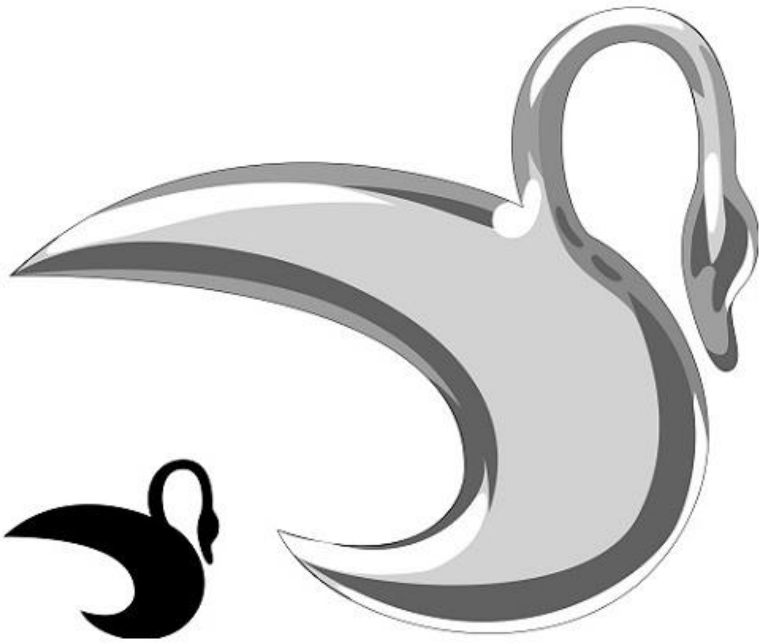
Can multiple Grey Swans add up to a Black Swan? A brief look at Brexit, tariff wars & more

From Brexit to tariffs and beyond, here are several cases where Grey Swans may appear in the near future.

By **Frederic Slade** | January 23, 2019 at 03:00 PM



Grey Swans are events that can be anticipated to a certain degree but are considered unlikely to occur and may have a sizable impact on the health of the overall financial markets if they do happen. (Photo: Shutterstock)

In my post, "**When Black Swans Appear in Financial Markets,**" in October of 2017, I characterized Black Swan events as typically random and unexpected occurrences that can have catastrophic effects on financial **markets**.

Recent examples of Black Swans in the United States included the 2008 financial crisis and housing market crash; the 2001 dot.com bubble, and the Long Term Capital Management collapse in 1998.

While Black Swans have occurred periodically, some events which are not true Black Swans can still create a significant impact on the stability of **financial markets**. These occurrences are known as "Grey Swans."

Grey Swans are events that can be anticipated to a certain degree, but are considered unlikely to occur and may have a sizable impact on the health of the overall financial markets if they do happen.

The question then becomes: Can a series of Grey Swans morph into a Black Swan? Are Grey Swans independent of each other, or do they partly offset each other?

Below are several cases where Grey Swans may appear in the near future:

Brexit: While the eventual exit of the UK from the EU was approved by referendum in 2016, the terms of the ultimate departure remain uncertain given political and economic hurdles. In this case, a Grey Swan would be a “hard” exit, without any agreement between the UK and EU, or a Brexit re-vote by the British public.

Tariffs: The current US administration has embarked on a platform of protectionism and renegotiation of US trade agreements with other countries, in particular targeting China, Europe and Mexico. The ongoing nature of these tariff wars and rhetoric have created a Grey Swan risk to the global economy, increasing the probability of higher prices and a global slowdown or recession.

Oil prices: Only this past October, oil was $76 per barrel. At the end of December, oil had declined to $45 per barrel, a 41% decline. While lower fuel prices are a positive for consumers, low energy prices can be indicative of a global slowdown and have adversely affected securities issued by energy companies. A Grey Swan would likely appear if oil prices collapsed further into the $30s or $20s per barrel.

Federal Reserve and interest rates. The Fed has based its structure and policies on independence from the president and executive branch. However, recent presidential criticism of the Fed regarding interest rate hikes has rattled the financial markets. A Grey Swan could result from a standoff between the executive branch and the Fed, creating potential uncertainty and volatility in the financial markets.

Whether Grey Swans will add up to Black Swans remains to be seen. There is also the possibility that certain Grey Swans can provide positive effects over the longer term.

In any event, protection against Grey Swans is similar to that against Black Swans: diversifying one’s portfolio; not relying on one single market indicator for investment decisions; and limiting or avoiding “market timing”, whereby one is in or out of the market frequently based on a bullish or bearish outlook.

NOTE: Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Past performance is not a guarantee of future investment results.

Frederic Slade has over 25 years of experience in the investment management and retirement services industries. He is Senior Director, Investments for **Pentegra Retirement Services**, a leading provider of retirement services to financial institutions and organizations nationwide, founded by the Federal Home Loan Bank System in 1943. Mr. Slade manages over $1 billion in internal bond portfolios and provides analytics and strategy for Pentegra’s Defined Benefit and Defined Contribution Plans. Mr. Slade holds a Ph.D. in Economics from University of Pennsylvania and a CFA, and has presented at a number of seminars and conferences.