Russell Investments Helping Advisors Blog

Insights, ideas and information that help advisors make a difference

What’s on the minds of money managers?

September 27th, 2012

Rachel Carroll,
Consultant for
Americas Institutional

In the last few years, there has certainly been no shortage of issues weighing on the minds of professional money managers. As we saw in the June Investment Manager Outlook (IMO) survey,managers said thetop challenge they face is headline news or event-related risks.

In the September IMO, we asked managers about the events they see as being most impactful on the U.S. equity markets in the next 12 months. Not surprisingly, **the eurozone debt crisis continues to be on the top of their watch list**.

Nearly half of the managers surveyed (48 percent) expect developments in the eurozone debt crisis to have a negative impact on the markets- pointing to the anticipation of minimal progress toward meaningful resolution in the next year. However, 33 percent of managers expect eurozone debt crisis developments to impact the equity markets positively, citing expectations of resolution and a belief that many of the possible negative outcomes are already priced into the markets.

Since the survey was fielded (Aug. 23 - Sept. 4), we have seen some encouraging news with the European Central Bank's announcement of a broad bond-buying plan and the approval of the European Stability Mechanism by Germany's Constitutional Court. **Yet while an escalation of the euro-crisis seems unlikely for the next few months, some managers are likely looking for other underlying issues in Europe to be addressed.** At Russell, we also believe that to achieve full resolution, we will need to see greater European banking oversight, re-capitalization of significant banks and some type of ‘FDIC-like' eurozone-wide depositor insurance.

Managers weigh in on the fiscal cliff, presidential election and economic growth

Investment managers also pointed to the outcome of the **U.S. presidential election** (30 percent) as one of the events they expect to have the greatest positive impact on the U.S. markets in the next year. As one manager said in the survey, "Regardless of the winner, there should be a better expectation among market participants on the direction of fiscal policy."

Some managers (28 percent) also expect the outcome of the **U.S. "fiscal cliff" situation** ? or the expiration of certain tax cuts and the imposition of automatic spending reductions at the end of 2012? to have a positive effect on the markets, pointing to their belief that an adequate resolution will be reached.

However, many managers (37 percent) disagree and believe the fiscal cliff situation will result in a negative impact on the markets. Managers also expect China's economic situation (18 percent) to have a negative effect on the markets.

Despite the notable initial market reaction to the Sept. 13 announcement of the Federal Reserve's plan to initiate a third round of quantitative easing (QE3) and other **efforts to support economic recovery**, U.S. Federal Reserve policy action was not among the top events managers expected to be most impactful on the markets.

The IMO survey was conducted before the QE3 announcement, but nearly three-quarters (72 percent) of survey participants said they expected the Fed to employ some type of intervention in the next year. However, just 17 percent of managers indicated that policy action by the Fed would be a major event making a positive impact on the markets over the next year.

While most managers expected QE3, many may have felt it was priced into the markets to some degree and would have a less significant impact than other events. Yet with the market reaction we saw after the Fed announcement, it's clear that investor sentiment was buoyed by the open-ended nature of QE3 and other efforts signaling the Fed's commitment to growing the economy. But for this to continue, **many managers are likely looking for meaningful improvement in economic data and resolution of other issues**.

Help your clients adapt

While the ECB and Fed announcements may have taken some event risks off the table, headwinds remain. As we work our way through these issues, we must remember that there have always been challenges throughout the world, and there always will be.

It's important to remind your clients to be thoughtful about how they adapt to the current environment. In a low-return environment in which we see a continued shift toward the need to self-fund retirement, attention to detail and maintaining investment discipline in the face of volatility matter more than perhaps ever.

RFS 9240-b

Disclosures

Russell Investments does not control, endorse or accept responsibility for content, services, security or privacy on third-party sites.

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Russell Investment Group, a Washington USA corporation, operates through subsidiaries worldwide, including Russell Investments, and is a subsidiary of The Northwestern Mutual Life Insurance Company.

The Russell logo is a trademark and service mark of Russell Investments.

Copyright © Russell Investments 2013. All rights reserved. This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

Russell Financial Services, Inc., member FINRA (www.finra.org), part of Russell Investments.

Not FDIC Insured • May Lose Value • No Bank Guarantee

Read this post on our blog: http://blog.helpingadvisors.com/2012/09/27/whats-on-the-minds-of-money-managers/