



CFA Institute

# GLOBAL MARKET SENTIMENT SURVEY 2014



The Future of Finance initiative is a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. It provides the tools to motivate and empower the world of finance to promote fairness, improved understanding, and personal integrity. Its success is driven by ongoing input from an advisory council of prominent global leaders and others in the financial community.

We invite you to learn more about current and upcoming Future of Finance initiatives, impact stories, and ways you can get involved.

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## Executive Summary

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CFA Institute members report greater optimism over economic prospects for the coming year, with an especially dramatic turn in sentiment from European members compared to last year. But these same investment professionals do not express confidence that the integrity of capital markets is improving. As markets rebound, CFA Institute is working to ensure that attention does not shift away from meaningful reforms that might restore investor trust and strengthen the financial system's ability to resist shocks in the future.



## About this survey

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The CFA Institute 2014 Global Market Sentiment Survey was created to seek input from CFA Institute members, to gather feedback on market sentiment, performance, and market integrity issues, and to further our mission of promoting ethical and trustworthy investment markets.

## Methodology

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An online survey was conducted from 2 to 17 October 2013. All CFA Institute members globally (119,817) were invited to participate in the survey; 6,561 responded, for an overall response rate of 5.5% and a margin of error of  $\pm 1.8\%$ . In addition to analysis and reporting at the global and regional level, 13 market-specific reports are also included.

## About CFA Institute

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CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 117,000 members in 140 countries and territories, including 110,000 CFA charterholders, and 140 member societies.

For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org).

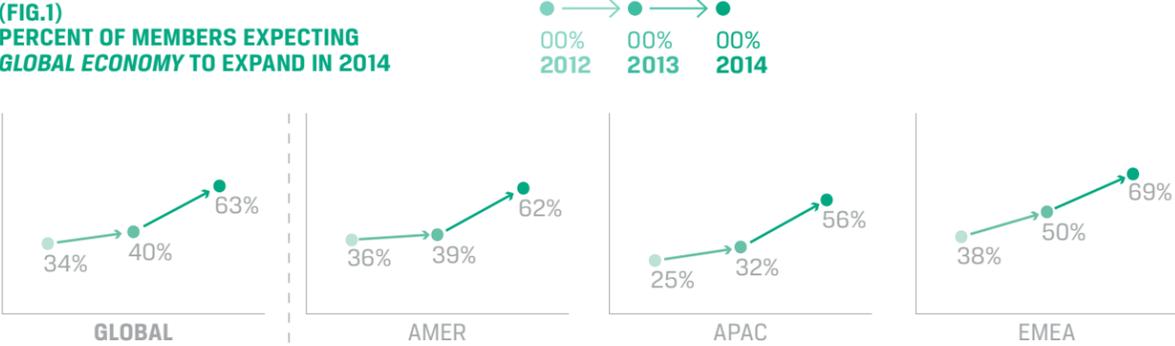
# Investment professionals increasingly confident global and local economies will grow in 2014

*Economic turnaround in Europe is reflected in greater optimism about the worldwide economy, tempered by concerns over political instability*

