

QE and beyond: the big picture

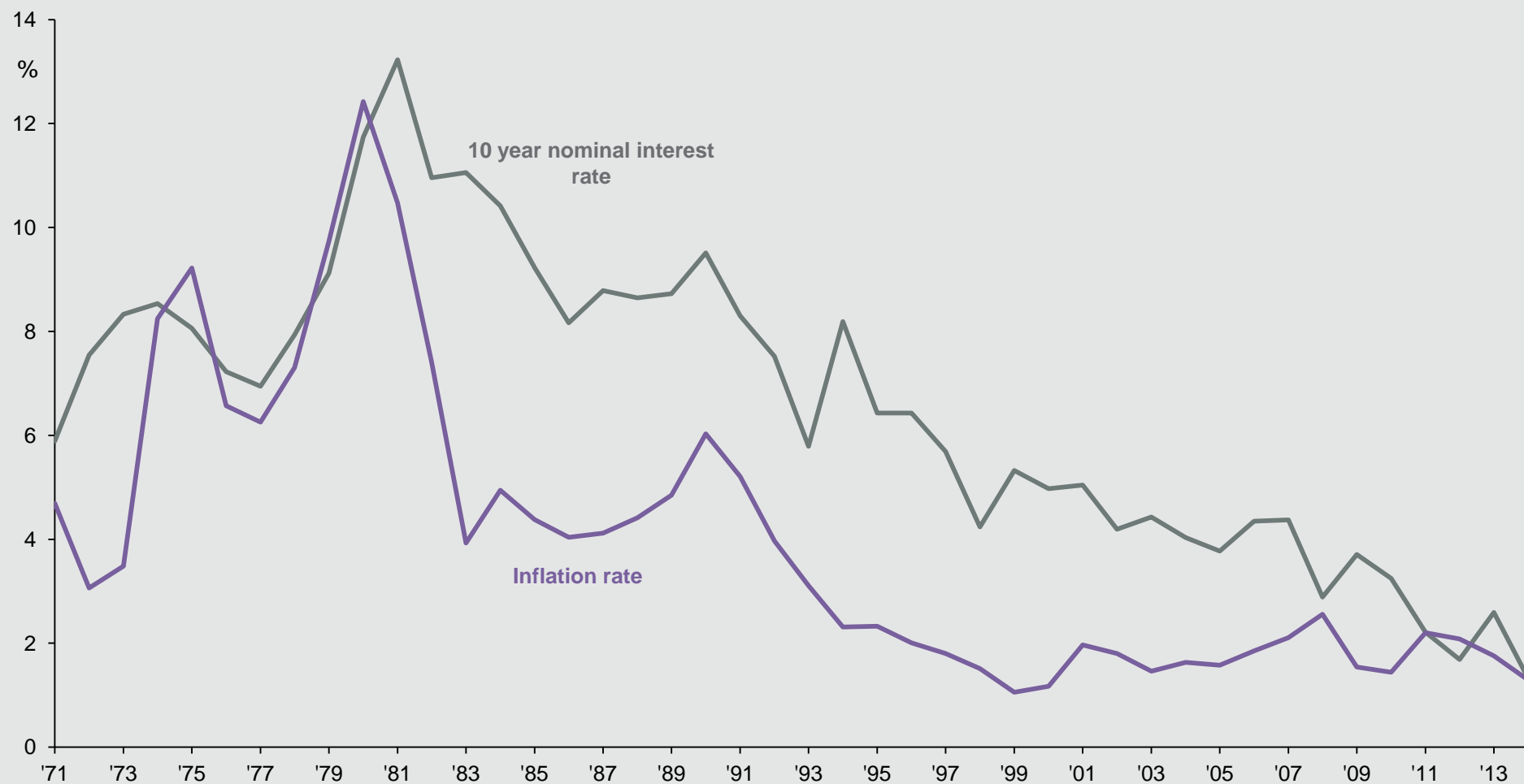
Stephanie Flanders
Chief Market Strategist for Europe



- We can't blame/credit QE for everything
- We can expect it to affect markets and returns for years to come
- Worry about the dollar and everything that goes with it
- Worry that "lower for longer" will eventually apply to returns

QE cannot explain this

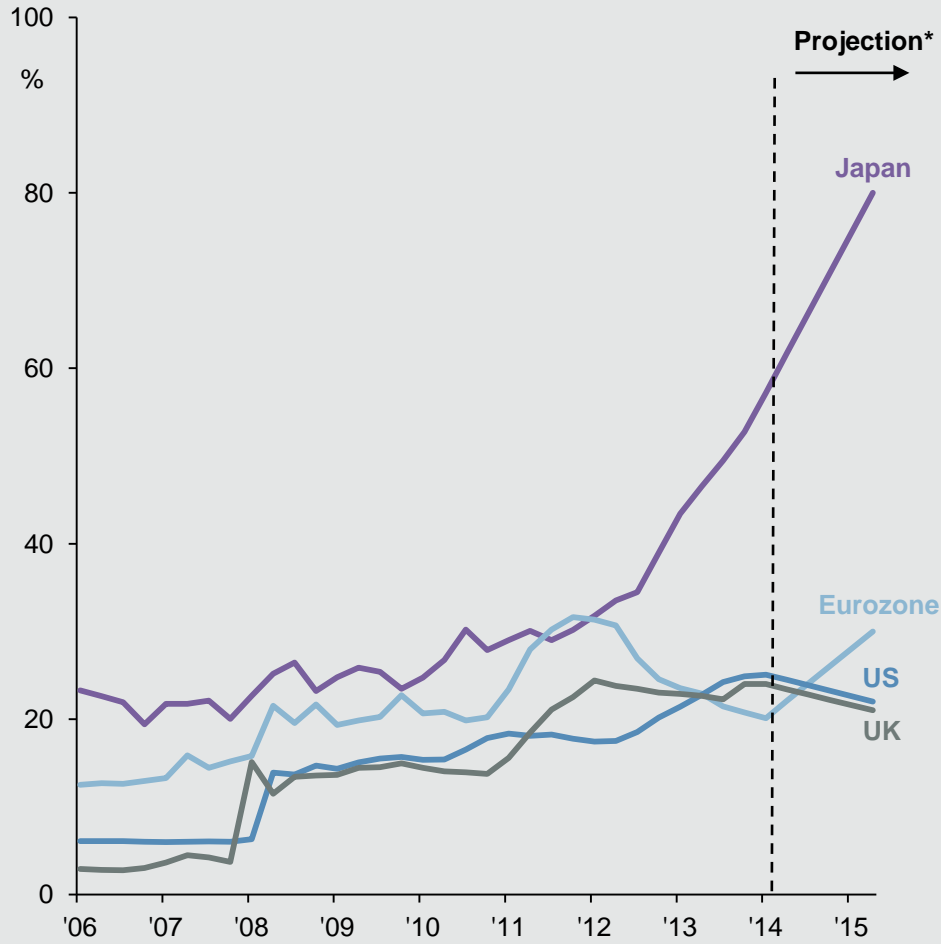
Long term 10 year yields in developed economies



Source: FactSet, J.P. Morgan Asset Management. Data as at 10 March 2015.

