2024 Level III Topic Outlines

Economics

LEARNING OUTCOMES

Capital Market Expectations, Part 1: Framework and Macro Considerations

The candidate should be able to:

□ discuss the role of, and a framework for, capital market expectations in the portfolio management process
□ discuss challenges in developing capital market forecasts
□ explain how exogenous shocks may affect economic growth trends
□ discuss the application of economic growth trend analysis to the formulation of capital market expectations
□ compare major approaches to economic forecasting
□ discuss how business cycles affect short- and long-term expectations
□ explain the relationship of inflation to the business cycle and the implications of inflation for cash, bonds, equity, and real estate returns
□ discuss the effects of monetary and fiscal policy on business cycles
□ interpret the shape of the yield curve as an economic predictor and discuss the relationship between the yield curve and fiscal and monetary policy
□ identify and interpret macroeconomic, interest rate, and exchange rate linkages between economies

Capital Market Expectations, Part 2: Forecasting Asset Class Returns

The candidate should be able to:

□ discuss approaches to setting expectations for fixed-income returns
□ discuss risks faced by investors in emerging market fixed-income securities and the country risk analysis techniques used to evaluate emerging market economies
discuss approaches to setting expectations for equity investment market returns
discuss risks faced by investors in emerging market equity securities
explain how economic and competitive factors can affect expectations for real
estate investment markets and sector returns
discuss major approaches to forecasting exchange rates
discuss methods of forecasting volatility
recommend and justify changes in the component weights of a global
investment portfolio based on trends and expected changes in macroeconomic
factors

Currency Management: An Introduction

The candidate should be able to:

discuss the effects of currency movements on portfolio risk and return
discuss strategic choices in currency management
formulate an appropriate currency management program given financial market
conditions and portfolio objectives and constraints
compare active currency trading strategies based on economic fundamentals,
technical analysis, carry-trade, and volatility trading
describe how changes in factors underlying active trading strategies affect
tactical trading decisions
describe how forward contracts and FX (foreign exchange) swaps are used to
adjust hedge ratios
describe trading strategies used to reduce hedging costs and modify the risk–
return characteristics of a foreign-currency portfolio
describe the use of cross-hedges, macro-hedges, and minimum-variance-hedge
ratios in portfolios exposed to multiple foreign currencies
discuss challenges for managing emerging market currency exposures
describe the three basic forms of performance-based fees
analyze and interpret a sample performance-based fee schedule