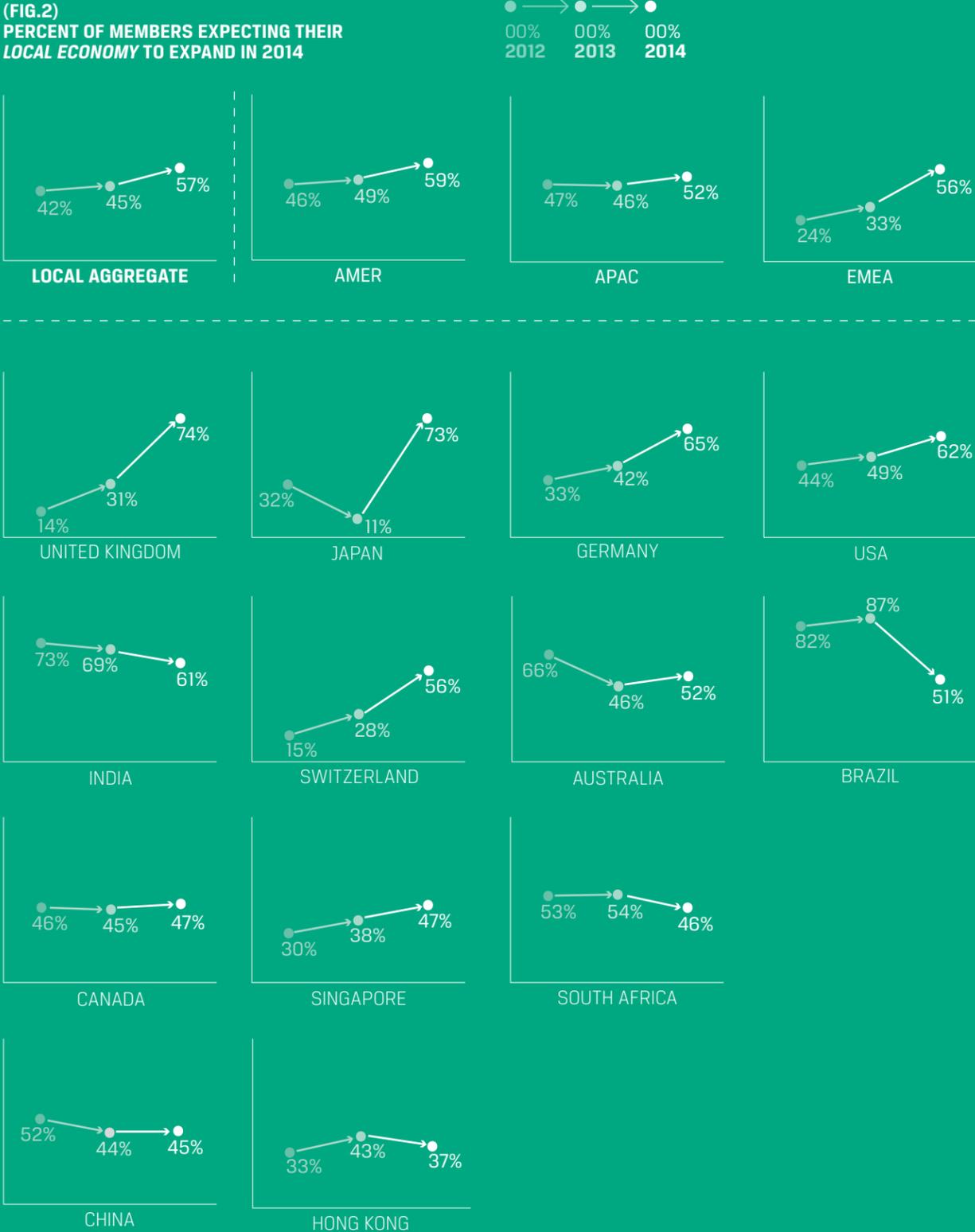
Most CFA Institute members (63%) think the global economy will expand in 2014. This optimistic outlook represents a significant shift from the previous two years; in last year's Global Market Sentiment Survey, only 40% of members expressed optimism about the worldwide economy (fig.1). This year, members in the United Kingdom are the most optimistic about the global economy, with 78% expecting expansion. Brazilian and German members are similarly positive, with 74% and 70%, respectively. Members in China are the most cautious, with only 48% saying they expect the global economy to expand in the coming year. Even this number, however, is significantly higher than the mere 21% of members in China who expected global growth in 2013.

This same spirit of optimism carries through to members' assessments of prospects for their local markets, with a majority in each region anticipating local economic growth in 2014 (fig.2). Particularly striking is the turnaround in sentiment in Europe, reflecting members' belief that the bottom has been reached and a rebound has begun. 56% of members in EMEA (Europe, the Middle East, and Africa) countries expect their local markets to expand in 2014, a sharp contrast from last year's survey, in which only 33% of EMEA members indicated the same thing. Overall 79% of members indicate that the progress of recovery in Europe will have a positive impact on their local markets. Also noteworthy is the increased optimism in Japan over local economic expansion compared to 2013.

**(FIG.1)**  
PERCENT OF MEMBERS EXPECTING GLOBAL ECONOMY TO EXPAND IN 2014



**(FIG.2)**  
PERCENT OF MEMBERS EXPECTING THEIR LOCAL ECONOMY TO EXPAND IN 2014



Investment professionals increasingly confident global and local economies will grow in 2014

Notwithstanding the greater level of optimism, members still see risks for the global economy, although they differ between markets regarding the area of greatest concern (fig.3). For example, members in China and India say that weak economic conditions are the biggest

risk to performance of the global capital markets (44% and 43%, respectively). Members in Japan (43%), Canada (32%), and Switzerland (30%) instead feel that global political instability is the biggest risk facing the global economy in 2014.

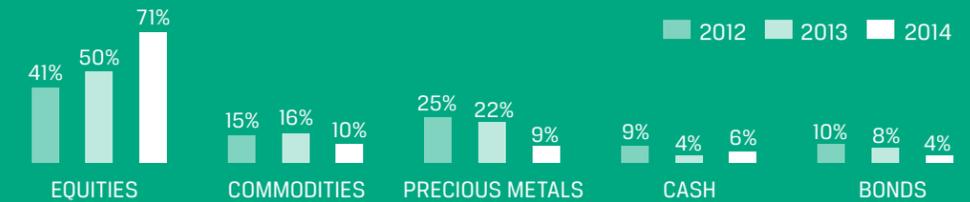
**(FIG.3)**  
**BIGGEST RISK TO GLOBAL CAPITAL MARKETS IN 2014**



*Note: Total percentage may not add up to 100% due to rounding*

**EQUITIES EXPECTED TO PROVIDE THE HIGHEST RETURN AMONG ASSET CLASSES IN 2014**

The percentage of members who think equities will provide the highest expected total return continues to climb year after year. This year, 71% of members identified equities as the asset class most likely to perform best, a big jump up from 50% in 2013, which was already up from 41% in 2012. The increase in the proportion predicting equities as the top performing asset class is most noticeable in Asia Pacific, with an increase of 27 percentage points from last year (68% vs. 41%). The asset class with the most significant decrease is precious metals, down from 22% in 2013 to 9% for the coming year.