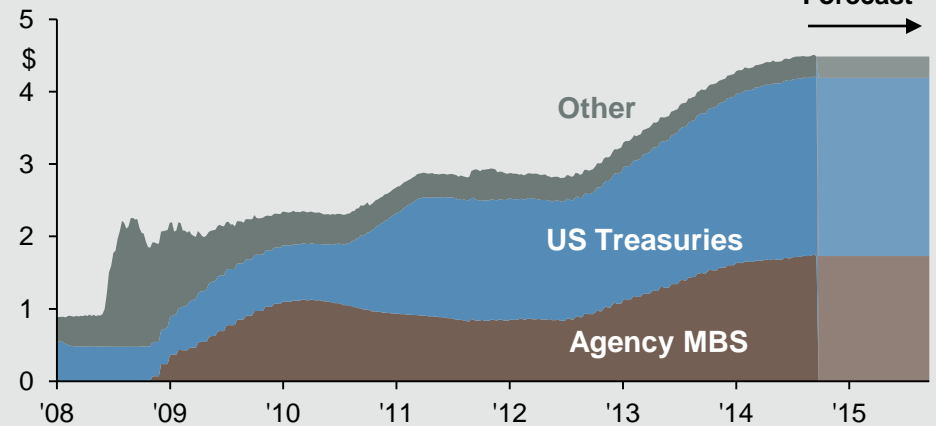
Central bank balance sheet

% of nominal GDP



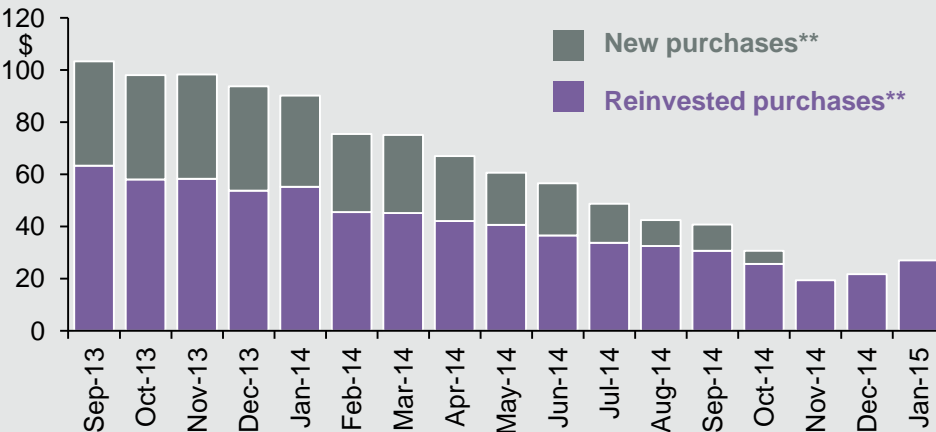
US Federal Reserve balance sheet: Assets

\$ trillions



US Federal Reserve MBS purchases

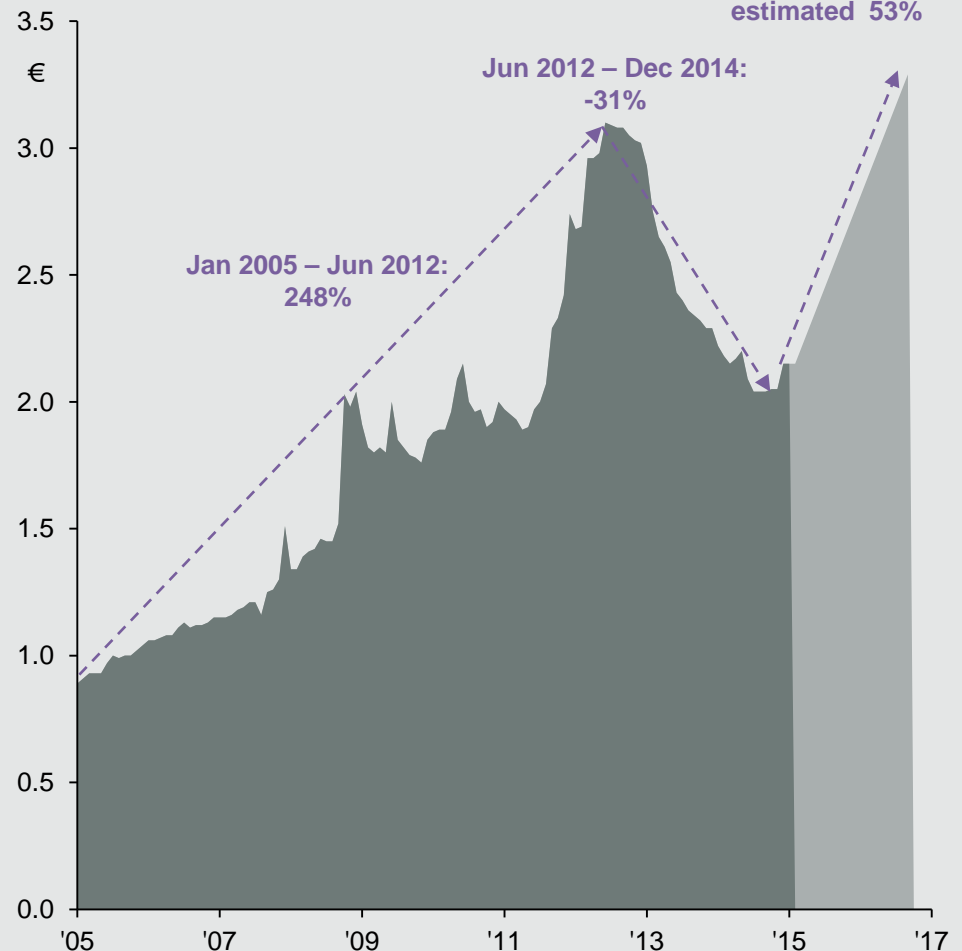
\$ billions



Source: (Left) US Federal Reserve, Bank of England, Bank of Japan, ECB, J.P. Morgan Economic Research, J.P. Morgan Asset Management. (Bottom and top right) US Federal Reserve, FactSet, J.P. Morgan Asset Management. *Projections are based on central banks' stated economic intentions. **New purchases are the stated purchases from the US Federal Reserve. Reinvested purchases are bonds purchased with the principal received from maturing bonds. *Guide to the Markets - UK*. Data as at 10 March 2015.

