SILVERCREST
ASSET MANAGEMENT GROUP

## BANK OF JAPAN EASING

Last night, the Bank of Japan surprised everyone by announcing further easing measures. Markets in Japan and elsewhere responded by surging higher. The Nikkei index rose nearly 5%, erasing all its losses on the year and reaching a new high for the year (albeit only up +0.8% YTD). The FTSE also rose into positive YTD territory. The news had a similar salutary effect on US markets, boosting the S&P 500, DJIA, and Nasdaq to new all-time record highs.

Markets love the promise of more liquidity. But I see this as a very worrying policy move from Japan. Abenomics rested on "3 arrows": monetary easing, fiscal consolidation, and substantive market reform. The first (QE) gave the Japanese economy a bump, the second (a consumption tax hike) seemed to shoot it in the foot, and the third (reform to labor markets, immigration, etc.) tragically seems to be going nowhere. Now Japan is trying to fire off the 1st arrow again, when what it really needs, to make any lasting difference, is to deliver on the 3rd arrow.

Although Japan's stock market surged, the Yen fell. That was partly the intent, of course. But the idea behind Abenomics was supposed to be about inducing inflation in order to defrost domestic demand, not using competitive devaluation in a beggar-they-neighbor bid to tap external demand. Increasingly, the latter is what it's shaping into, though.

The immediate impact of the BOJ's move will be to boost equity prices and suppress bond yields on a global basis (because, as I explained in my Q4 note, QE anywhere is QE everywhere). It will also be to further strengthen the USD. All this is not bad, for reasons I also outlined in my Q4 note. But it does make me concerned about Japan's commitment to get its own growth back on track in a sustainable way, rather than seek a cheap way to a new sugar high.

October 31, 2014

Patrick Chovanec
Managing Director, Chief Strategist