**UNITED STATES AND CHINA CONTINUE TO PROVIDE THE BEST INVESTMENT OPPORTUNITIES**



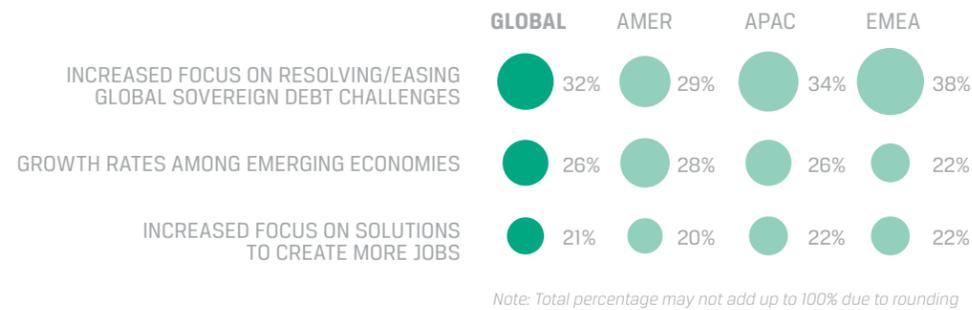
When asked which equity markets they thought would provide the best investment opportunity in 2014 members chose the USA (26%), China (10%), Japan and Germany (tied at 6%). In 2013 members similarly indicated that the USA (32%) and China (17%) would provide the best investment opportunities, with Brazil (10%) a strong third choice.



When asked to identify the factor they see having the biggest potential positive impact on global capital markets in 2014, members cite an increased focus on resolving and easing the global sovereign debt crisis (32%) and growth rates among emerging markets (26%) (fig.4). A higher proportion of members in EMEA (38%) compared to APAC (34%) and AMER (29%) indicate an increased focus on resolving the global sovereign debt crisis will have

the biggest positive impact on global capital markets. Members in Japan, Switzerland and Canada (44%, 30%, and 29% respectively) instead point towards growth rates among emerging economies as having the biggest positive impact. In Hong Kong (26%), Australia (24%), India (24%) and Japan (24%), many members also cite increased focus on solutions to create more jobs as having the biggest potential positive impact.

(FIG.4) BIGGEST POSITIVE IMPACT ON GLOBAL CAPITAL MARKETS IN 2014

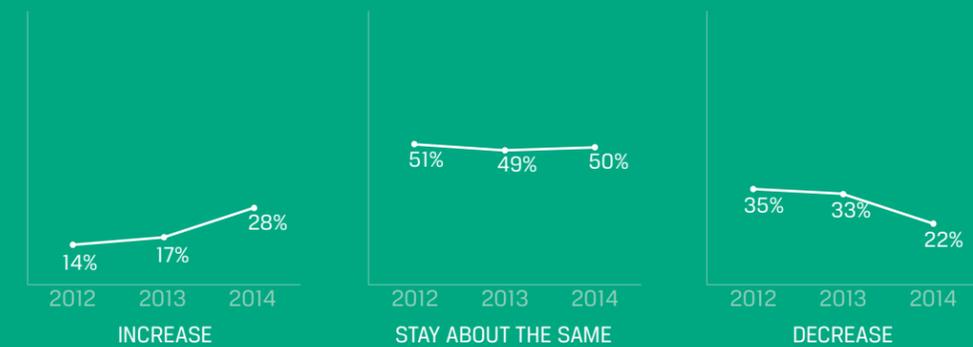


## INVESTMENT SERVICES JOB MARKET OUTLOOK

Because its members are directly exposed to the fortunes of the capital markets, CFA Institute regularly asks them if they expect employment opportunities for investment professionals in their local market to increase, decrease, or stay about the same in the coming year. In contrast to the optimism they express this year about the economy, members are more cautious when it comes to growth in their own industry, with members in most markets expecting employment prospects to stay about the same in their local market (fig.5). Over the past three years, however, the trend is a slight uptick in optimism, most strikingly in Europe, where 25% of members expect employment opportunities for investment professionals to expand, compared with just 8% in the previous year.

As with the global economy, members in the United Kingdom are among the most optimistic when it comes to employment growth in the coming year (45% there indicate employment opportunities for financial professionals will increase), as are Chinese members (48%). Members in Switzerland are the most pessimistic, with 46%, saying employment opportunities in their local market will actually contract, rather than expand.

