OCM Asset Management

Discretionary Asset Managers | Stockbrokers

Market Update: 17th September 2020

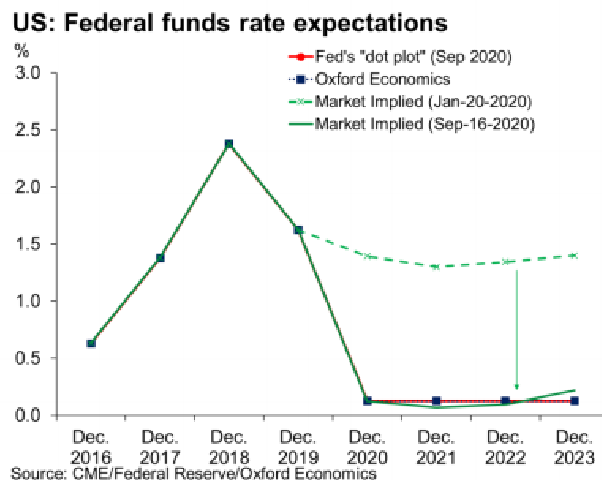
Markets React as Central Banks Signal Support & Stimulus

All eyes fixed firmly on central bankers this week as the Federal Reserve, Bank of England and Bank of Japan all updated on economic outlooks and stimulus expectations against a backdrop of rising virus cases and significant economic uncertainty.

While central bankers retained their cautious outlooks and reiterated support for markets through this challenging period as the coronavirus continues to batter consumer confidence and stifle economic activity, they fell short of announcing new stimulus measures. In line with expectations, the Bank of Japan kept its asset purchases and bond yield targets in place, noting signs of a gradual pickup in economic activity, while the Bank of England announced no change to the bond buying program or interest rates. In its statement earlier today, the BoE surprised onlookers in announcing it was seriously considering the implementation of negative rates. In the US, traders hoped for guidance on further stimulus amid waning fiscal support.

The Fed Reiterates Accommodative Stance

On the conclusion of its September meeting yesterday, Fed policymakers announced that interest rates would remain near zero for at least three years, vowing to delay tightening until the US gets back to maximum employment and 2% inflation, offering support to risk assets as the global economy recovers over the coming years. The Fed also improved its outlook for 2020 GDP from a contraction of 6.5% estimated in June to a contraction of 3.7% on the back of a faster than expected recovery. While the comments delivered a stabilising message to financial markets of a continuation of accommodative monetary policy, Chairman Powell adopted a cautious tone, noting that the path ahead remains highly uncertain, with threats to economic activity still remaining in place.



After initially gaining on positive forward guidance, stocks declined after Powell stopped short of offering any concrete new steps on monetary stimulus. The dollar remained steady, while treasuries gained.

Recent flare ups of the virus and a fading post-pandemic recovery have renewed calls for more fiscal support, with Fed officials stressing the need for further fiscal stimulus to support jobs and incomes. The market had been hoping for more tangible information on further QE, however overall, the central bank's stance should be supportive for risk assets in the long term. On the fiscal side of things, the White House signalled yesterday that it is willing to increase its offer in talks with Democrats, and a new stimulus deal could be agreed in the next week to 10 days. The agreement of new stimulus would be well received in markets after months of talks have so far proved ineffective in securing more support for struggling Americans. The next scheduled Fed policy meeting falls just days after the US presidential election in November.

The Bank of England Considers New Policy Options

It was widely expected that the Bank of England would leave policy unchanged in its September policy meeting, however investors watched proceedings closely this week for clues on whether the MPC would loosen policy again in its November meeting. As optimism over the UK's economic rebound from the coronavirus pandemic wanes amid rising virus cases across the country, investors are expecting an expansion of the current bond-buying program before the end of the year.

While policymakers noted that domestic economic data have been a little stronger than expected in August, the key focus of the committee was on the pace of the recovery moving into the fourth quarter of the year and onwards, with the outlook for the economy remaining unusually uncertain due to the pandemic and Brexit developments. With job losses mounting, new social restrictions to counter rising infections, and trade talks with the EU at risk, Britain looks set for a turbulent end to 2020. As a result, policymakers left the door open for negative interest rates and more QE.

While a rate cut was not expected in this meeting, markets now are pricing in a reduction as early as February, with economists at Bank of America and Morgan Stanley expecting rates to fall as low as minus 0.5% if Britain fails to strike a deal with the EU. This month's inflation data also supported the case for stimulus, with consumer prices coming under pressure in recent months.

Alongside hints that the bank may now be considering cutting rates below zero for the first time in history, the central bank also said it does not intend to tighten policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target. This acted to provide further support for risk assets, reinforcing expectations that policy will remain accommodative for a number of years.

In today's press conference, policymakers hinted that more policy easing may be on the horizon, with Andrew Bailey stressing that the Bank has plenty of firepower left on the table, while MPC member Michael Saunders commented that it is "quite likely" that more easing will be needed. The committee's comments prompted markets to price in greater expectations for easing before the end of the year, with further cuts likely to follow next year. The pound weakened as a result, with markets gaining to partially offset early trading session declines on the back of the news.

Our Outlook

Overall, the outlook remains supportive for risk assets moving forward, with monetary policy expected to remain accommodative over the medium to long term. As we navigate through the ongoing pandemic and with political risks remaining, we expect to see continued uncertainty and volatility in

the near term, however looking towards the medium term, the outlook remains positive and we remain content in our current positioning.

Important Information

Past performance cannot be used as a guide to future performance and the value of your investment will fall as well as rise in value. You may not get back all of your investment and the final value of your investment will depend on the performance of your portfolio. The actual performance of an individual client's portfolio may differ due to different funds being used and being restricted in relation to certain asset allocations. Performance figures quoted include fund manager charges but exclude adviser, discretionary, custodian and switch charges. Unless stated, income is reinvested into the portfolio. The information contained in in this document is for information purposes only. It does not constitute advice or a recommendation or an offer or solicitation for investment. OCM Wealth Management Limited is authorised and regulated by the Financial Conduct Authority (FCA Registration No: 418826) OCM Asset Management is a trading name of OCM Wealth Management Limited.