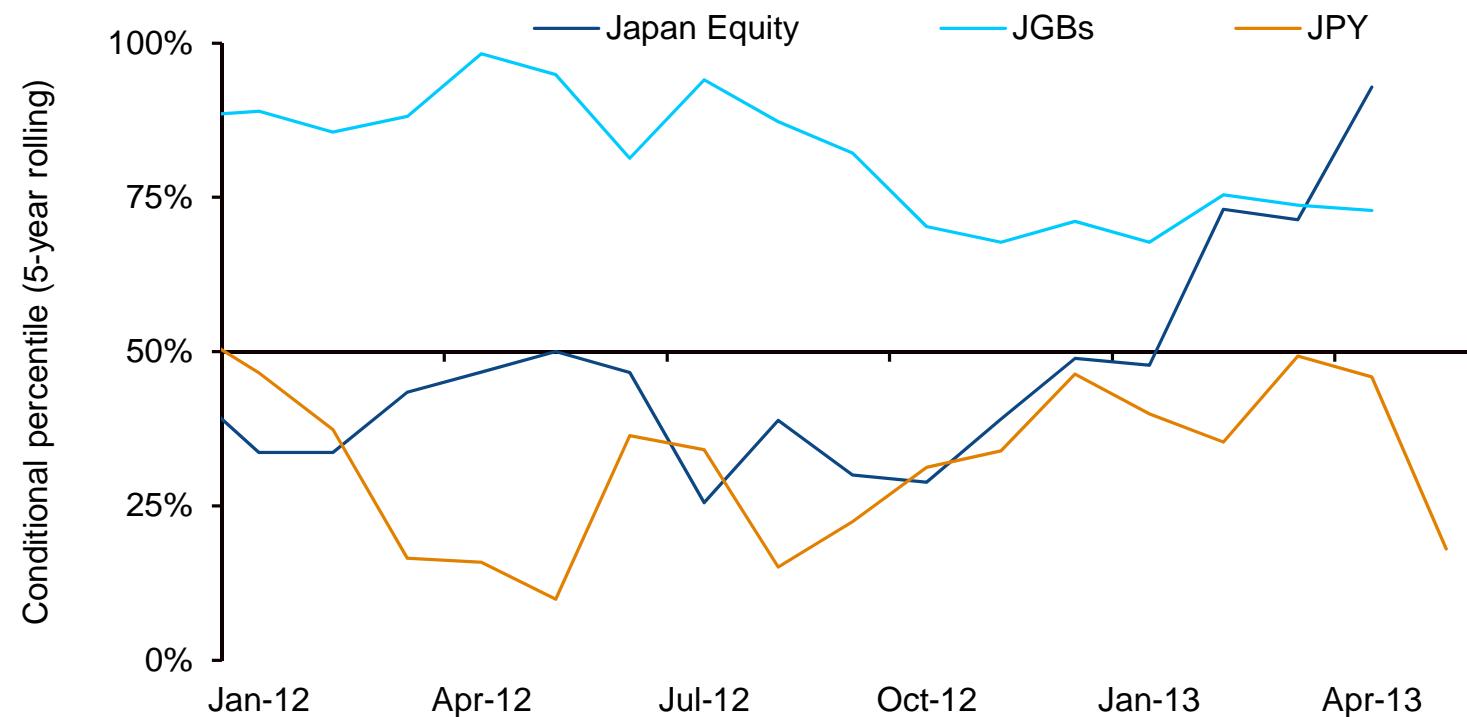
Whatever it takes was enough for investors to change their holdings and hedge ratios



Source: State Street Global Markets

International holdings of Japanese assets

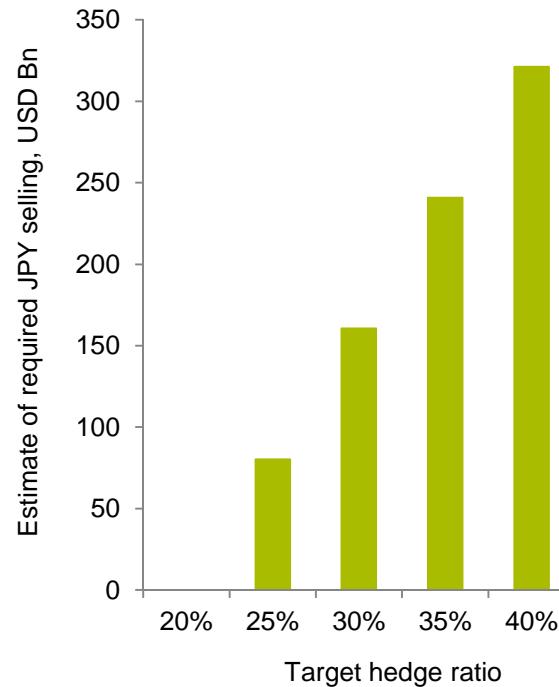
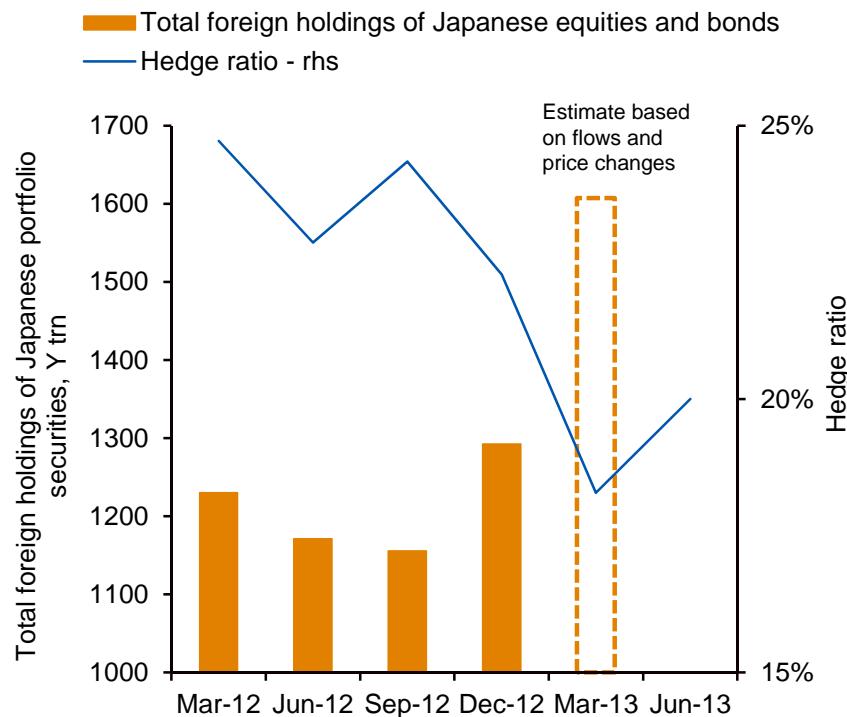
International investor holdings of equities, bonds and the yen



