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# ECB OPENS DOOR FOR MORE QUANTITATIVE EASING

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On last week's episode of the "Behind the Markets" podcast, Liqian Ren and I caught up with Professor Jeremy Siegel from The Wharton School at the University of Pennsylvania for his reaction to Friday's U.S. employment report. We also discussed European economic developments and the recent European Central Bank (ECB) meeting with Frederik Ducrozet, an economist at the Pictet Group.

Ducrozet pointed out that one of most interesting market dynamics is the "[term premium](#)" in the bond market and how it recently reached an all-time low of -90 [basis points](#). Ducrozet thinks this unprecedented low term premium predicts something major from central banks—perhaps that another bout of [quantitative easing \(QE\)](#) will be reintroduced next year.

Ducrozet also suggested that the relationship is codependent, adding that the market may force central banks to enact more QE.

Ducrozet interpreted last week's ECB meeting as very [dovish](#), as it relayed a commitment to keep [interest rates](#) low for a longer period in its forward guidance. The ECB added marginal support for banks to offset negative rates as well, but the really big news Ducrozet said the market missed was ECB president Mario Draghi's willingness to embark on another QE program.

According to Ducrozet, we are not at that stage yet, but if [inflation](#) expectations continue to head downward, it could trigger the ECB to launch another round of QE.

We also discussed the ECB negative rate policy, which Ducrozet does not like. Ducrozet is worried about the policy's impact on banks, but the ECB has released some recent documents that indicate negative rates are helping the economy. Yet Draghi also hinted in his comments that if the ECB were to lower rates further into negative territory, it is possible there would be more support measures for banks, such as a tier structuring of negative rates, which Switzerland applies.

We discussed whether this lower rate regime created opportunities in the equity world. Ducrozet believes many big investors have capitulated. We see this in broad negative fund flows of global investors from Europe. At some point, the negative sentiment might start to improve because much of the capitulation already has taken place, which could create a potential buying opportunity. We will be watching this trend closely as some of the relative outperformance of U.S. over European assets extends into extreme territory.

Listen to full conversation below, which includes an opening discussion with Professor Siegel on his outlook for the markets and the Federal Reserve:

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## DEFINITIONS

**Term premium**: The term premium represents the incremental yield that investors require to hold a longer-term bond, as opposed to a combination of shorter-maturity bonds.

**Basis point**: 1/100th of 1 percent.

**Quantitative Easing (QE)**: A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

**Dovish**: Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

**Interest rates**: The rate at which interest is paid by a borrower for the use of money.

**Inflation**: Characterized by rising price levels.