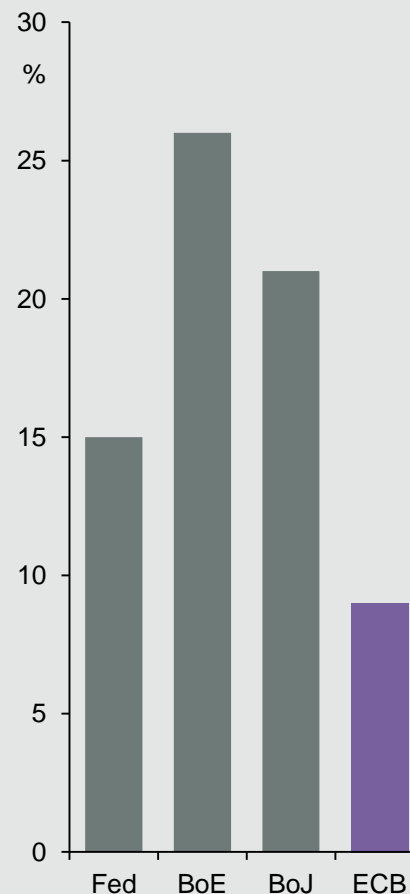
ECB balance sheet: Assets

€ trillions

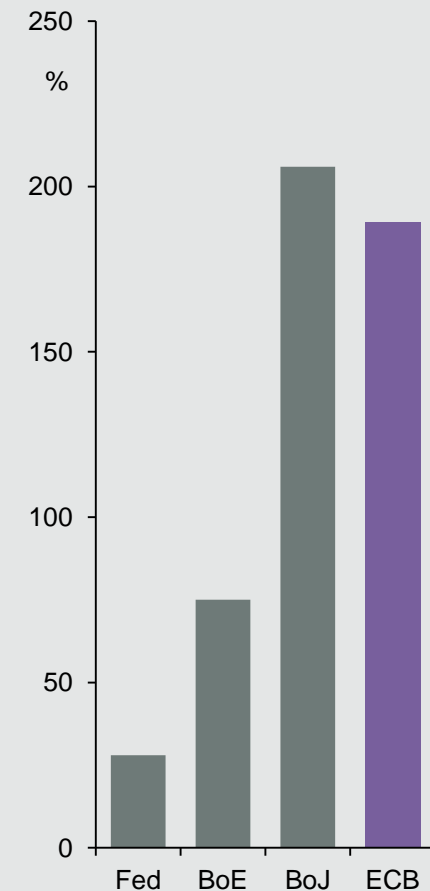


Central bank QE purchases

% of total outstanding



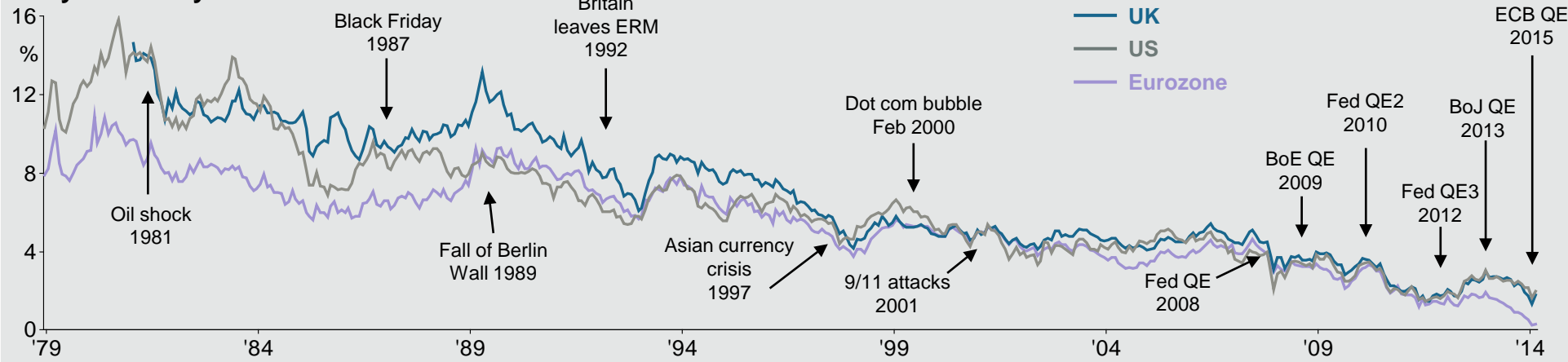
% of net issuance over the QE period*



Source: (Left) ECB, FactSet, J.P. Morgan Asset Management. (Right) Federal Reserve, BoE, BoJ, ECB, Haver Analytics, J.P. Morgan Asset Management. Estimated ECB assets do not include TLTRO activity, and represents only the announced commitment of the QE programme. *QE period for Fed is Sep-08 to Oct-14, BoE is Mar-09 to Jun-12, BoJ is Apr-13 to Oct-15 and ECB is Mar-15 to Sep-16. *Guide to the Markets - UK*. Data as at 10 March 2015.

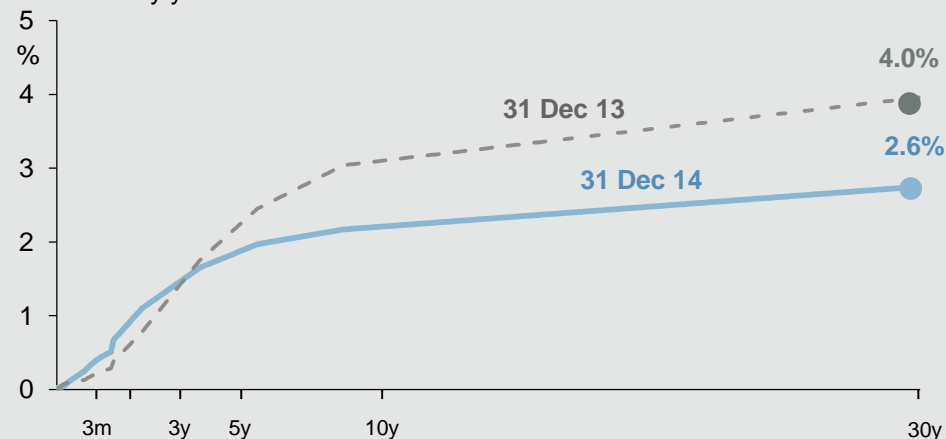
Eurozone now the epicentre of the global search for yield

