Investment Professionals Optimistic on Economic Growth in 2014, Concerned With Market Integrity

Annual CFA Institute survey finds increasing confidence in global economy, need for key reforms to strengthen financial system

London, 13 December 2013 – Investment professionals worldwide report greater optimism over economic prospects for the coming year, but do not express confidence that the integrity of capital markets is improving, according to the CFA Institute 2014 Global Market Sentiment Survey (GMSS) [LINK]. Sixty-three percent of CFA Institute survey respondents think that the global economy will expand in 2014, representing a significant shift in opinion over the previous two years, however more than half (54 percent) 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. The annual survey measured the opinion of 6,561 CFA charterholders and members; to review the complete report and survey results, visit www.cfainstitute.org/gmss.

“The number of members who expect the global economy to expand has nearly doubled in the last two years, however this is no time for those in finance to become complacent,” said John Rogers, CFA, president and CEO of CFA Institute. “The survey reflects that investor trust has been eroded and in order for the financial industry to be an extraordinary force for good, we must embrace ethical behaviour at all levels. As markets rebound, we are 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.”

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

- **Global economy expected to improve.** Sixty-three percent expect the global economy to expand, up from 40 percent from last year’s survey. Members in the United Kingdom are the most optimistic about the global economy, with 78 percent expecting expansion, whereas members in China are the most cautious, with only 48 percent expecting the global economy to expand in the coming year.

- **Striking turnaround in sentiment in Europe.** Fifty-six percent of members in EMEA are expecting their local markets to expand in 2014, a sharp contrast from last year’s survey, in which only 33 percent of EMEA members indicated the same thing.

- **Marked increase in optimism for equities.** Seventy-one percent of members this year identified equities as the asset class most likely to perform best, a big jump up from 50 percent in 2013, which was already up from 41 percent in 2012.

- **United States and China continue to be considered the best investment opportunity, Brazil drops off list.** Members rate the United States (26 percent), China (10 percent), and Japan and Germany (tied at 6 percent) as the equity markets that will provide the best investment opportunity in 2014. In 2013
members similarly indicated that the U.S. (32 percent) and China (17 percent) would provide the best investment opportunities, with Brazil (10 percent) a strong third choice.

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

- Pending elections and unrest could impact local performance. More than three quarters of members (78 percent) in India cite political instability as the biggest risk to their home market in 2014, joined by a majority of South African members (53 percent), and more than one third (38 percent) of Brazilian and the United States (37 percent) who echo that concern.
- Concerns for the end of quantitative easing. Sixty-eight percent 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.

Members call for global oversight and local enforcement

- Calls for improved oversight to build investor trust. More than one quarter (29 percent) of members say that the most needed action to improve investor trust and market integrity is improved regulation and oversight of systemic risk. This sentiment is stronger in Asia Pacific (40 percent) than in EMEA (33 percent) and the Americas (24 percent). Twenty-one percent of members also indicate a need for improved transparency in financial reporting and other corporate disclosures.
- Need for greater enforcement of existing laws in local markets. Members cite improved enforcement of existing laws and regulations in their home markets (30 percent) and improved corporate governance practices (24 percent) as the actions most needed to help improve investor trust and market integrity.

Lack of ethical culture in financial firms eroding investor trust

- State of integrity in global capital markets not expected to improve. As in prior years, over half of members (54 percent) point to a lack of ethical cultures within financial firms as the factor that has contributed the most to the current lack of industry trust. This sentiment was higher in EMEA countries (61 percent) than in Asia Pacific (56 percent) and the Americas (51 percent).
- Market fraud becomes the issue of most concern threatening global markets. Members do not think mis-selling of products by financial advisors is the most serious issue facing global markets in the coming year. Market fraud, such as insider trading (24 percent, up from 19 percent last year), use and reporting of derivatives (20 percent, down from 23 percent in 2013’s report), and the honesty/integrity of financial reporting (21 percent, consistent with last year) are viewed as more serious issues.

The annual CFA Institute Global Market Sentiment Survey seeks input from CFA Institute members to gather data on key market and economic issues in the coming year. The survey was conducted online from October 2 to October 17.

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About CFA Institute
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 behaviour 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.