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to take next. The notion of a risk free asset class—nebulous at the best of times—has been well and truly debunked, and managers are taking a long hard look at investment benchmarks and the models being employed to calculate risk.

Mixed messages thwart attempts to ride volatility wave

Contradictory signals abound. While equity valuations look inexpensive, growth concerns and a flurry of mixed signals from companies during the reporting season mean that investors are thin on the ground. Bonds are also inexpensive, but potential buyers are not biting preferring to sit tight and take refuge in cash—an asset class that has seldom looked pricier. Investors in absolute return funds may have thought they were on to a good thing—recent numbers suggest that they too may be wondering where to turn.

Market contradictions are particularly pronounced when one considers country ratings. As Marcus Svedberg, chief economist at East Capital points out, it seems that rating institutions and the market alike have got something seriously wrong. The largest economies in Western Europe do not seem overly 'safe,' while the largest economies in Eastern Europe do not seem overly 'risky,' as the market suggests, he says.

The truth is that confusion will reign until investors start believing in the ability of politicians to come up with solutions be they in relation to the European sovereign debt debacle, U.S. fiscal incontinence, or regime change. Confidence is unlikely to rebound any time soon. Even assuming policymakers can agree on a course of action, the tools they have to work through the challenges facing them are seriously limited.

Although many analysts are keen to point out that the global financial system is stronger than it was back in the dark days of 2008, policy risk is more of a concern and that concern is multiplying across regions and asset classes. Decisions are being made at a domestic level that will have far reaching consequences for other markets and investors. In the United States, managers have