Northern Trust | Advent of Global Easing

Central banks across the world have either started easing monetary policy or signal they will do so soon. We believe this is the start of a global easing cycle. Let's take a closer look.

There has been a big change in attitude from central banks across the world. Just six months ago, central banks were still talking about tightening monetary policy. They felt confident about their positive outlook for economic growth and were worried that inflation was going to rise.

Since then, expectations for economic growth have deteriorated on the back of rising trade tensions. And inflation declined to levels well below target. Even more, expectations for future inflation have dropped to levels not seen in years. In response to this new reality, central banks have changed direction. This ranges from cutting interest rates in Australia and India to pausing hiking cycles in the US and Canada to signaling future accommodation in Europe.

Of course, the trajectory of the Federal Reserve, as the world's most important central bank, will be very important. It has to lead the way and pave the way for other central banks. We expect the Fed will do so by cutting interest rates three times this year starting in July. The European Central Bank, which is also globally significant, may restart easing before the year is out.

Soon after the Fed starts cutting rates, the few remaining holdouts-- such as the Bank of England and Bank of Japan-- likely will be forced to change direction, resulting in a truly global easing cycle. In an interconnected world, they simply cannot stand alone. For investors, this means that interest rates will probably stay very low, in turn, supporting equities and other risk assets.

We think interest rate sensitive investments, such as global real estate and global infrastructure, will do particularly well. And we are tactically [INAUDIBLE] both. Of course, a material upswing in inflation is a risk to our outlook. But we do not see any evidence that points in that direction.