Ten year bond yields



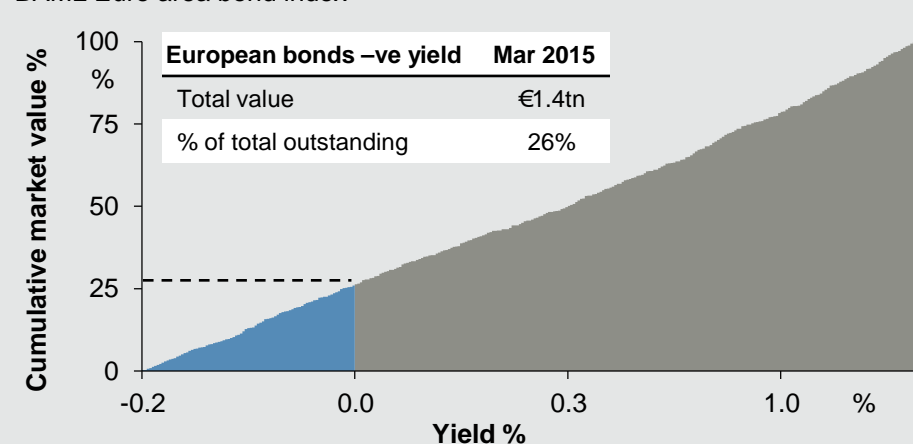
Yield curve

US Treasury yield curve



Euro area government bonds

BAML Euro area bond index



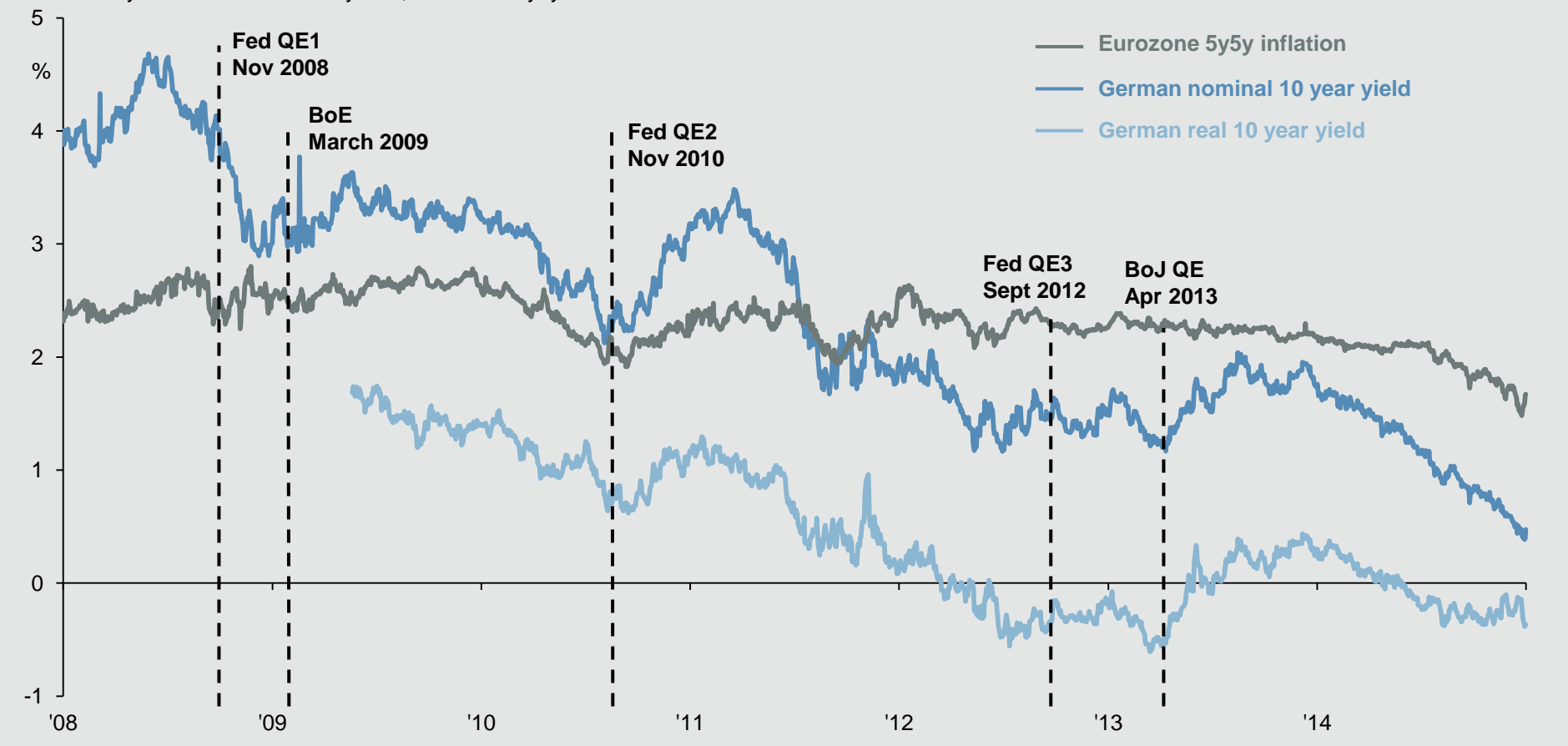
Source: Source: (Top and bottom left) Tullett Prebon, FactSet, J.P. Morgan Asset Management. (Bottom right) BAML, Bloomberg, J.P. Morgan Asset Management.

Guide to the Markets - UK. Data as at 10 March 2015.

Eurozone is now the epicentre of the global search for yield

Euro area yields and inflation

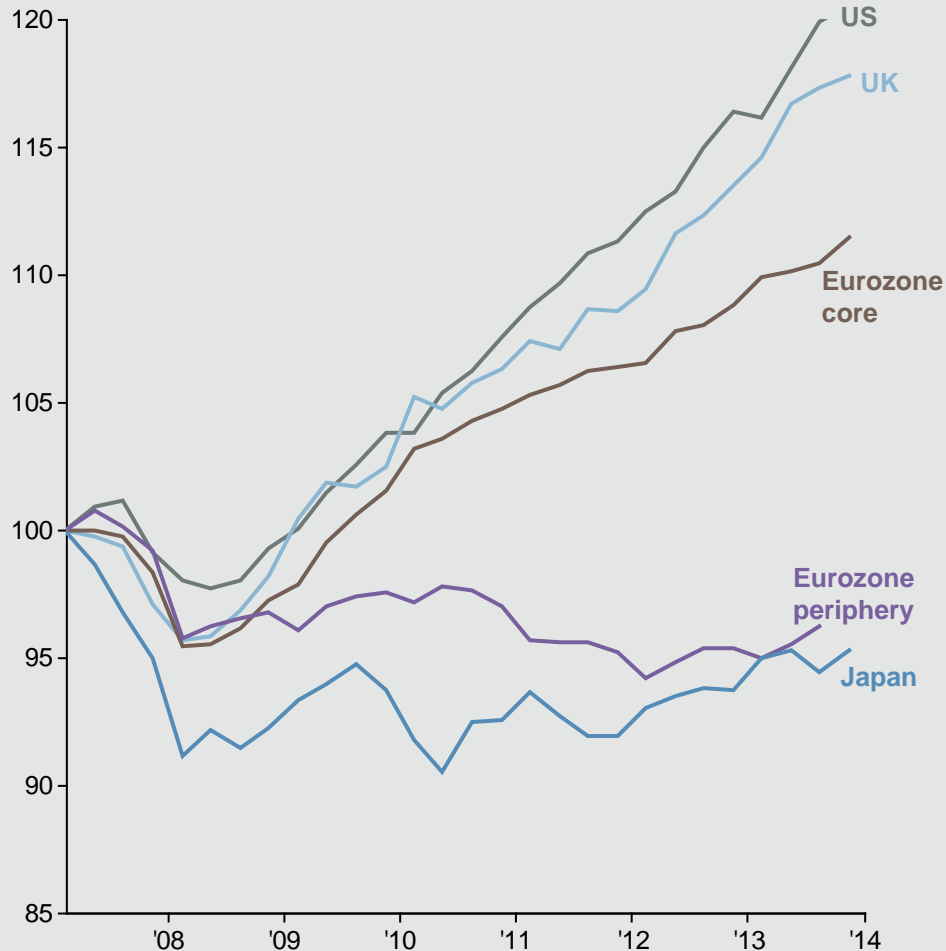
German 10 year nominal and real yields, Eurozone 5y5y inflation



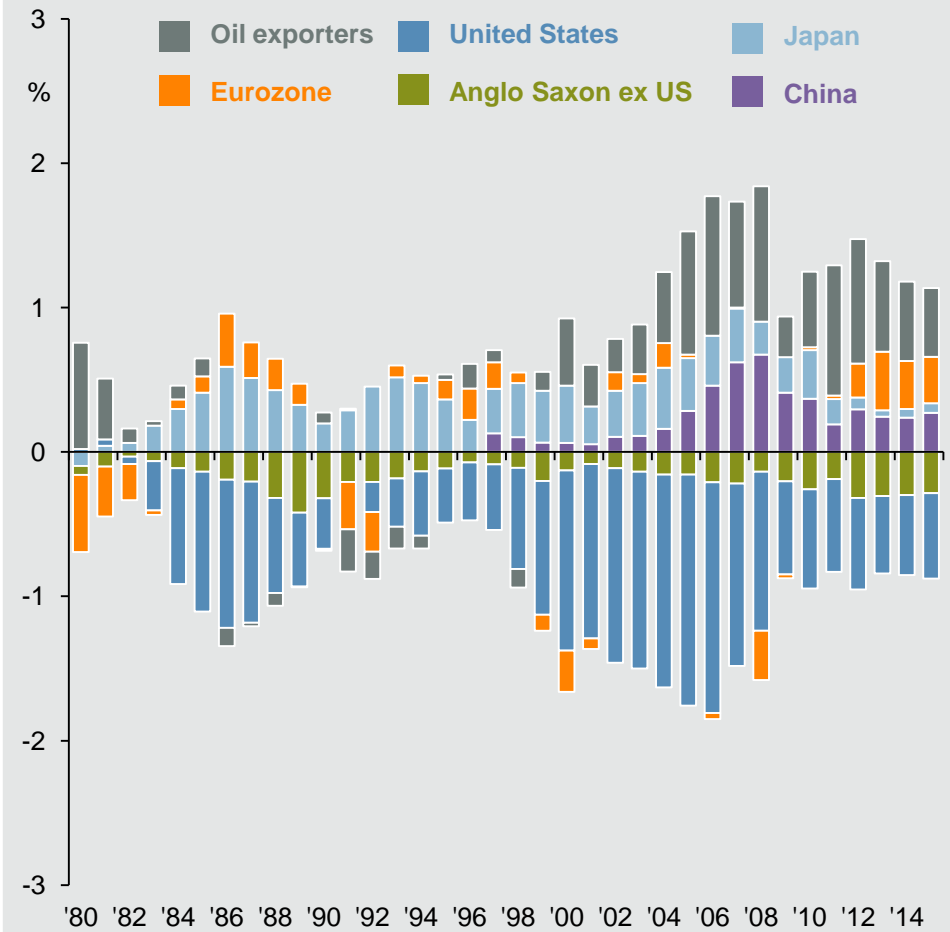
Source: Tullett Prebon, FactSet, Bloomberg, J.P. Morgan Asset Management. Data as at 23 January 2015.

