

Investors Prefer Home Turf

Political risks look less acute to those living in the affected nations; false alarms in Italy

By JON SINDREU

Markets have become truly global, but where investors live may be increasingly shaping their decisions.

Investors are likely to be less concerned about the political risks they see in many Western countries if they live in the country causing concern. Some signs suggest that, faced with complex foreign politics, they prefer to stick to more-familiar markets.

This year, elections in France, the Netherlands, and potentially Italy could affect the future of the eurozone, while negotiations for Britain's exit from the European Union are expected to begin. Some investors worry that President Donald Trump may enact protectionist policies in the U.S. that will affect the global economy.

"Different regions and different countries often view a very similar event very, very differently," said Michael Kelly, head of the multiasset team at **PineBridge Investments**, which manages roughly \$82.6 billion.

Investors said they are having to become experts on foreign politics. Faced with this prospect, many are withdrawing to more familiar shores, and selling abroad in the short term. They have often been getting it wrong.

In December, Italians voted against proposed constitutional changes, triggering the resignation of Prime Minister Matteo Renzi. Many international fund managers had warned that such a result would threaten the existence of the eurozone, but most domestic investors were convinced little would change.

Home Bias

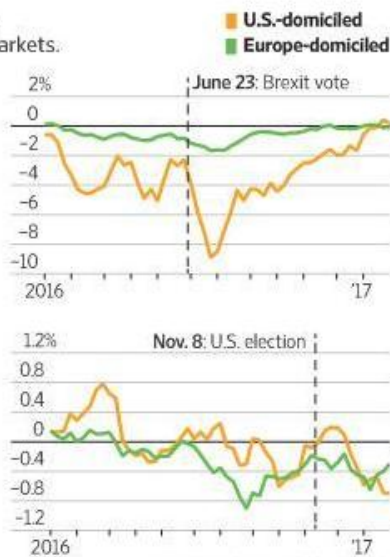
In times of political jitters, investors prefer familiar markets.

After Brexit, American investors fled Europe much more quickly than European ones.

Net four-week flows into European equity funds, as a share of assets managed by those funds

Donald Trump's election was followed by a burst in optimism about global equities, but only in the U.S.

Flows into global equity funds



Source: EPFR Global

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"All the major investors, who know very little about our country, made this connection between losing the referendum and the consequences for the eurozone," said Paolo Basilio, chief executive at Milan-based **Kairos Partners SGR SpA**.

"There's a historical difficulty understanding Italian politics," he said of a country that has had 65 different governments in 70 years.

Since the referendum, Italy's FTSE MIB index is up almost 10%.

Because foreign investors had sold down their Italian portfolio ahead of the referendum, buying was magnified on the way back up, domestic investors said.

The dire predictions of a collapse in British assets after Brexit have also proved incorrect, despite a 17% plummet by the pound following the referendum on June 23. That may have been because regional investors kept a cooler head, data suggest. In the four weeks after Brexit, U.S.-domiciled funds investing in European stocks saw outflows of

almost 9% of the total funds they manage, figures by fund tracker EPFR Global show. That compared with 1.7% for Europe-domiciled funds investing in the region's shares.

The British themselves were similarly more relaxed about potential risks. Their spending has helped the U.K. economy beat expectations.

Following Mr. Trump's election victory in November, U.S. investors appeared to hold a more positive view on his potential impact on the global economy than those in Europe. "A lot of home bias has led to the dramatic outperformance of U.S. assets," said Neil Dwane, London-based global strategist at Allianz Global Investors.

In the week after Mr. Trump's win, U.S.-domiciled funds investing in global stocks saw inflows of \$8.2 billion, roughly 0.2% of the total money they manage. By contrast, European-based global stock funds had a \$6.1 billion outflow, or about 0.3% of assets under management.

While it is hard to be conclusive based on fund-flow

data, anecdotal evidence suggests Europe-based investors are more negative on the U.S. president than those sitting in America.

PineBridge's Mr. Kelly dislikes Mr. Trump's statements on free trade. But the New Jersey resident believes the Republican president's plans to cut taxes and increase infrastructure spending will have a positive effect on the global economy. "We don't think the bite will be as bad as the bark," he said.

In the days after Mr. Trump was inaugurated, Erik F. Nielsen, the London-based chief economist of Italy's **UniCredit SpA**, sent a research note to clients saying the new U.S. president posed a "major threat to the world order."

More recently, European investors have started to invest back home despite looming elections that could shake up the local landscape. A round of positive European economic data has led flows into locally based global stock funds.

France's Amundi, one of Europe's biggest fund managers, is buying French government bonds and selling German bunds. While some U.S. investors have been concerned that far-right leader Marine Le Pen might win the French presidency in the spring, Amundi is less worried. Ms. Le Pen advocates taking France out of the eurozone and renegotiating its membership in the European Union.

Vincent Mortier, Amundi's deputy chief investor, said Ms. Le Pen's chances are zero. "It's because we are French that we say this because we know our country and our people," he said. Still, last June many U.K.-based fund managers predicted that Britain would vote to stay in the EU. "If we're wrong, it will be a disaster for France and for Europe," said Mr. Mortier.

—James Mackintosh contributed to this article.

