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Global Monetary Easing – A New Wave

Over the years, Philequity Corner has chronicled the story of our 6-year old bull market. However, its story would not be complete without the central banks. In fact, if it were not for former Federal Reserve Chairman Ben Bernanke and his monetary easing program, we would not be enjoying the bull market we have now.

Ben Bernanke, our Hero

In previous articles, we wrote about Bernanke being the architect behind the global bull market which started in 2009 (see *Christmas Presents*, 24 December 2012). During his term, the US experienced the worst financial crisis in recent memory. Fortunately, Bernanke was a "student of the Great Depression". Because he closely studied what happened to the US in the 1930s, he was armed with lessons from that time. Knowing that conventional methods would not work, he crafted what would be the first ever incarnation of monetary easing of our generation, Quantitative Easing or QE.

Over the years, he modified this program to suit the needs of a recovering US economy (see *The* Rescue, 22 September 2008 and *The Twist*, 26 September 2011). In the annals of history, we believe that Bernanke will be remembered as the man who saved America.

Draghi does whatever it takes for Europe

A few years after the 2008 US Financial Crisis, Europe went through its own sovereign debt crisis. This is Europe's greatest crisis which almost caused the disintegration of the Eurozone. Taking a page from Bernanke, Draghi started using verbal intervention to calm the markets, saying that "the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough" (see *Whatever It Takes*, 27 August 2012). With Bernanke as an example, European Central Bank (ECB) President Mario Draghi embarked on his own version of QE which he called OMT (Outright Monetary Transactions). Earlier this year, the ECB also announced a more aggressive program, saying it will purchase $60 billion a month in Eurozone sovereign debt until September 2016.

Japan - Out of the Sandtrap

However, Bernanke and Draghi were not alone in their determination to save their own nations. Japanese Prime Minister Shinzo Abe along with Bank of Japan Governor Haruhiko Kuroda also shared the same fervor. Both men lamented how Japan has remained trapped in two lost decades of economic malaise. In order to finally pitch their country out of the sandtrap, they embarked on a massive monetary easing program. Dubbed QQE (Qualitative and Quantitative Easing), it was so broad that it encompassed the purchase not only of bonds, but even real estate (through REITs), Japanese stocks and foreign stocks (see *Out of the Sandtrap*, 15 April 2013). Combined with Abe's reformist economic platform called Abenomics, it looks like Japan is finally emerging from its lost decades.

Note that this move to depreciate the yen came with the tacit approval of other central banks, a marked departure from the 1985 Plaza Accord. Thus, since Abe and Kuroda took office, the Nikkei has risen by

131% and the Japanese yen has depreciated by 45%, moving from ¥82 to ¥119 to the dollar - a feat that was made possible only by aggressive monetary easing.

China joins the easing party

In a poll conducted last year, fund managers listed China as the biggest risk to the global economy as a hard landing may drag down the rest of the world. Faced with a slowing economy, an overheating property market, corruption scandals and an avalanche of unregulated margin trading, China faced a complex series of problems. Fortunately, its government and central bank sensed the urgency and rose to the occasion. They launched a multitude of stimulus measures, ranging from billions of dollars in infrastructure spending to interest rate cuts and lower reserve requirement ratios. With China now embarking on its own easing cycle, all the main engines of global growth have instituted their own version of easing.

The Great Global Monetary Easing

Although many doubted the efficacy of QE, central bankers around the world were watching Bernanke's every move. Seeing that it worked, it was not just Draghi and Kuroda who followed in his footsteps, but many other central banks as well. With many other countries joining the US, Europe and Japan, this went on to become the greatest money supply push in history, hence it was dubbed the "Great Global Monetary Easing" (see *The Great Global Monetary Easing*, 22 October 2012).

Coordinated central banks

With central banks around the world launching their own version of QE, it was crucial that they act in unison in order to prevent instability in the financial system. Heads of the various central banks call each other regularly in order to balance out the impact of their policies on each other's currency and economy. In fact, it is only through coordinated central bank action that the global financial system was saved from collapse (see *Central banks to the Rescue*, 7 November 2011).

Monetary easing expands to emerging markets

After the first wave of monetary easing, other countries started encountering problems of their own. However, it was not a simple matter to cut interest rates to boost growth and raise inflation targets. Thus, when oil plunged sharply, a window of opportunity was created for many other countries. Now, many other countries have also started lowering interest rates, such as India, Indonesia, Thailand, Turkey, Peru and Egypt. Clearly, a new wave of monetary easing has begun, with the phenomenon now expanding from developed economies to emerging markets.

What is monetary easing for?

Just like sick patients with different illnesses, different countries need different doses of QE. So, for those wondering why central banks continue to ease, see below some of the reasons why they are implementing such policies:

1. Stabilize the financial system
2. Restore confidence in the economy
3. Reflate asset prices

4. Reduce the unemployment rate
5. Stimulate economic growth
6. Make their currencies more competitive

Don’t worry, make money

Interestingly, many analysts and economists continue to question the effectiveness and highlight the risks that come with aggressive monetary easing. Some claim that what central banks are doing will eventually create a bubble and cause asset prices to collapse. While it remains to be seen whether QE will be effective across all countries or not, it is something we will let the economists worry about. At Philequity, our job is to make money and the past 6 years has shown that rising asset prices is one of the effects of monetary easing (see *Central Banks Winning*, 17 September 2012). Central banks believe that this asset price reflation will eventually bring about growth in the real economy.

The global bull market continues

Let us not forget that the ultimate product of all these central bank actions is the global bull market we are enjoying right now. We maintain our main thesis of “Don’t Fight the Fed” to profit from this ongoing bull market. Since the beginning of this global bull market, stock markets in the US have risen 218%, Europe has climbed 110%, Japan has appreciated by 185% and the Philippines has climbed by 355%.

With the firm resolve of central banks to provide stimulus and reflate assets, stock prices will most likely appreciate further. We continue to believe in the resiliency of well-managed companies and countries. We have faith that mankind will keep improving as technological advancements grow by leaps and bounds. There may be bumps and roadblocks along the way to prosperity, but the upward trajectory will continue. The global bull market in stocks charges on!

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