

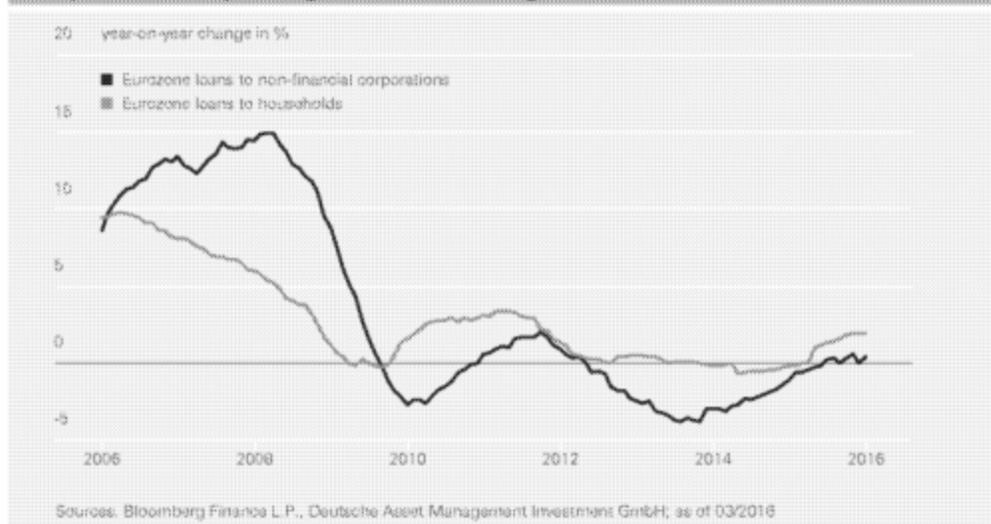
For QE to have much of an impact, you need to create somewhat ad-hoc assumptions. Translated into plain English, this means coming up with stories for why private investors will not fully adjust their portfolios to reflect recent and anticipate future actions by the central bank. Generally, such stories boil down to different assets not being perfect substitutes for different types of investors.

Insurance companies or pension funds, say, might face regulatory restrictions on which assets they can hold. There might be differential information and transaction costs for retail investors. Some investors might invest in certain ways simply out of habit. All of which might be true, but ideally, you would want to have a lot more data before betting economies worth trillions of dollars on it. To his credit, Ben Bernanke, the Fed's chair throughout much of the crisis, has freely acknowledged as much in speeches and in his earlier academic work.⁷

We would argue that part of the reason the Fed was relatively successful with this policy, was markets were ready – indeed eager – to play along. It is less clear that QE will be as helpful going forward, either in the United States or elsewhere. As the balance sheets of central banks have ballooned, private-sector debts have also been mounting, from emerging markets borrowers to U.S. corporates. In the search for yield, some of the money that actually did find its way into lending will inevitably turn out to have been misspent – perhaps sowing the seeds of the next crisis.

⁷ See, for example, Bernanke, Ben, "Monetary Policy since the Onset of the Crisis", Presented at the Federal Reserve Bank of Kansas City Economic Symposium, "The Changing Policy Landscape," Jackson Hole, Wyoming, August 31, 2012; <http://www.federalreserve.gov/newsevents/speech/bernanke20120831a.pdf>

Despite monetary easing, Eurozone lending remains subdued



Lending never really recovered from the crisis

Despite all the efforts by the ECB, loans to the business sector of the Eurozone remain weak. In part, this probably reflects the fact that troubled banks, especially in Southern Europe, are not fully transmitting monetary loosening to their clients. A bigger problem is probably demand for business loans remains weak, reflecting subdued growth in several Eurozone economies. Loans to households are slowly rising. Overall, however, QE has not proven very effective in improving lending.

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