Nominal GDP growth

Rebased to 100 at Q1 2008

**Global current account imbalances**

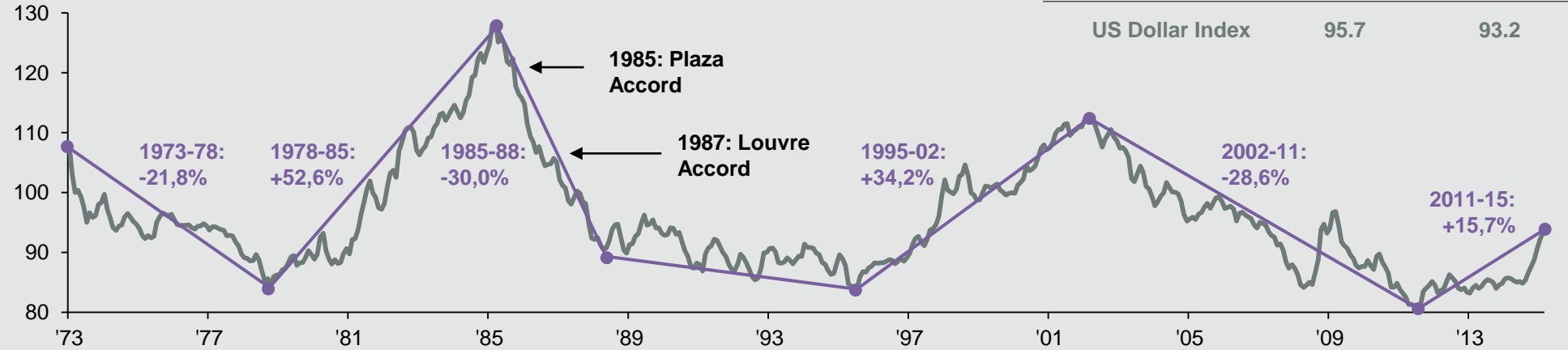
Percent of World GDP



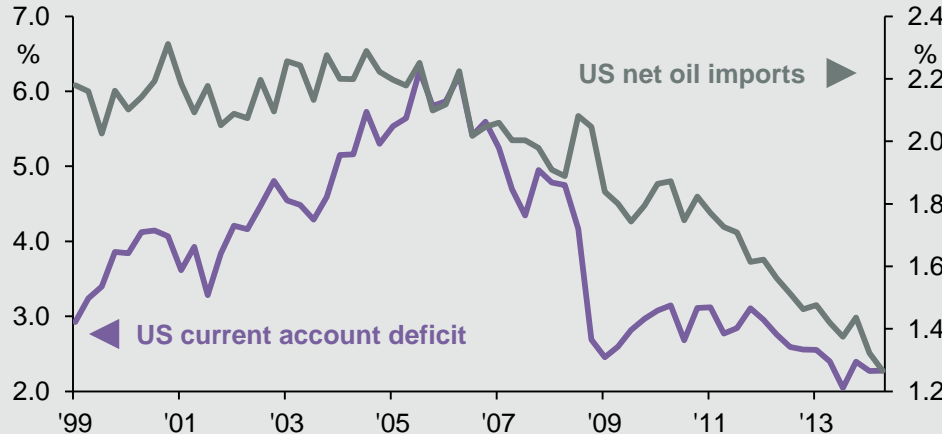
Source: (Left) Various national statistics agencies, FactSet, J.P. Morgan Asset Management. (Right) IMF, J.P. Morgan Asset Management. Eurozone core is Germany and France; periphery is Spain, Italy, Greece, Portugal and Ireland. Anglo Saxon economies include New Zealand, Australia, Canada and UK. Oil exporters are the biggest 15 net oil exporters in the globe. *Guide to the Markets – UK*. Data as at 10 March 2015.

US Dollar Index

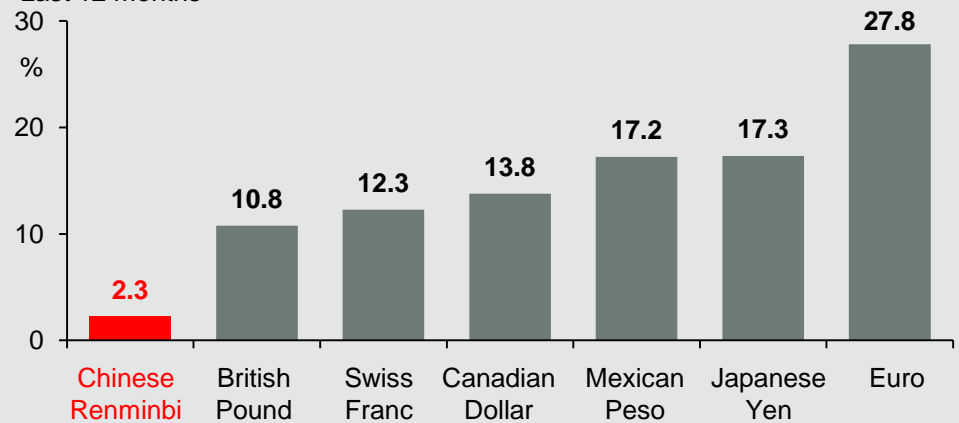
Real broad effective exchange rate (REER)

