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Finding opportunity amidst volatility

Top risks and opportunities in 2016



**‘My biggest concern is the
fallout of geopolitical distress’**

Joe Kaeser, CEO of Siemens

These words from the CEO of Europe’s largest industrial conglomerate following the November 13 Paris terrorist attacks underscore how anticipating and mastering political risk is becoming increasingly critical to business executives.

Facing risks ranging from Islamic State terrorism to cyber threats to the rise of populist political movements in the US and Europe, corporations must develop risk-management strategies to strengthen the resilience of their investment portfolios and operations.

But what are the hidden opportunities amidst such volatility? Will geopolitical competition increase infrastructure investments in ‘swing regions’? Will a shake-up of the traditional political class favour new market entrants?

oxan.to/SixRisks

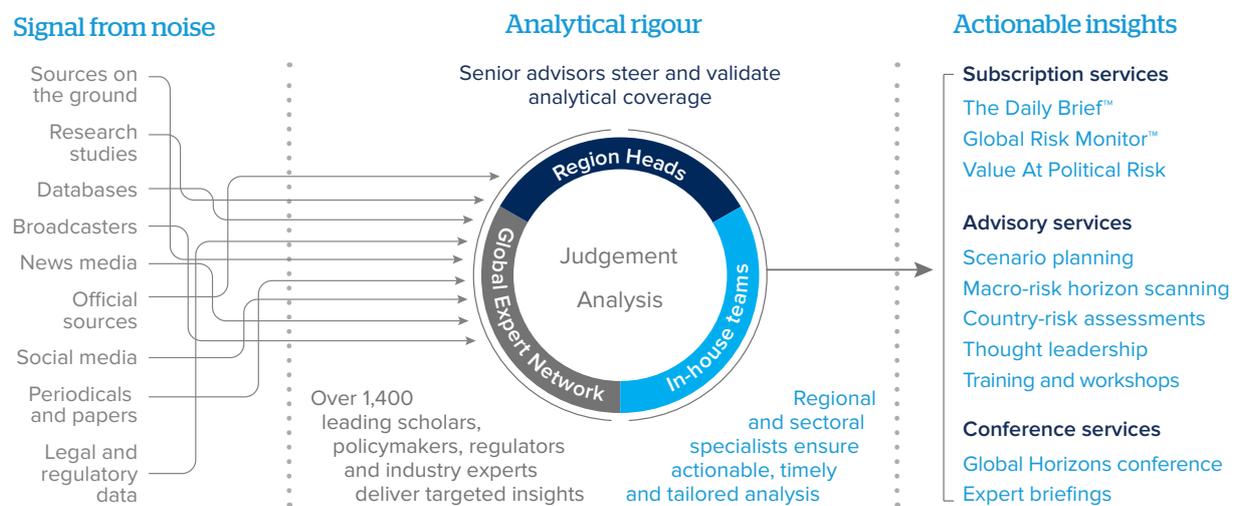
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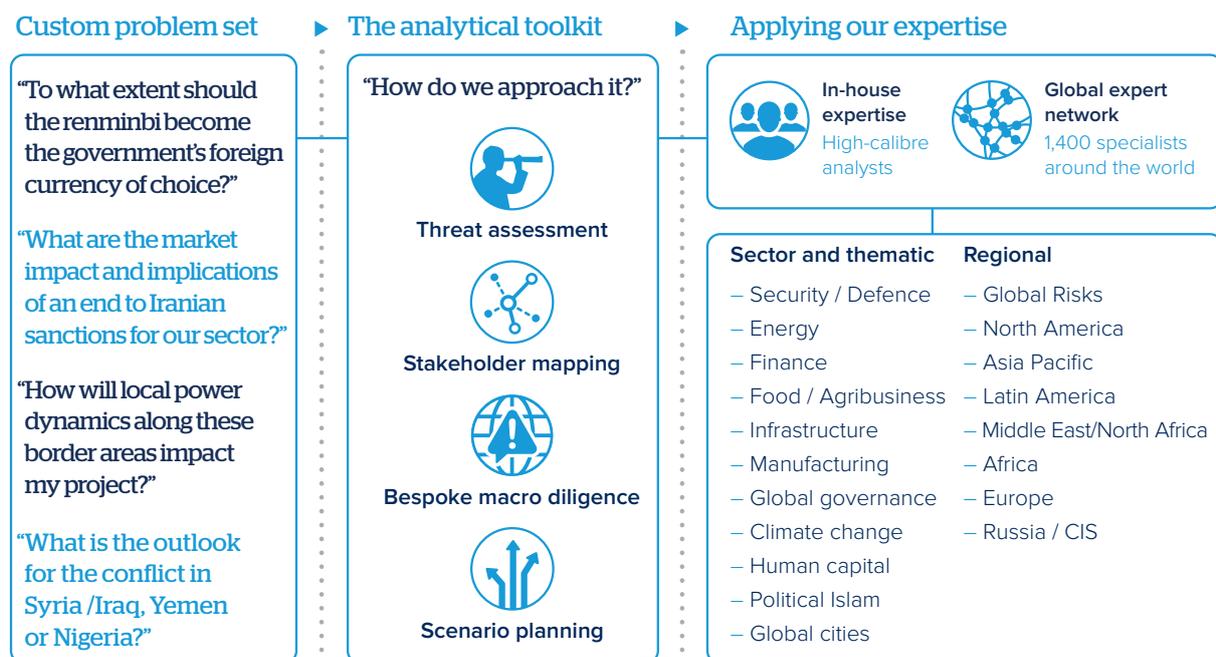
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Contact: Roger Cabrera, Director of Advisory
rcabrera@oxford-analytica.com +44 1865 261 604