Source: State Street Global Markets

The hedging question – still more JPY selling to come?

International investor holdings of equities, bonds and the yen

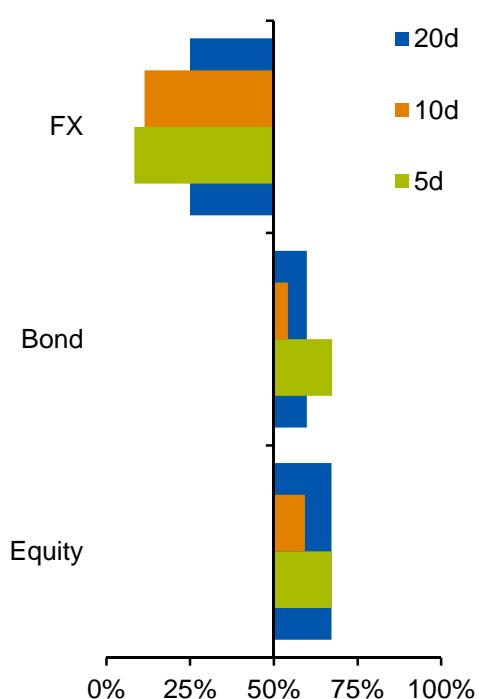
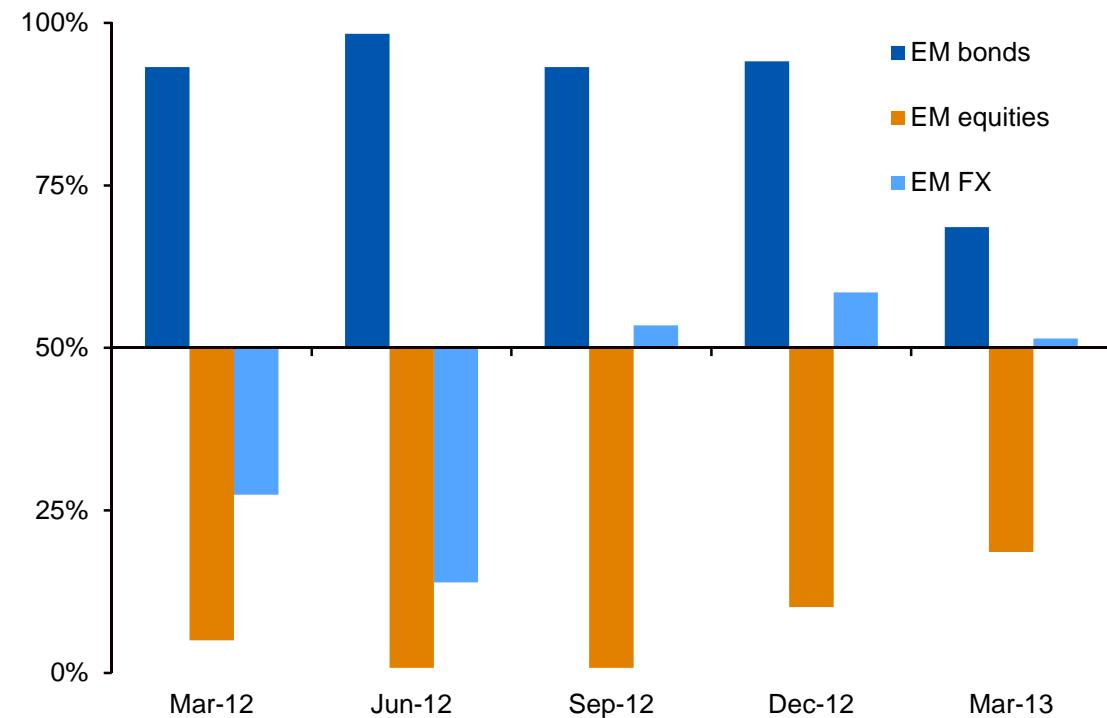
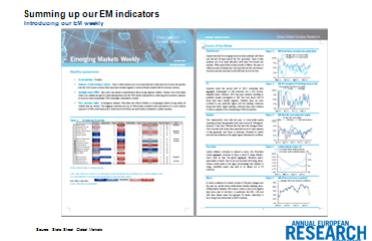


Source: State Street Global Markets, Bloomberg, BoJ (Data as of 20 May 2013)

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EM holdings only hint at rebalancing

Long-term investor holdings metrics in sovereign bonds, equities and FX shown as conditional percentile



Source : State Street Global Markets (Data as of 29 May 2013)

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