**Current account deficit**

% of GDP

**US dollar performance vs selected currencies**

Last 12 months

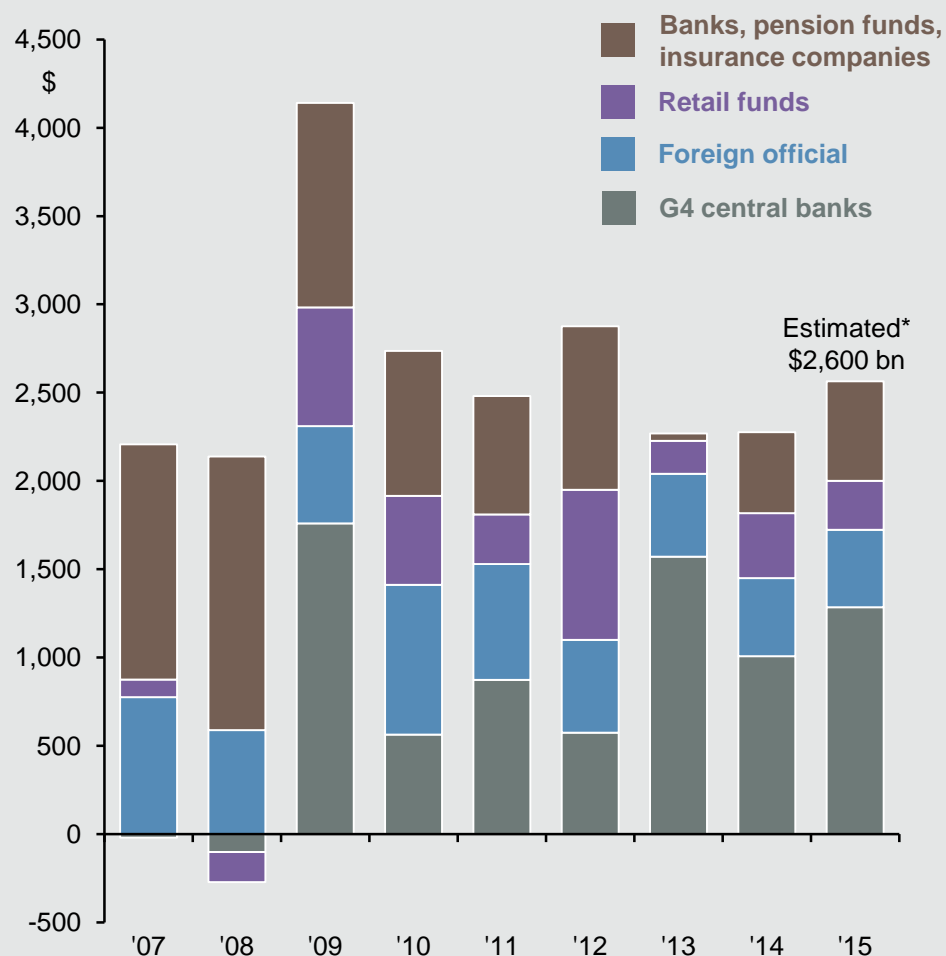


Source: (Top) US Federal Reserve, J.P. Morgan Asset Management. (Bottom left) BEA, FactSet, J.P. Morgan Asset Management. (Bottom right) FactSet, J.P. Morgan Asset Management. *Guide to the Markets - Europe*. Data as at 10 March 2015.

WDIAM?