(FIG.5) MEMBERS' EXPECTATIONS OF EMPLOYMENT OPPORTUNITIES IN THEIR LOCAL MARKET



## Political instability and the end of quantitative easing bring uncertainty to local markets

*Investment professionals in some major markets point towards political instability and unrest in the Middle East to impact local performance*

Members in various markets suggest that political instability is the biggest risk to their local economy (fig.6). This concern is not restricted to emerging economies but is most prominent for members in India, where 78% cite political instability as the biggest risk to their local market in 2014, likely reflecting tensions in advance of general elections next year. A majority of South African members also cite political instability as the biggest risk to their local market (53%), as do members in Brazil (38%) and the United States (37%), all markets that, like India, are already gearing up for important elections.

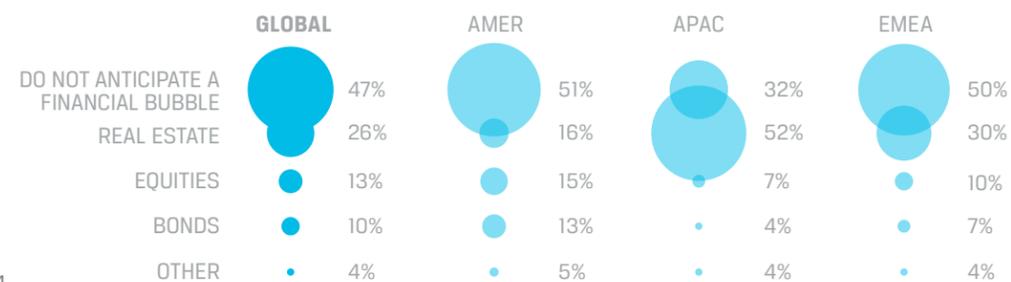
As the Middle East continues to experience political unrest, a majority of members worldwide (60%) point to the potential effects instability could have on energy prices as a risk factor for their local economies. Members in the Americas, with less dependence on imports of oil from the Middle East, cite political instability in that region as a concern (52%) but not to the

extent of members in APAC (75%) and EMEA (68%). Members in India and Japan, both markets highly dependent on imports from the Middle East for their oil needs, indicate the highest proportion of concern with this risk factor (96% and 86%, respectively).

68% of members worldwide say they are concerned that the prospect of central banks ending quantitative easing will have a negative impact on their local market in 2014. Levels of concern were especially high in Brazil and India (94% and 85%, respectively).

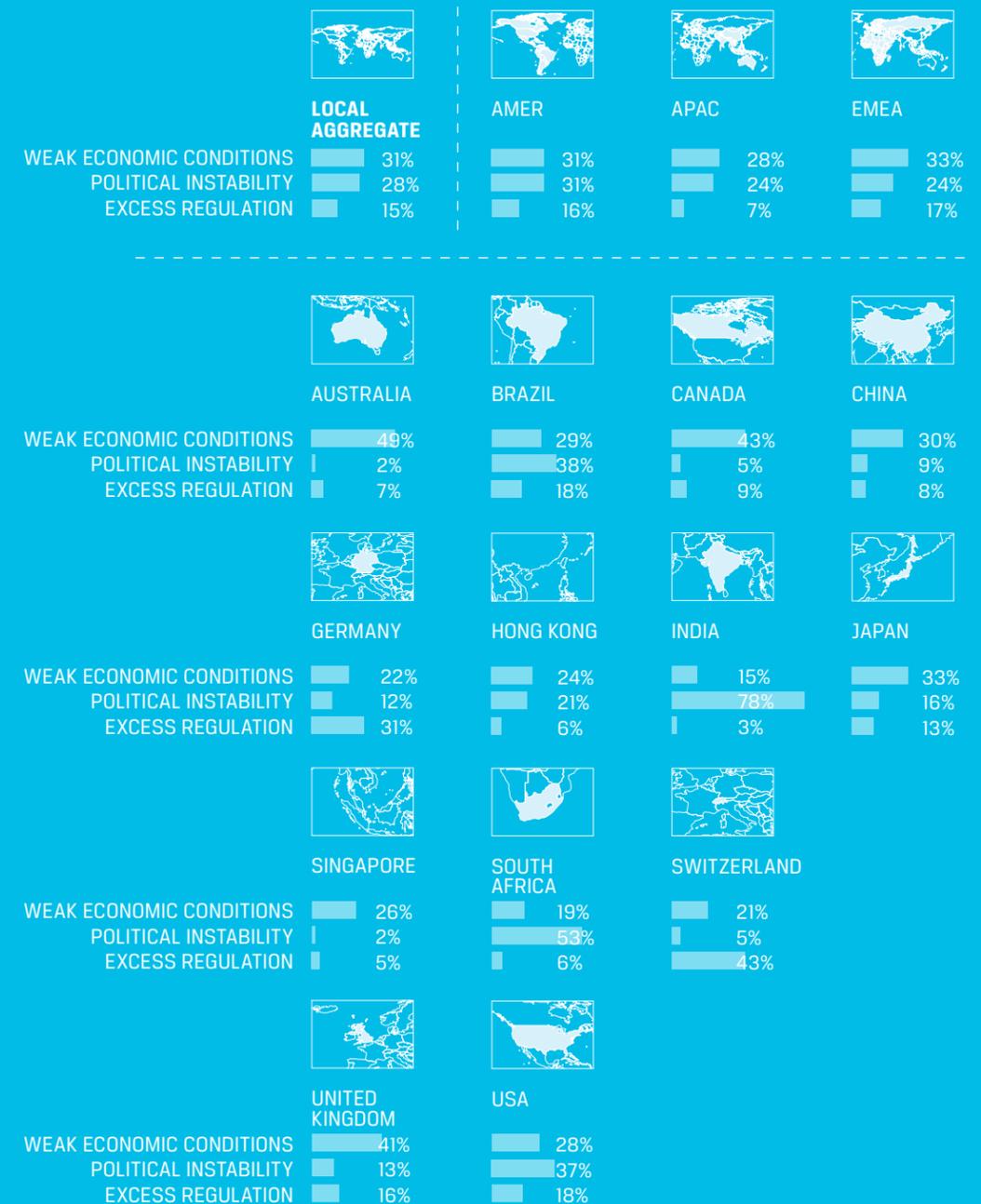
Over half of CFA Institute members predict a financial bubble in their home markets in the coming year, but there is no consensus as to which assets are overvalued. The exception is in APAC, where a majority of members (52%) view real estate as a likely bubble in their local market in the next twelve months (fig.7). Concern over this potential bubble is highest in China and Hong Kong (77% and 68%, respectively).

