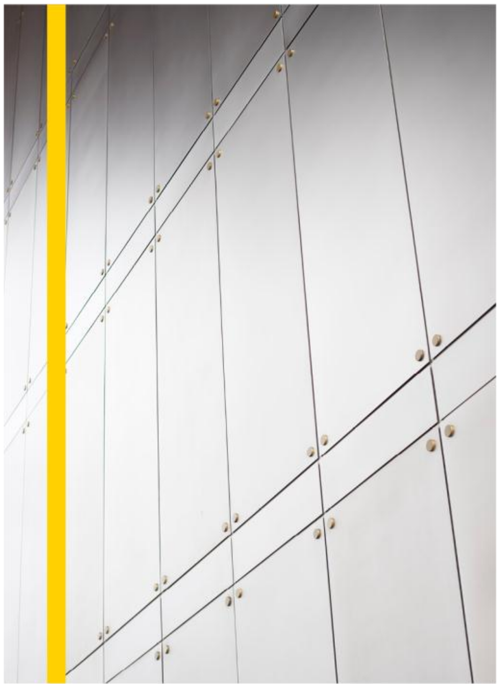

Monetary Policy Asymmetry Across Central Banks: More the Norm Than the Exception

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At long last, the European Central Bank detailed plans on January 22 to implement quantitative easing.[1] This widely-expected announcement provoked immediate market responses and a deluge of commentary.

The mere cosmetics of enhanced monetary policy accommodation lifted equity spirits on January 22. Of course, the duration of this equity celebration cannot be predicted. And the full evaluation of QE efficacy cannot be undertaken until the ECB and other QE central banks eventually normalize their balance sheets. Looking back from decades hence, future policymakers likely will declare that QE helped avert deflation and boost European economic growth. But the stimulus effects likely were minor. The utilization of QE in future business cycles will remain rare in our opinion.

Some pundits hailed the ECB's decision, while others doubt the efficacy of further monetary policy stimulus given the miniscule yields that already apply in European capital markets and a commercial banking system under regulatory instruction to mitigate financial leverage.

Some voices express apprehension about the purportedly atypical "asymmetric" configuration of monetary policy across major economies. Specifically, the incongruence between expected tightenings in 2015 by the Federal Reserve and the Bank of England versus the incremental accommodation extended by the European Central Bank and the Bank of Japan somehow might pose generalized risk to the global capital markets.

[1] The European Central Bank expanded its asset-purchase program (currently including asset-backed securities and covered bonds) to European governments, agencies, and institutions for a combined €60 billion monthly beginning in March 2015 until at least September 2016 for a total package of €1.1 trillion or more.

Subscribers to this “asymmetry mayhem postulate” seldom articulate the transmission mechanism for such unfavorable market outcomes.

In our view, this “asymmetry postulate” should be discarded. Historically, diversity in the conduct of global monetary policy represents the norm. Broad unanimity occurs only in exceptional circumstances.

As shown in Figure 1, there has never been a year since inception of our time series in 1998 when all major central banks simultaneously pursued uniform monetary policy stances.

The tech (2000-2002) and housing bubble (2007-2009) bursts delivered sizeable international shocks to the financial system, triggering easy money across the world. Global GDP growth per the IMF plunged to troughs of 1.61% and -2.01% in 2001 and 2009, respectively. Not surprisingly, rate cuts far overwhelmed hikes during these years.

Conversely, the strong economic expansion of the mid-Oughts enveloped most countries by 2006, forcing policymakers to tighten nearly in unison (94 hikes vs. 25 eases).

To be sure, in concert with the global economic cycle, central banks decidedly lean toward an easing bias during periods of economic distress. Conversely, economic expansions eventually invite less monetary policy accommodation. But consistent with national, not global, mandates, each central bank must strive to optimize the path for its sovereign economy. And despite a world of growing international economic linkages, idiosyncratic sovereign business cycles are not and may never be identical.