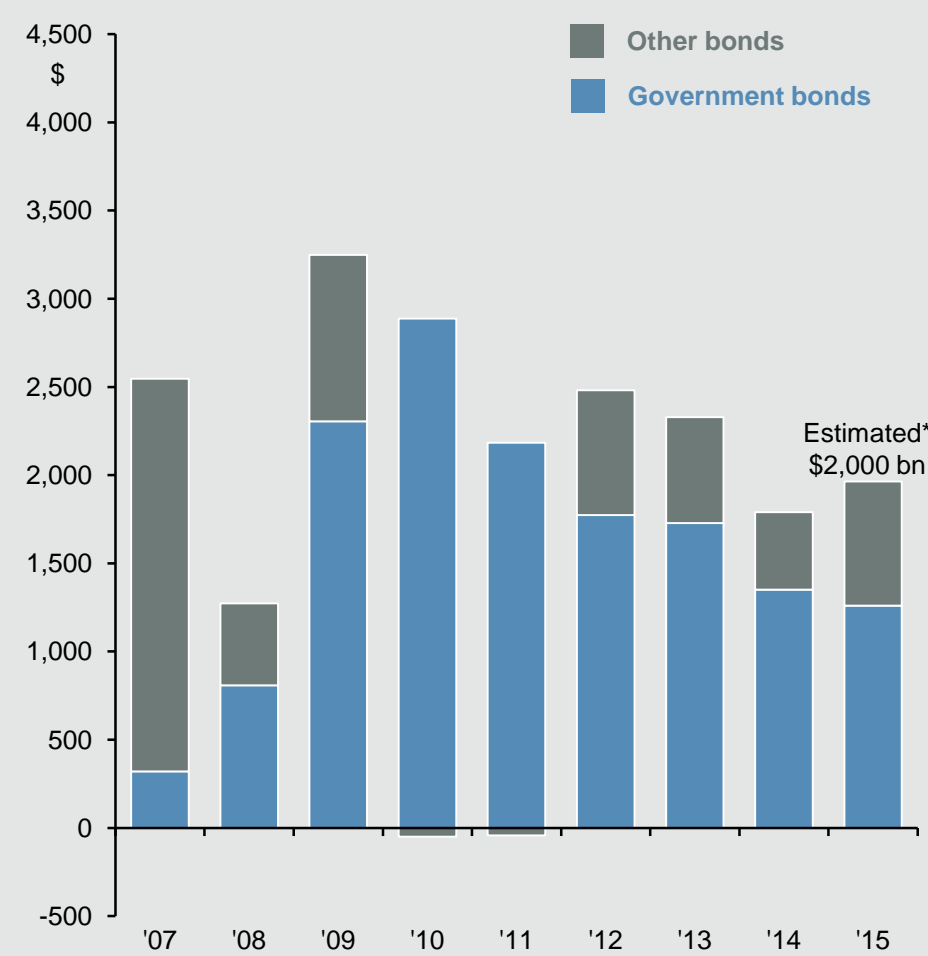
Global bond demand

\$ billions per annum



Global bond supply

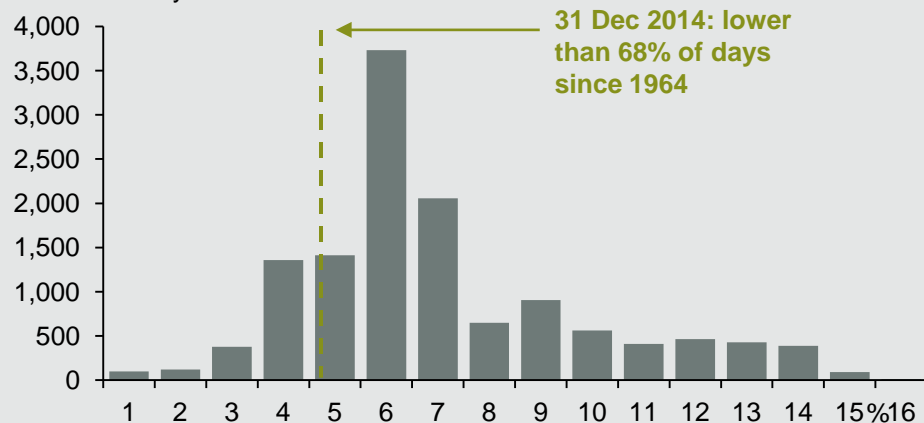
\$ billions per annum



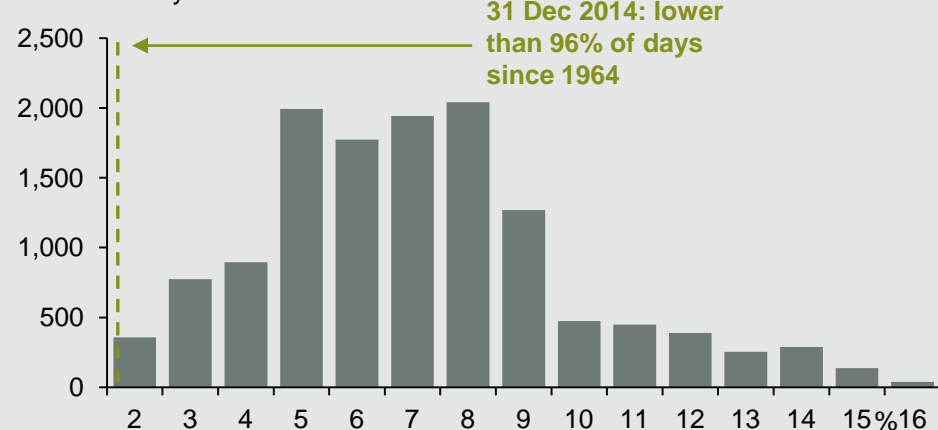
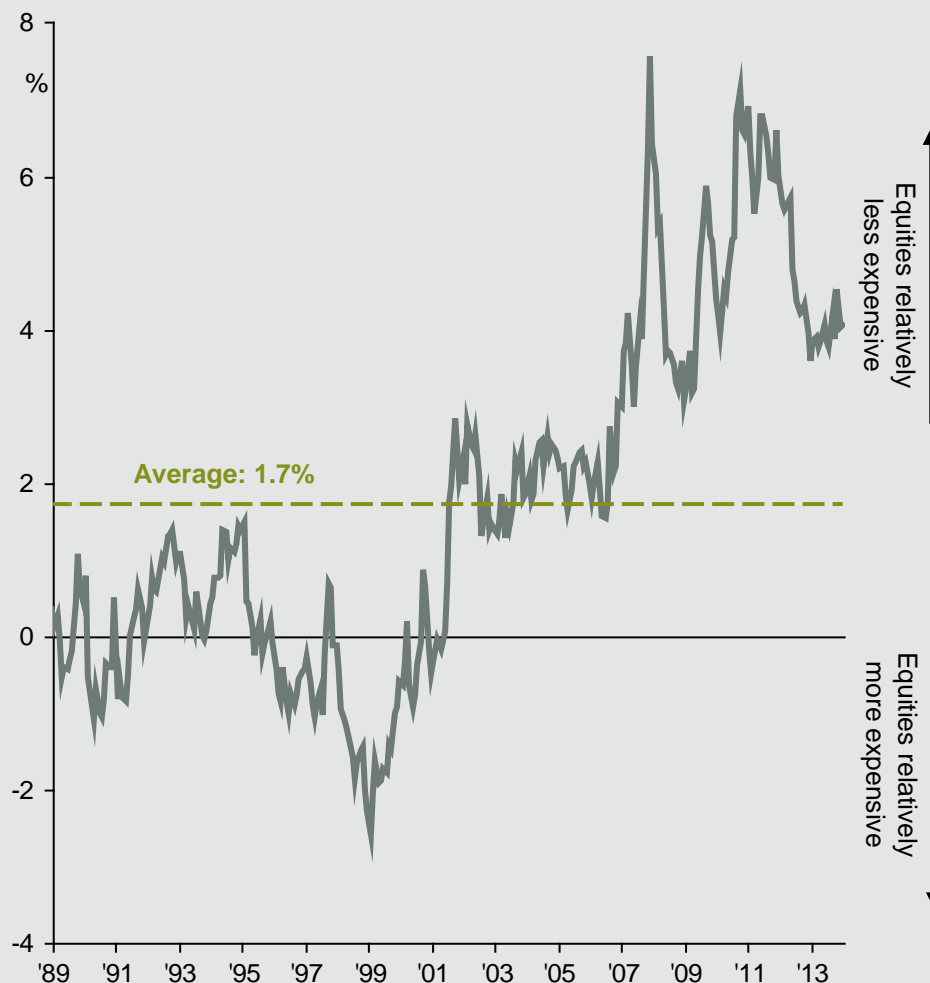
Source: (Both charts) Central bank sources, ICI, Bloomberg, IMF, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Historical demand amount is the notional amount that institutions intended to buy over each year. *2015 demand and net issuance are J.P. Morgan Economic Research estimates.
Guide to the Markets - UK. Data as at 31 December 2014.

Histogram: S&P 500 earnings yield (inverse of P/E)

Number of days: 1964 – 2014

**Histogram: Nominal 10-year Treasury yield**

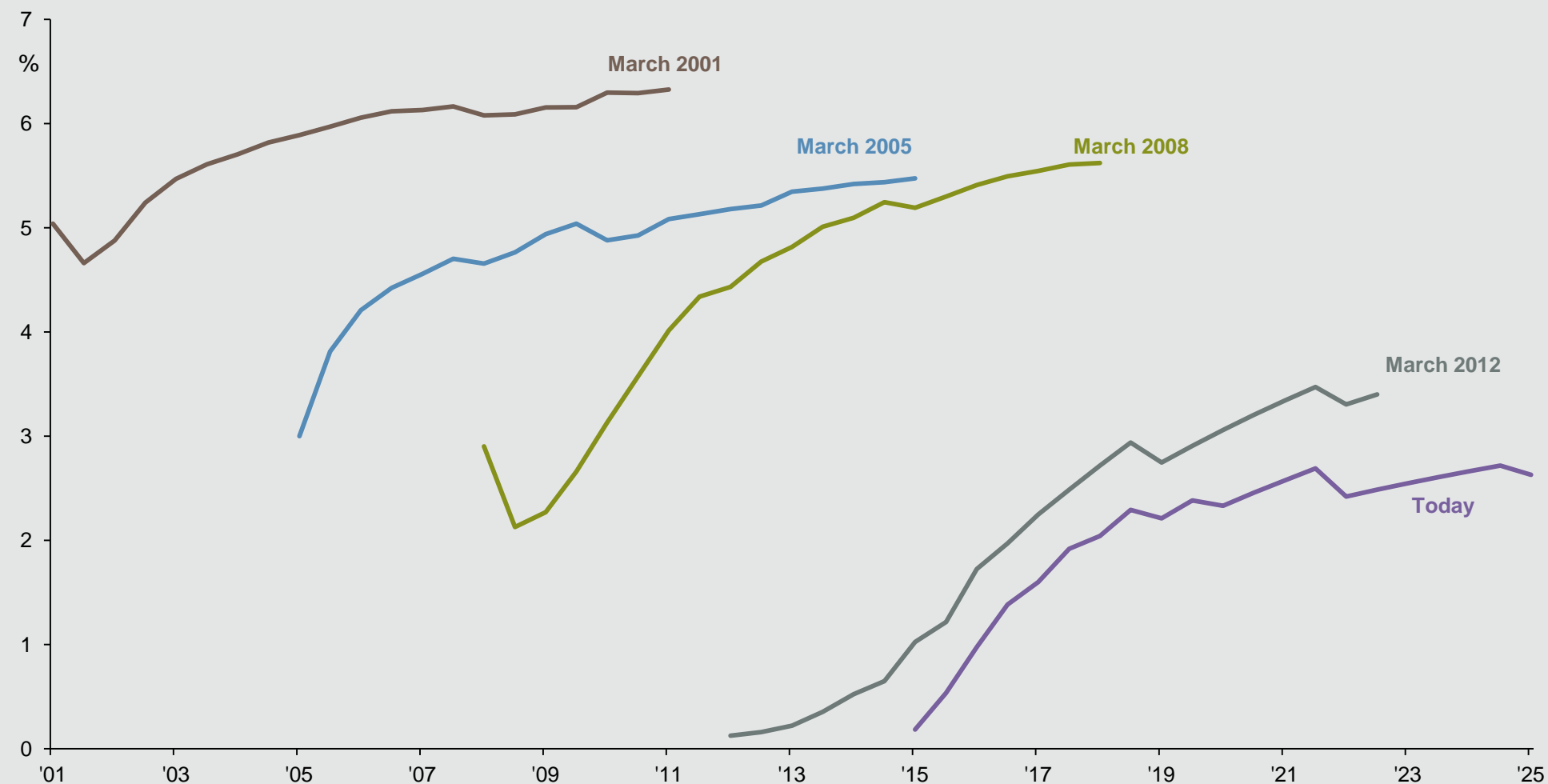
Number of days: 1964 – 2014

**Equity risk premium***

Source: (All charts) Tullett Prebon, Standard & Poor's, FactSet, J.P. Morgan Asset Management. *The equity risk premium is the S&P 500 forward earnings yield less the US Treasury 10-year yield. *Guide to the Markets - UK*. Data as at 31 December 2014.