**(FIG.7) PERCENT OF MEMBERS ANTICIPATING A FINANCIAL BUBBLE IN THEIR LOCAL MARKET IN 2014**



*Note: Total percentage may not add up to 100% due to rounding*

**(FIG.6) BIGGEST RISK TO LOCAL MARKETS IN 2014**



# Members call for global oversight and local enforcement

Globally, members cite improved regulation and oversight of global systemic risks as the most important action needed in 2014 to build investor trust and market integrity. For their local markets, members say better enforcement of existing laws and stronger corporate governance standards are the steps needed to improve market integrity

In the aftermath of the global financial crisis, investor trust in markets and market participants has eroded. The *CFA Institute/Edelman Investor Trust Study*, conducted earlier this year, confirmed that investors worldwide have little trust in the investment profession and believe there is much that can be done to restore trust. That study revealed that just 53% of investors surveyed in representative major markets trust investment firms to do what is right, reflecting the experience of the 2008 financial crisis and ongoing scandals around money laundering, rogue trading, rate manipulation, and insider trading. Investors will continue to factor this risk in their investment decisions, likely increasing the cost of capital and even driving some investors out of the capital markets entirely.

**AT THE GLOBAL LEVEL, A CALL FOR COORDINATED REGULATORY OVERSIGHT**

29% of members say that the most needed action to improve investor trust and market integrity is improved regulation and oversight of systemic risk; comparatively 19% of members selected

the option in 2013 (*fig.8*). This sentiment is stronger in Asia Pacific (40%) than in EMEA (33%) and the Americas (24%).

A majority of members indicate that increased global coordination of monitoring systemic risks is the most likely way to prevent future financial crises. 21% of members also indicate a need for improved transparency in financial reporting and other corporate disclosures.

Members also call for improvements in the requirements for banks to impair troubled credit holdings on a more timely and consistent basis. 73% indicate this is the most needed action to avert future financial crises (*fig.9*). This is timely, in that both the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) have proposed new standards for recognizing impairments, and CFA Institute is actively engaged on the issue (<http://cfa.is/170UaIM>). 68% of members indicate that more standardized derivatives contracts with increased central clearing

**(FIG.8) MEMBERS' VIEW ON MOST NEEDED REGULATORY OR INDUSTRY ACTION TO HELP IMPROVE INVESTOR TRUST AND MARKET INTEGRITY**