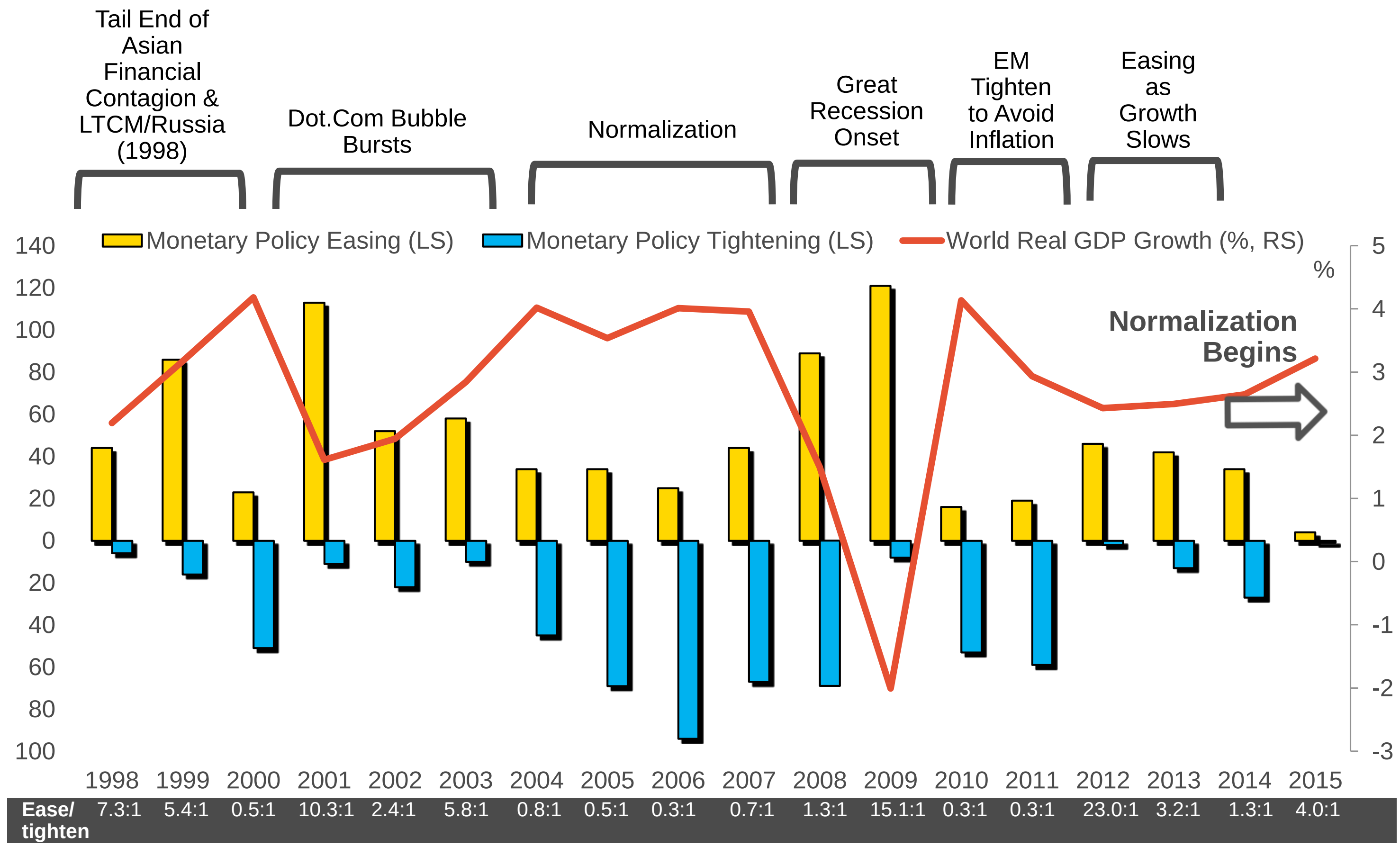
This current “asymmetry apprehension anxiety” may partially arise from the surfeit of capital market focus on central bank activities. Especially in this new era of increased openness and transparency that diminishes the surprise factor in central bank policy adjustments (the Swiss National Bank on January 15 being a most notable exception), the attention paid to central bank proclamations seems increasingly disproportionate to the potential portfolio advantages possibly acquired.

This “central bank focus myopia,” often at the expense of other more compelling macro and micro statistics, partially reflects the huge aggregate scale of central bank policy adjustments. Over the past 17 years as shown in Figure 1, major central banks have executed over 1,500 adjustments. This works out to almost 2 actions per week somewhere in the world and provokes reactive reflections about their purpose and outcome from the financial community.

In our opinion, central bank policy will begin to lean toward less accommodation over the mid-Teens and become outright restrictive during the late Teens. Aside from eventually nudging yield curves higher to the detriment of absolute bond returns in many jurisdictions, this likely gradual normalization of monetary policy hopefully will not have profound effects on economic and capital market parameters.

As always, numerous risks lurk for global capital markets. The “asymmetry argument” does not rank high on our risk list.

Figure 1. Global Monetary Policy to Remain Easy[1]: 1998 to January 22, 2015



[1] Easings and tightenings refer to change in central bank target rate of select developed economies. Note: data does not reflect Twist, Quantitative Easing operations, and 2014-2015 GDP growth estimated; *Source: BNY Mellon using data from Bloomberg and IMF*

Total Eases	884
Total Tightenings	623
Total Moves	1507

Composite Ease-to-Tighten Ratio: 1.4:1

Approximate rate moves per*:

- **day:** 0.6
- **week:** 1.8
- **year:** 88.3

*Calculation assumes rate move made between Tuesday to Thursday each week and also excludes 4 weeks each year due to holidays.

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