Long run rate expectations do not fit even a mediocre recovery

Market expectations of long-term Fed Funds rate



Source: Bloomberg, J.P. Morgan Asset Management. Data as at 10 March 2015.

But if rates are “lower for longer” - returns will be as well

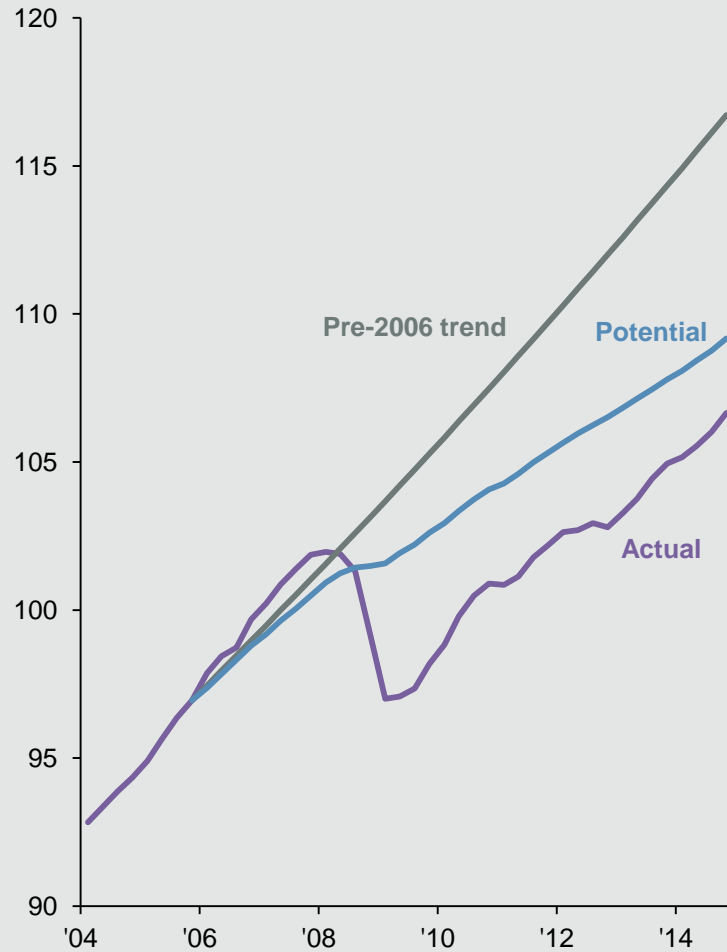
Long term 10 year yields in developed economies



Source: FactSet, J.P. Morgan Asset Management. Data as at 10 March 2015.

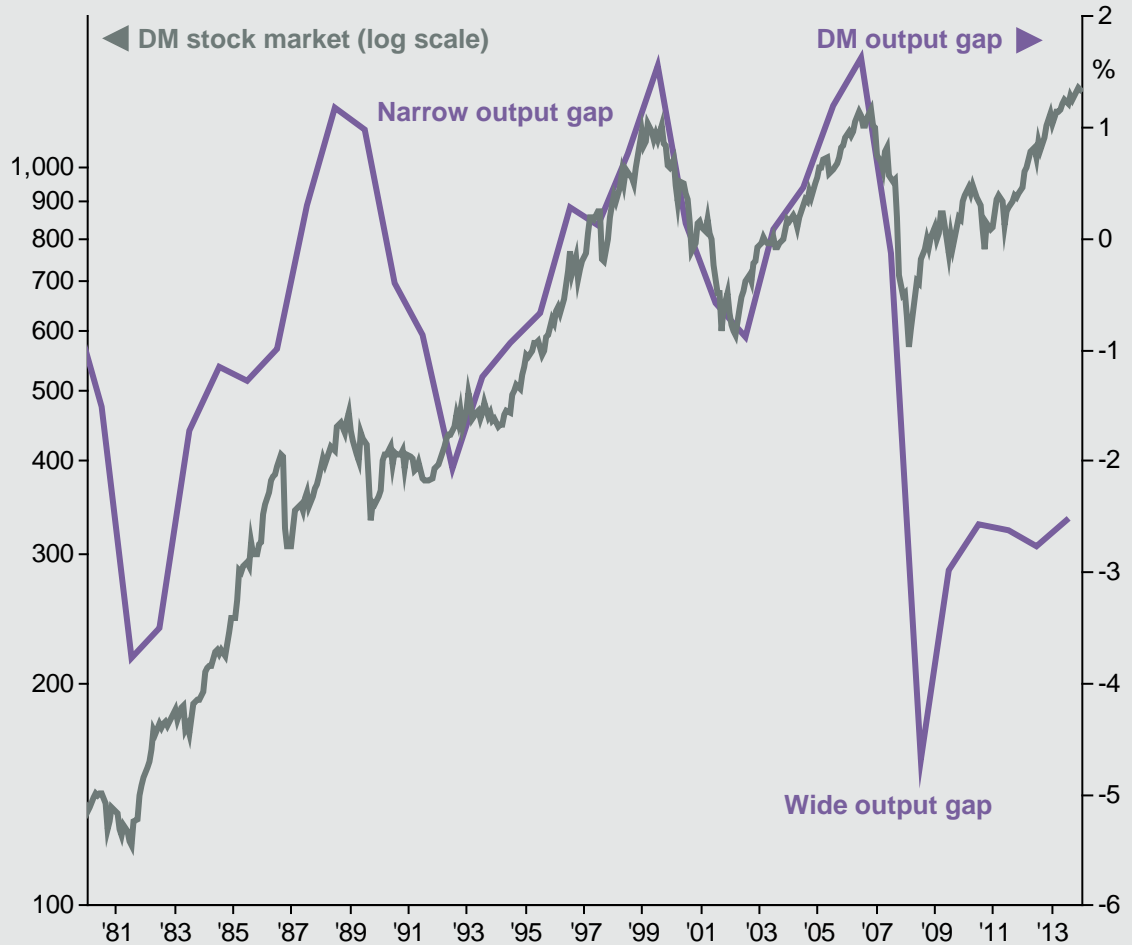
Developed markets real GDP

Index 2010 = 100



Developed markets (DM) output gap* and equity market

Index level, output gap shown as % of potential GDP



Source: (Left) J.P. Morgan Economic Research, J.P. Morgan Asset Management. (Right) MSCI, IMF World Economic Outlook October 2014, J.P. Morgan Asset Management.

*The output gap is the difference between actual output and the output that could be achieved if the economy were running at full capacity (also referred to as potential GDP). DM stock market is the MSCI World Index. *Guide to the Markets - UK*. Data as at 31 December 2014.

- We can't blame/credit QE for everything
- We can expect it to affect markets and returns for years to come
- Worry about the reliance on the US
- Worry that "lower for longer" will eventually apply to returns
- **Watchwords for the future: diversify more and expect less**

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