**IN THE GLOBAL MARKET**



**IN LOCAL MARKETS**



*Note: Total percentage may not add up to 100% due to rounding*

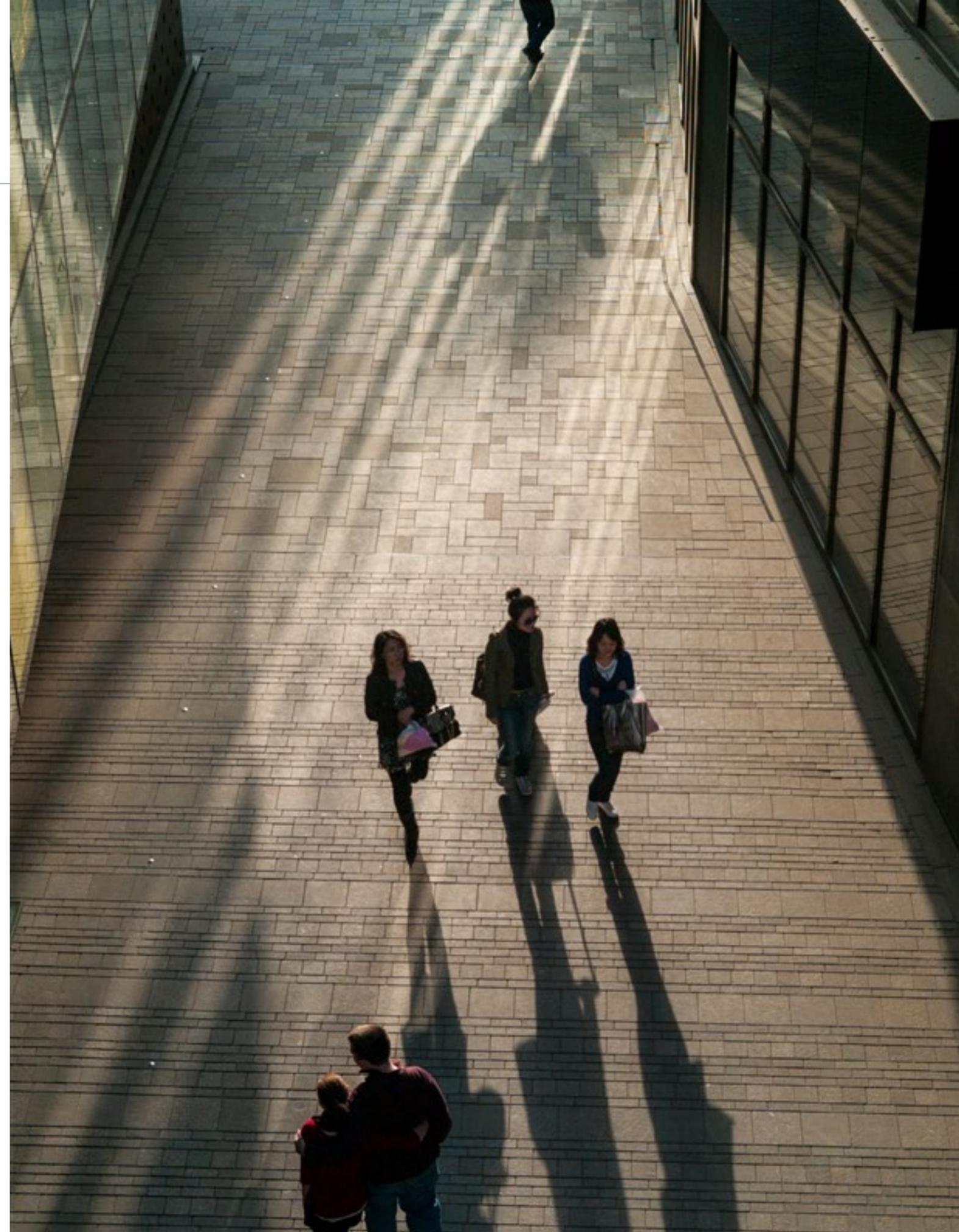
(FIG.9) POTENTIAL IMPACT OF REGULATORY REFORMS



and increasing bank capital and liquidity requirements (such as is required under Basel 3) will help avoid future crises.

On the other hand, there is less consensus on regulatory reforms that reduce reliance on, and reference to, credit-rating agency ratings or increased regulatory monitoring of hedge funds as likely to help prevent future crises. This may reflect a perception

that hedge funds were not at the center of the 2008 crisis and do not necessarily pose unique systemic threats; it may also be in recognition of stepped-up efforts by regulators to understand hedge fund exposures better through enactment of the Alternative Investment Funds Management Directive in Europe and elements of Dodd-Frank in the United States.



Members in the Americas differ on the efficacy of current efforts to eliminate "too big to fail" institutions, with roughly equal numbers of members anticipating the reform to have unintended negative consequences and expecting the possibility to prevent future crises.

