Quantitative Easing & Why Financial Markets Appear Complex:
Corroboration 'QE' Is The Only Game In Town

Monetary Policy
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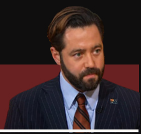


Stirling Larkin, CIO

It's today said money doesn't talk, it *screams*. Fittingly, on the eve of Melbourne Cup 2020, the origin of this truism is as fitting for stockmarkets as it is horsetrading – first cited September 1935, page 109 of Esquire magazine, "*The older horses I'll get at a fair price: for money doesn't talk, it shouts on the track when a season ends; and it soon ends this year.*"

Valuable or otherwise, evidence now corroborates that global stockmarkets retraced beginning 3 September until last night not because underlying factors caused an extreme bout of risk aversion manifesting in an explosion of uncertainties but more simply, that the *tinder lit* and began burning when US Federal Reserve Chairman Jerome Powell balked at supporting a fresh round of money printing – "Quantitative Easing" ('QE').

Cite:- Bull Rally And Not A Recession, 11 September 2019

Cite:- Central Banks Are Now Market Makers: Reshaping The Global Economy From A Torus Revolution Towards A Torus Knot, 22 July 2020

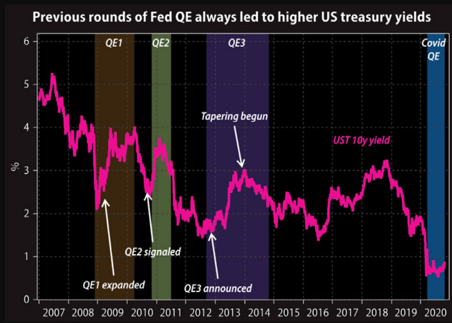
Cite:- Inexorable Effect Of Unconventional Monetary Experiments On Equity And Bond Prices, 5 July 2020

Bridgewater Associates Co-CIO, Bob Prince said it best, how an income shock is at the heart of the ***Global Corona Crisis (GCC)*** and how the US Federal Reserve's FOMC committee is intending to navigate us out of it via reflation; a polite euphemism for unbridled money printing.

But like a *junkie* forever requiring a fresh 'hit' of heroin to remain *perpendicular*, so too, correctly according to Prince, does US bellwether stock bourses, in rolling three to four month rounds of unconventional monetary programmes – QE or akin.

Third quarter's (July to September) 'hit' never arrived and ergo, the retracements began and began in haste.

The second wave of retracing began 13 October, when the S&P500 index sold-off, coinciding with the first day of the US's 3Q20 earnings season – this may be mere coincidence but unlikely, given it is rumoured that US Federal Reserve Vice Chair Richard Clarida's speech had been leaked twenty-four hours ahead of his all-important, "*U.S. Economic Outlook and Monetary Policy*" speech



tabled for 14 October. '***Mom & Pop***' retail daytraders – personified as "*Robinhood day traders*" were blamed for the alleged unsophisticated and irrationally exuberant spasmodic market behaviours over these two episode but humorously, a robust working paper published by the National Bureau of Economic Research (NBER) in September, titled, "*Retail Raw: Wisdom of the Robinhood Crowd and the Covid Crisis*", not only debunked this libel, it seems the typical Robinhood user's portfolio added (not detracted) market integrity, evidenced by smaller trade tranches, which in turn (& ironically) helping stabilise major bourses during **GCC**.

So, whom else to blame? Answer: Trump.

Watch:- Bloomberg Kathleen Hays & Stirling Larkin Discuss Global Rally Leading Up To 2020 US Elections, 26 November 2019

Cite:- Trump's Bull Rally, 22nd Amendment & How The First American Republic Ends, 19 December 2019

The political uncertainty presented by the nearing Presidential elections if ***Bidenomics*** succeeds (not this authors opinion), has also weighed on investor sentiment for reasons of fresh Capital Gains taxes and a fiscal deal may not be forthcoming until after the new session of Congress starts in January as Republicans will see little electoral benefit in approving fresh spending – but none of these dynamics evidence the markets current complexities or retracement stints.

US politicking has somewhat surprisingly had a low Vega correlation to the S&P500, Nasdaq and Russell2000 composites, with S&P500 capital spending remaining resilient during the first half of the year despite the pandemic recession.

Cite:- US Equities Still Place To Be For Growth, 17 April 2019

S&P500 cash use fell by just one percent during the first half of the year and by just seven percent during second quarter, despite the 33% decline in S&P500 earnings in the same quarter.

Cite:- A Year Of Phantom Earnings: Different Risks & Exposures During This Crisis, 17 May 2020

However, the S&P500 is not the economy and the small-cap Russell 2000 index experienced a forty-six percent decline in cash use, more consistent with the economic disruption across the country and the reliable lead indicator found in the Chicago Fed National Activity Indicator (CFNAI). The cash-rich FAAMG stocks represent sixteen percent of total S&P500 cash use, *Year-To-Date* and increased their cash spending by another sixteen percent *year-over-year*, helping insulate the overall indices up and until September's slide.

All higher-order evidence points to Quantitative Easing being the propellorhead of bellwether stockmarket performances since the 23-March led bounce back.

Materially, following Australia's entrance into this unconventional and financially repression race to the bottom (printing money to reinflate current core assets), it became apposite that on 15 October, Australian RBA Governor Philip Lowe highlighted the 'uneven' shape of Australia's economic recovery and signalled the RBA would consider further easing at upcoming Board meetings, likely in November.

Cite:- Australia Begins Quantitative Easing, 17 March 2020

Cite:- Australian REPO Operations, March 2020, 22 March 2020

Governor Lowe noted the RBA's balance sheet had expanded by less than international peers and that AUD 10-year rates were higher than "*almost everywhere else in the world*", which will likely mean our RBA will lower the cash rate, YCC and TFF targets by negative fifteen basis points to 0.1% and announce a new one hundred billion Australian Dollar QE round aimed at reducing longer-term yields.

Central bank accommodation will continue to play a centroidal role in supporting credit availability at affordable terms and in so doing, prop up stockmarkets, which are after all, "*a graph of rich people's feelings*".

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