



14 JUN 2021

The Beginning of the End of Easy Money

The Federal Reserve said it wants to give markets a warning “well ahead” of any change in the pace of its bond purchases. It said the timing would depend on the economy returning to a state consistent with the Fed’s “long run goals.”

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Market Performance

Global equities as measured by [MSCI World Index](#) gained 0.51% for the week. US markets were mixed as the [Dow Jones Industrial Average](#) lost 0.80%, the [S&P 500](#) gained 0.41% and the [Nasdaq Composite](#) rose 1.85%.

European equities as measured by [Stoxx Europe 600](#) advanced 1.09%, while Japanese markets were mixed ([Nikkei 225](#): 0.02% and [Topix](#): -0.26%).

Emerging Markets as measured by [MSCI EM](#) increased 0.03%, led by [MSCI Emerging Europe](#) (1.16%) and [MSCI Asia ex Japan](#) (0.10%) while [MSCI Latin America](#) fell 0.73%.

The Beginning of the End of Easy Money(Continued)

- The present pace of US job growth is rapid enough to restore the pre-pandemic unemployment rate in just 16 months, even if the 3.5 million sidelined by COVID-19 rejoin the labor force. The drop in US and global COVID-19 infections also suggests the time to give an early warning of “tapering” is now.
- Reacting calmly to another month of surging US consumer prices, investors seem to be strengthening their understanding of the immediate drivers of short term inflation. The COVID-19 bound economy has seen record swings in demand from sector to sector of a scope that no producer could properly foresee or manage.
- Of course, not all elements of the inflation outlook are transitory. If central banks and fiscal policymakers persist with the same strong stimulus in the post-COVID economy, lasting inflation may result. Citi analysts think it is highly unlikely that they would do so.
- It is worth noting the lessons from the period following the 2013 “taper tantrum.” The Fed spent five years tightening policy from 2014-2018. The Fed raised short-term interest rates nine times and shank its outstanding credit by a peak of US\$750 billion. In the same period, US equity total returns annualized 11%, inclusive of a near 20% drop at the end of 2018. Owing in part to a surge in the US dollar, non-US equities valuations have remained lower to this day.

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Source: Citi Private Bank. As of 13 June 2021.

- In summary, the period of “free money policy” is coming to an end. The very strongest returns from the crisis period have passed. Citi analysts urge investors to allocate for the opportunities of the new post COVID-19 economy that lies ahead.

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