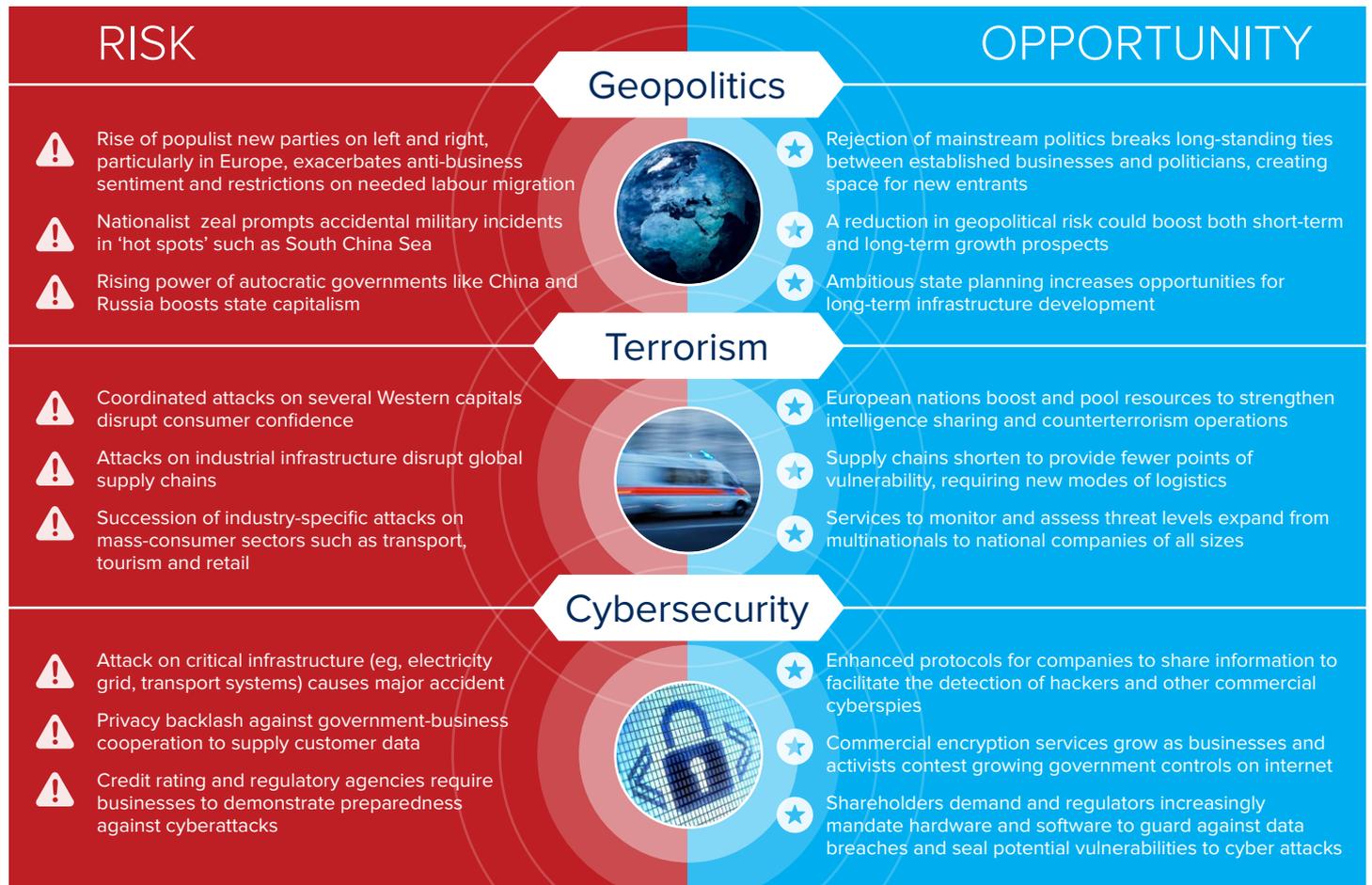
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December 29, 2015

