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:

- ☐ analyze 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