**INVESTMENT PROFESSIONALS SEE THE NEED FOR GREATER ENFORCEMENT OF EXISTING LAWS IN THEIR LOCAL MARKETS**

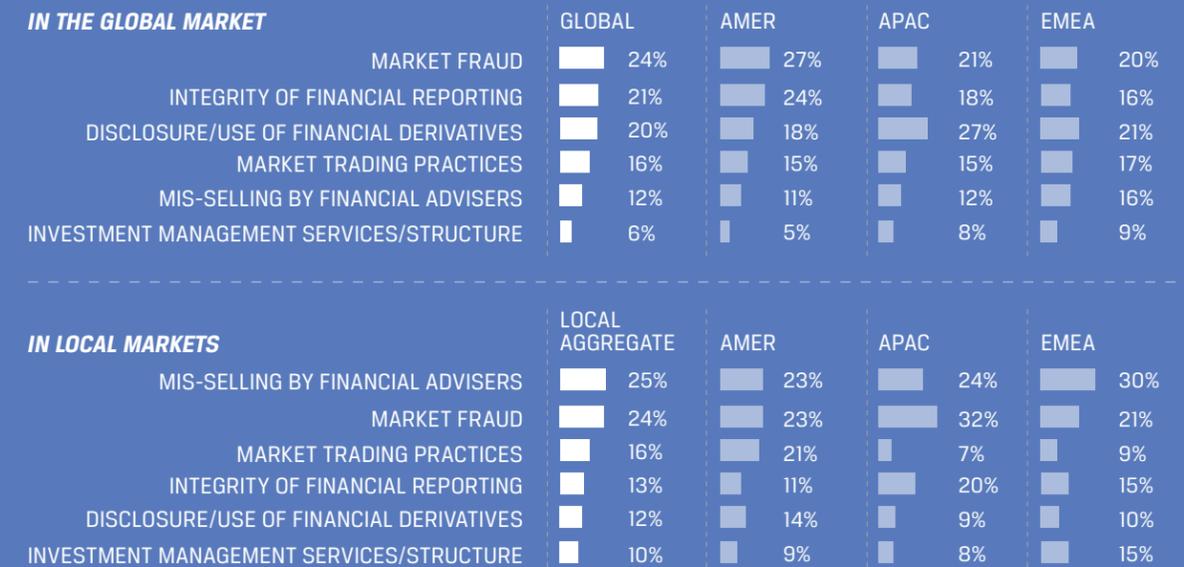
At the local market level, members cite improved enforcement of existing laws and regulations in their home markets (30%) followed by improved corporate governance practices (24%) as the regulatory or industry actions most needed in the coming year to help improve investor trust (fig.8). Members in Brazil are particularly likely to call for improved enforcement of existing laws and regulations (41%) in their own market. The highest proportion of members calling for improved corporate governance practices in their home markets are in India, Switzerland, and Hong Kong (31% each). In China, however, the strongest call is for improved transparency of financial reporting and other corporate disclosures, with 27% of members saying this is most needed. This reflects continuing concerns about business practices in that country, amidst government anti-corruption efforts.

**MIS-SELLING AND MARKET FRAUD STILL THREATEN FINANCIAL INTEGRITY**

Members again identified the mis-selling of products by financial advisers as the most serious ethical issue facing their local markets in the coming year, but the percentage this year was 25%, down from 29% last year (fig.10). An almost identical proportion of members (24%) identified market fraud (insider trading) as the second most serious issue, albeit with wide variations by market, ranging from a low of 11% in South Africa to a high of 55% in China. This may reflect different intensity of regulator enforcement activities in different jurisdictions, which in turn could be a function of cultural resistance to changing longstanding practices and/or lean enforcement budgets.

Interestingly, members do not think mis-selling of products by financial advisers is the most serious issue facing global markets in the coming year. Market fraud (24%, up from 19% last year), disclosures and use of derivatives by financial firms (20%), and the honesty/integrity of financial reporting (21%, consistent with last year) are viewed as more serious issues (fig.10).

(FIG.10) PERCENT OF MEMBERS RANKING THE MOST SERIOUS ETHICAL ISSUE FACING GLOBAL AND THEIR LOCAL MARKETS



Note: Total percentage may not add up to 100% due to rounding

## Lack of ethical culture in financial firms eroding investor trust

*To rebuild the confidence of investors in the financial sector, ethical conduct cannot simply be legislated or taken for granted; it must be fostered and encouraged by an ethical culture at the firm-level*

In contrast to members' optimism over economic growth prospects, they do not expect the state of integrity in global capital markets to similarly improve. As in prior years, over half of members (54%) point to a lack of ethical culture within financial firms as the factor that has contributed the most to the current lack of industry trust. This suggests the problem stems more from flawed internal firm culture than inadequate regulatory oversight. This sentiment was higher in EMEA (61%) than in Asia Pacific (56%) and the Americas (51%).

A recent report on ethical conduct in financial services (*A Crisis of Culture: Valuing Ethics and Knowledge in Financial Services*) sponsored by CFA Institute and conducted by the Economist Intelligence Unit (EIU) provides an interesting counterpoint to the results of the Global Market Sentiment Survey. The EIU paper finds that financial services executives around the world agreed overwhelmingly (91%) that ethical conduct is just as important as financial success at their firm, with 96% saying they would prefer to work for a firm with a decent reputation for ethical conduct than for one which is bigger or more profitable but has questionable ethical standards. For their part, investors

are clear that they value integrity over returns: when asked by the CFA Institute/Edelman Investor Trust Study what attribute they consider the most important when making a decision to hire an investment manager, investors chose "trusted to act in my best interests" twice as often as "ability to achieve high returns."

