

MARKETS 2016 VIDEO SERIES: WORRIES IN THE CURRENT MARKET ENVIRONMENT

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What worries you the most about the current market environment?

I think one of the things that has really struck me this year is how little the market has actually reacted to non-monetary policy risks. Relative to the movements that have been driven by monetary policy, I think one of the easiest ways of illustrating this is to look at the markets, largely indifferent response to the downing of a Russian plane in late November, close to the Turkish-Syrian border, and compare it to some of the extraordinary moves we saw earlier in the year on the back of monetary policy moves. Perhaps one of the most notable coming in March of this year where after an FOMC meeting the chairman of the federal reserve Janet Yellen gave a press conference and tweaked people's expectations a little bit about what might and might not happen with regards to monetary policy in the United States. In the immediate aftermath of that tweaking of perceptions about monetary policy, EUR-USD went up to around about 4 big figures and then over the course of the night came back off almost the exact same amount. The reading in overnight volatility for the dollar index that day was the 5th highest since the Plaza Accord meeting in 1985. It was only beaten by things like Sterling coming out of the exchange rate mechanism in 1992, the collapse of Long Term Capital Management in 1998, the collapse of Lehman Brothers in 2008, and another move in December of 2008 in the depths of the financial crisis. The fact that we're seeing far higher volatility on the back of a tweaking of expectations of monetary policy relative to what is quite a significant potentially geopolitical event tells me that this is a market that is focused on monetary policy to the exclusion of almost anything else. That therefore also tends to suggest that the real risk going into 2016 is that we have a market that's reaching for yield and perhaps ignoring a lot of other things that it should be looking at.

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