

ECB opens door for more QE

Published 14 June 2019

WisdomTree

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On last week's podcast we had the opportunity to catch up with Professor Jeremy Siegel on his reaction to the employment report and get a take on European economic developments and the European Central Bank (ECB) meeting with Frederik Ducrozet, an economist at the Pictet Group.

Ducrozet pointed out one of most interesting market dynamics to him is the 'term premium' in the bond market and how it reached an all-time low of negative 90 basis points. Ducrozet thinks this unprecedented low term premium is predicting something major from central banks—perhaps another bout of Quantitative Easing (QE) next year.

Ducrozet also suggested it goes both ways and that the market may force central banks to do more QE.

We are not at that stage yet – but if inflation expectations continue to progress downward – it could trigger the ECB to launch another round of QE.

We also discussed the ECB negative rate policy, which Ducrozet does not like. Ducrozet is worried about their impact on the banks but there are recent working papers the ECB released showing negative rates are helping the economy. Yet ECB's president Mario Draghi also hinted in his comments that if the ECB were to lower rates further into negative territory, it is possible there would be more support measures for banks like a tiering of negative rates that Switzerland applies.

We discussed whether this lower rate regime created opportunities in the equity world. Ducrozet does believe many big investors have capitulated.

We see this in broad flows of global investors to Europe. They have been continually negative. At some point the negative sentiment might start to improve with much of the capitulation having come out—creating a good time to buy. This is a trend I will be watching closely as some of the relative out performance of US over European assets extends into extreme territory.

To listen to full conversation, which includes an opening from Professor Siegel on his outlook for the markets and the Federal Reserve, please click on the link below.

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