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Fiscal- and monetary policies – Update from the Investment Division

Erste AM Communications



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What has occurred since yesterday ?

Gus Backus celebrated in the 1960s some successes in the German Pop music charts. It is remarkable that in the 50s he also scored two top ten hits in the USA. In the chorus in one of his songs he sings: "Who should pay that, who ordered that, who has so much dough, who has so much money?" Those questions are also asked by more and more investors now. As reported several times since the break-out of the pandemic, far-reaching fiscal- and monetary policy measures were announced. The volume and the speed of their announcements is without example in the economic history.

The following table shows the most important measures in the USA, Europe and Japan:

Source: Erste Asset Management, IMF; St. Louis Fed

The stimulus packages announced by the governments will lead to a strong increase of the budget deficits of these countries. Those deficits will be financed with new government debt, which will lead to the issuance of the government bonds. Already this week the US finance ministry announced the issuance of a record volume over the next two quarters (those volumes will not only be new debt, but it will be used to re-finance existing bonds.). The yields of 10Y US Treasuries increased yesterday quite moderately by ca. 4 basis points.

We do not believe at the current time that there will be a strong yield increase for investment grade bonds. Especially the decreased crude oil price and the macroeconomic demand decrease will be the cause that yields will not increase. With the central banks and their purchase programs there is also a buyer for those newly issued bonds.

The markets for risky assets kept calm yesterday. The US equity index S&P 500 closed in negative territory with – 0,7% and the European markets at ca. – 1%. Also crude oil and gold had to see losses yesterday.

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