However, only 37% of financial services executives told the EIU that better ethics will lead to better financial results, and 53% said that career progression would be tricky without being "flexible" over ethical standards (rising to 71% for executives in investment banking). This suggests that while those in the industry agree with the principle of ethical standards, they do not see the direct financial or personal results. CFA Institute is actively working to close this gap so that ethical behavior is seen, and treated, as essential by all investment professionals.

CFA Institute members continue to indicate that an ethical culture established and encouraged by top management and executives is the most needed firm-level action in the coming year to improve investor trust and confidence (40%), followed by increased adherence to ethical codes and standards (26%) (fig.11).

(FIG.11) FIRM-LEVEL ACTION MOST NEEDED TO HELP INVESTOR TRUST AND CONFIDENCE



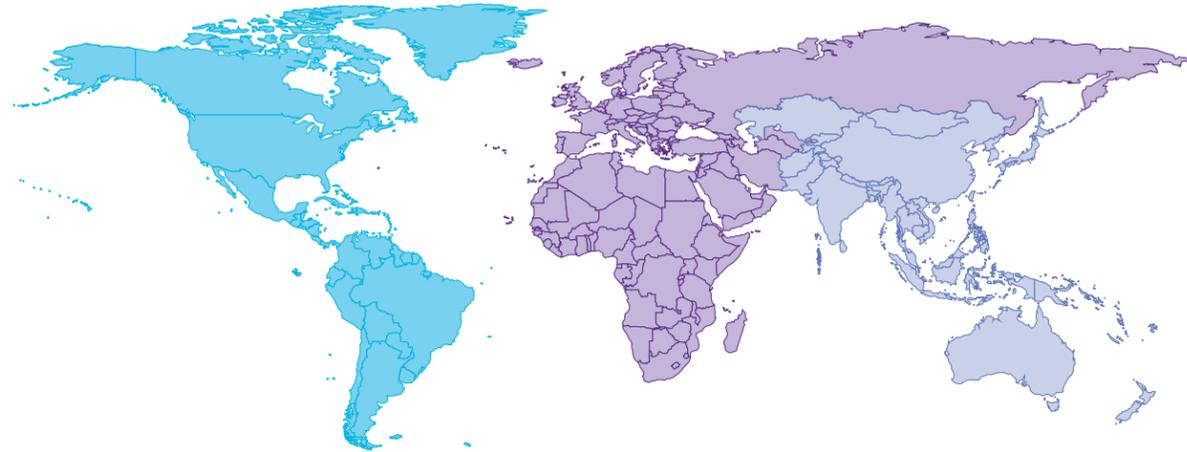
Investors should be treated fairly and given the information they need to properly evaluate products and services to make informed decisions.

While the economy may be rebounding, this is clearly no time for the investment community to become complacent. Too little has changed in the ethical culture that would help prevent an equally destructive future failure. Participants in this system know that more needs to be done and that regulatory fiat is not enough.

The financial industry can be an extraordinary force for good, helping build essential infrastructure, providing greater

opportunity, and enabling one generation to feel more secure about the prospects of the next. But this only happens if industry practitioners embrace ethical behavior at all levels. The legacy, mission, and vision of CFA Institute has always been to shape a better financial industry by promoting integrity and action for positive change at a personal level, then providing the resources to support and amplify those efforts. Now, as much of the world is perhaps ready to enjoy a break from the sequence of crises it has seen during the past six years, investment professionals need to take the opportunity to be a catalyst for change.

## Respondent Profile



### REGIONAL RESPONSE

**59%**  
AMERICAS  
(AMER)

**24%**  
EUROPE, MIDDLE  
EAST & AFRICA  
(EMEA)

**17%**  
ASIA PACIFIC  
(APAC)

### TOP MARKETS

2,906 USA  
738 CANADA  
302 UK  
185 HONG KONG  
172 SWITZERLAND  
167 GERMANY  
162 INDIA  
162 CHINA  
159 AUSTRALIA  
137 SINGAPORE  
105 SOUTH AFRICA  
95 BRAZIL  
87 JAPAN

### JOB FUNCTIONS (TOP 5)

PORTFOLIO MANAGER 19% ■

RESEARCH ANALYST 14% ■

FINANCIAL ADVISER 6% ■

CONSULTANT 6% ■

CORPORATE FINANCIAL ANALYST 6% ■

### PRIMARY INVESTMENT PRACTICE (TOP 5)

EQUITIES 34% ■

FIXED INCOME 17% ■

PRIVATE EQUITY 4% ■

DERIVATIVES 3% ■

REAL ESTATE 3% ■

### YEARS WORKING IN THE INVESTMENT INDUSTRY



*Note: Total percentage may not add up to 100% due to rounding*



## Questions?

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