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They just cannot get enough

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"Part of being a winner is knowing when enough is enough. Sometimes you have to give up the fight and walk away, and move on to something that's more productive" - Donald Trump

The above is not a Presidential tweet but a musing from Donald Trump's time as a property baron and television personality. An experienced investor would undoubtedly agree - sometimes you have to walk away, take a loss or change a strategy.

And this brings us to policy making today. In the wider scheme of things, July 2019 will not go down as a particularly striking month in global capital markets, with the exception of a slide in a number of currencies - particularly the Pound and the Euro - against the US Dollar. For the Pound, this shift reflected a building fear about a no-deal Brexit, as the new Prime Minister Boris Johnson wants his assertion that 31st October is going to be the date for something to happen, to be perceived with credibility. With various committees meeting now on a daily basis, a range of scenarios still exist on the Brexit question, albeit the clock is still ticking. Unsurprisingly, the Bank of England have also felt the need to wade into the debate in early August, lowering economic growth forecasts and highlighting the dangers of persistent high levels of uncertainty.

Far more striking during July were comments from a number of central banks. Mario Draghi - the soon-to-be outgoing President of the European Central Bank (ECB) - did not announce an interest rate cut during the month but was not shy in highlighting new stimulus efforts due in September, with potentially more to follow later in the year. Another central bank currently presiding over a negative interest rate backdrop - the Bank of Japan - also struck a dovish rhetorical tone, borrowing the famous 'whatever it takes' language once uttered by President Draghi. The Bank of Japan, of course, has the world's longest existing quantitative easing/negative interest rates stimulus combination effort. However, just like the ECB, current inflation projections remain well below a hoped for two per cent level, whilst economic growth rates remain decidedly patchy.

And then on the final day of July, for the first time in 3,878 days, the Federal Reserve of the United States cut interest rates. This was widely anticipated by the market but the accompanying announcement of an early end to the Federal Reserve's tentative quantitative tightening policy was a little bit more surprising. At least the United States - at least temporarily - tried to reverse the magnitude of quantitative easing. There has been no movement on this front elsewhere at the other central banks mentioned.

July was a terrible month for monetary policy purists as there appears no end to the willingness of the world's central banks to stimulate. They just cannot seem to get enough... more than a decade after the end of the 2007-9 global financial crisis! Pitching the concept wider highlights the above as not some carefully selected examples. In 2019 alone the central banks of Australia, New Zealand, South Korea, Chile, Saudi Arabia, Malaysia, the Philippines, Indonesia, India, Brazil, South Africa, Russia, Argentina and Turkey have all formally cut interest rates.

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China has also not been shy about undertaking broader monetary policy loosening. Only Norway and the Czech Republic have bucked the trend and actually raised interest rates - and both central banks in these countries have currently negative real (i.e. after adjusting for inflation) interest rates.

Cheap money, central bank stimulus and related policies such as quantitative easing were only meant as a temporary support. Collectively, they helped save the economic backdrop in 2009 and the years after but - like an addict - it is proving somewhere between difficult and impossible to wean central banks off such policies. Japan may have specific demographic and societal rigidity but the continuing dullness of both economic growth and inflation levels, should worry policymakers elsewhere.

One day - unless unfettered - such concerns will spill over into broader financial markets. Anticipate a little bit of bilateral US-China trade progress (despite President Trump's early August tariff announcement) and an improvement in Brexit certainties and equity markets can make more progress in 2019, especially if we ever see a bit of US dollar fade which will encourage global investors back more aggressively into both the European and emerging markets. And all this is even before you consider the attractive sustainable yields on many equities against fixed income alternatives. But put on your thinking hat and look towards the first few years of the 2020s and governments are going to have to get more involved with both fiscal policy and initiatives to make economies more competitive, productive and innovative. The most successful countries or economic regions will be those that do not rely disproportionately on their central bank to shoulder economic support and stimulus measures - and by doing so will help create conditions where the notions of negative interest rates and quantitative easing can slip back into economic textbooks.

Something to muse about on the beach or to look out for in the back to school season and beyond!

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