REACTIONS TO LAST WEEK'S DUTCH ELECTIONS AND FED DECISION

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Our podcast last week focused on the two market-moving events of the week: the first segment, with WisdomTree's Director of Research in Europe, Viktor Nossek, focused on politics—we cannot get around this type of discussion these days—including the Dutch elections and their implications for other European elections later this year.

The second segment focused on the Federal Reserve (Fed) decision and policy, where we spoke with Mustafa Chowdhury, the Head of Rates for Voya Investment Management. Chowdhury is responsible for directing the investment strategy for Voya's rates group, so it was good to get his outlook on the bond market.

Dutch Elections: Not the Resounding Victory for the European Project That Many Thought

One of Nossek's main arguments: There were concerns surrounding the far-right Dutch parties—which are much more nationalistic—this group did not score a major victory. But just because the far right didn't gain more seats does not mean this election was a resounding vote in favor of promoting European interests ahead of Dutch interests.

Nossek highlights the Christian Democrats—one of the more mainstream parties in the Netherlands—which did gain seats in the election, and he believes they did so by increasing nationalist rhetoric that included questioning European Central Bank (ECB) policy and whether the ECB's low rates were hurting Dutch pension participants.

Nossek's concern is that the Netherlands—despite having experienced a more robust recovery and drop in unemployment than other European countries—still is seeing nationalistic preferences emerging. These reactions are in some ways a response to higher tax rates in the aftermath of the financial crisis to support bank bailouts. But now voters want projects focused on the Netherlands, and they are less willing to support the "European project," as the Netherlands is one of the net contributors to the EU.

All this is a prelude to French elections taking place in April and May, where there are worries around another far-right party, the National Front, and its leader, Marine Le Pen, who wants to put France's participation in the European Union and the euro to a referendum. France has a multi-round election cycle, and if Le Pen is to move forward along with an independent candidate, Nossek believes this could put more pressure on the euro.

Yet he thinks European equities—particularly European exporters—are one of the better positioned asset classes to withstand political volatility. Using Brexit as an example, the British pound (GBP) fell with the political uncertainty of Brexit, but UK stocks did well—as long as one hedged GBP exposure. This may be a model for similar events later this year.

Fed Hikes: Synchronized Dance between Monetary Policy and Fiscal Policy

Mustafa Chowdhury saw a more dovish set of expectations in the Fed statement than he expected at the start of the week. He believes the Fed successfully managed to push expectations toward not having another hike at the next meeting.

Chowdhury characterizes the U.S. bond market as a synchronized dance between the Fed hiking interest rates, while Donald Trump starts working on the fiscal policy front and changes in tax policy.

The yields on the long bond dropped after the meeting, with an eye on fiscal policy. If we see a more aggressive fiscal policy and stronger economic growth, this would mean more pressure for rates to move higher.

June Hike Likely?

Chowdhury sees the job market as very tight, with inflation heading toward our 2% target. As a result, he believes we are likely to see another hike in rates at the June policy meeting. To move on from there, though, he is looking for signs that the market can handle the two hikes, along with progress on the fiscal policy side.

This was an interesting discussion during a news-filled week, from the Fed to Europe's elections, and it was a pleasure speaking to these two strategists.

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DEFINITIONS

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Inflation : Characterized by rising price levels.