Risks, Prospects and Options
Exiting the QE World

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Three Never Before...Need to be Reversed...

“Never before” has there been such:

- Large scale *intervention* by central banks and governments,
- Growth in the financial *regulator apparatus and labyrinth of rules* governing markets,
- *Distortions* across a wide range of financial markets.

“The Unwind: What’s Next for Global Markets”
*Center for Financial Stability*
May 27, 2015

http://www.centerforfinancialstability.org/speeches/unwind_052715.pdf
Major Central Bank Balance Sheet Expansion

It’s the Financial System that Matters: Monetary Ease and CFS Divisia Financial Data (y/y)

“There is too little economic risk-taking, and too much financial risk-taking.”

Christine Lagarde
Managing Director, IMF
October 12, 2014

With thanks to William Barnett, Director of Advances in Monetary and Financial Measurement at the Center for Financial Stability Inc.
Source: Federal Reserve Board, Bloomberg LP, and Center for Financial Stability.
Why CFS Divisia Money Matters for Inflation

Source: Federal Reserve Bank of St. Louis and Center for Financial Stability.
Policy Driven Distortions in Debt and Equity Markets

Source: Robert Shiller (Yale University), Bloomberg LP, and Center for Financial Stability.
Policy Driven Distortions in Speculative Markets

Note: Includes futures positions in NYMEX crude, S&P 500 index, JPY, gold, CHF, Nikkei, and GBP held by speculative investors.
Source: CFTC, Bloomberg LP, and Center for Financial Stability.
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