Marketing material

Infographic: A snapshot of the world economy in July 2019

Schroders

What is left in the toolkit for central banks in developed markets?

Read article here

Interest rates remain low with little room to make cuts but there are other tools that can be used if needed

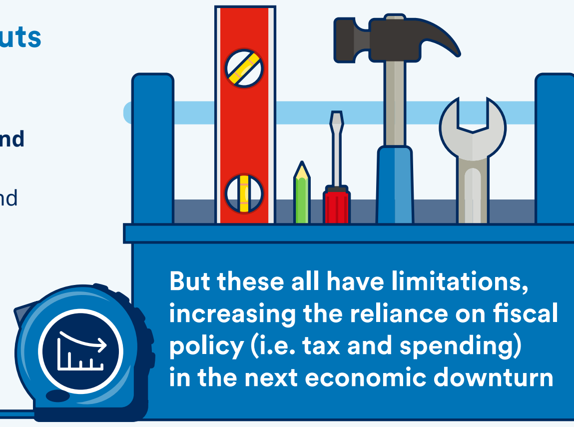
Forward guidance
Signalling policy intent helps lower interest rate expectations

Quantitative Easing (QE)
Buying government bonds drives yields down

Expanding scope of QE
Buying credit and equities creates a wealth effect

Tiered interest rates and "yield curve control"*
Makes negative rates and QE more sustainable

Helicopter money
Central banks print money and distribute it directly

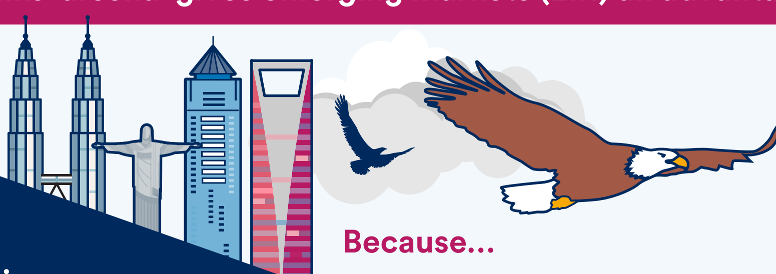


But these all have limitations, increasing the reliance on fiscal policy (i.e. tax and spending) in the next economic downturn

*i.e. control of both short-term and long-term interest rates

Why central banks' arsenal gives emerging markets (EM) an advantage

Read article here



In emerging markets today...

Interest rates look to be too high in many cases

Even after adjusting for **inflation interest rates are positive**, a result of a tight stance on monetary policy

This means EM central banks can **cut without worrying about inflation**

Because...

When the US Federal Reserve (Fed) hiked interest rates in 2018, and then looked set to continue in 2019...

...policy was kept tight in EM, with precautionary hikes in some cases

So, **EM are left with maximum monetary munitions**

Now...

The Fed has indicated interest rate cuts ahead and global inflation remains low

So, the region's central banks have **room to ease rates**

Views at a glance: Schroders' interest rate forecast

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	2018	2019	2020
UK	0.75%	0.75%	1.0%
US	2.5%	2.0%	1.5%
Eurozone	-0.4%	-0.4%	-0.4%
Japan	-0.1%	-0.1%	-0.1%
China	4.35%	4.0%	3.5%

Source: Schroders, Thomson Datastream, Consensus Economics, July 2019

Source: Schroders as at July 2019.

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