Key risks and opportunities in 2016: Part 1

The new year promises geopolitical complexity and volatility for businesses and investors alike



Source: Oxford Analytica

Business and investment risk drivers will not diminish in 2016, but they will be secondary to growing political- and policy-driven risks. The increasingly critical struggle against Islamic State group (ISG) and Russia's military resurgence -- highlighted through terrorist attacks and Moscow's interventions in Syria and Ukraine -- are set to dominate, along with China's growing presence as a geopolitical power.

The other concerns of the year will centre on the US Federal Reserve's 'normalisation' of monetary policy, the future of the European Union 'project' and China's political capacity to drive through economic rebalancing in the face of slowing growth.

The main economic damage of all these risks will probably be to drain confidence in developed nations' ability to sustain economic recoveries, particularly in the event of terrorist attacks, and in developing economies' ability to deal with large capital flows.

See also: [Prospects for security and defence in 2016](#) -- November 18, 2015

- **Heightened political risk will fuel concerns about a slowdown in global growth and discourage investment intention.**
- **Emergence of non-mainstream political parties in Europe and the United States may peak, but party politics will remain highly fractured.**
- **Military procurement needs will change as nations combine conventional forces with expanded cyber-defence and intelligence capability.**
- **China's tighter control of information on national security grounds will further spill over to business, to foreign firms' disadvantage.**

December 31, 2015

Key risks and opportunities in 2016: Part 2

The pace of US monetary policy normalisation and China's slowdown will be key determinants of 2016 growth



Source: Oxford Analytica

The US Federal Reserve (Fed)'s raising of interest rates at end-2015 will make capital flows volatile in 2016. However, the impact of that volatility will vary greatly between countries, particularly in emerging markets (EMs). Much will turn on the pace and size of rises imposed in the coming year.

The global economy will remain vulnerable to downside shocks, such as China's economy slowing faster than expected. Fragile consumer and business confidence in developed economies will probably continue to dampen the appetite for infrastructure investment and structural reforms.

The dollar will strengthen as the Fed tightens, but further quantitative easing will keep the euro and yen weak.

– **Bond yields will rise mildly in most developed countries in 2016.**

– **Fiscal austerity will be toned down further in the euro-area in the face of the migration crisis and terrorism threats.**

– **The energy and commodity sell-offs will be past their worst, but stabilised growth in China will limit, not reverse them.**

– **Global trade and growth will remain subdued, as emerging economies adjust to the new price levels.**

See also: [Prospects for the global economy in 2016](#) -- November 2, 2015