Normal fear

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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?)


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: Bloomberg

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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

EUR equity link has finally broken

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

* 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.

Source: State Street Global Markets, Bloomberg
Risk appetite across asset classes is decidedly mixed

Commodities are not contagious yet

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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