What's next after QE?

With the end of QE scheduled in June, what will that do to the world's economy and your portfolio?

On 10th November 2015, the Federal Reserve announced second quantitative easing (QE) plans to inject US$600 billion into the US economy in an attempt to accelerate growth and spur recovery from the Great Depression.

Seven months since then, and now with the Fed's bond-buying programme closing in on 10th June, what could be the likely impact? Would it spell stability and return the US economy to where it was before the start of the fiscal cliff? This will be a key point for the US economy.

What is Quantitative Easing (QE)?

Quantitative easing (QE) is an unconventional monetary policy adopted by central banks to increase money supply in the market by buying government and other securities in the market with money created as needed. The central bank's purchase of government and other bonds creates trillions of dollars and gives government and corporations access to the money capital markets and a way for the central bank to inject trillions of dollars into the economy.

The impact of QE is not immediate and requires time and patience. It is a slow process that involves the central bank buying government bonds from banks and other entities. The central bank then creates new money by sending a check from the central bank to the entity and the entity deposits the check into a bank. The bank then lends out a portion of the new money, and the process continues until the economy begins to recover.

The government's borrowing needs are now small and have become negligible, but stresses existed in the economy.

It is expected that the economy will continue to recover in the coming months, and the impact of QE will continue to be seen.

Impact 1: Higher bond yields.

As the bond market feels the end of QE, it will yield a higher rate of interest. This will also lead to a decrease in the price of government bonds and an increase in the value of existing bonds.

Impact 2: Lower inflation.

With the end of QE, the Fed will no longer inject trillions of dollars into the economy, which will lead to a decrease in the price of inflation.

Impact 3: Higher stock prices.

As the market expects the end of QE, investors will move their money to stocks, which will lead to higher stock prices.

Importance of the Market:

The stock market is a crucial indicator of the overall health of the economy. It reflects economic conditions, consumer confidence, and market sentiment.

Key Takeaways:

- The end of QE will impact the bond market, leading to higher yields and lower inflation.
- Investors should focus on stocks as the market expects higher stock prices.
- The Federal Reserve's decision to end QE will have a significant impact on the economy and investors should be prepared for it.

Impact on Asian and Emerging Markets

The Federal Reserve's decision to end QE will have a significant impact on the Asian and Emerging markets. As the dollar strengthens, it will make it more expensive for emerging market countries to access the dollar-denominated bonds.

However, the broad-based access to emerging markets, including South and East Asia, should continue to strengthen. The dollar's strength is expected to support the emerging market economies, and investors should consider investing in them.

In conclusion, the end of QE is a significant event for the global economy, and investors should be prepared for its impact. The Federal Reserve's decision to end QE will affect the bond market, stock market, and the overall health of the economy. It is crucial for investors to be aware of these changes and adjust their portfolios accordingly.