Bullish sentiments follow central bank easing

By Editor Test *Wed, Sep 19, 2012*

"While there is a debate about the effectiveness of QE measures in stimulating the economy, there is little doubt that they have provided a boost to equity markets," writes John Praveen of Prudential International Investments Advisors.

The chief investment strategist of Prudential International Investments Advisors, John Praveen, expects stock markets to post further gains, thanks to the U.S. Federal Reserve's "open-ended" QE3 purchases and the ECB's "unlimited" bond-buying plan, according to his Global Investment Outlook, September-October 2012.

Highlights of Praveen's latest report include:

- The ECB's plan to buy "unlimited" quantity of debt provides the dysfunctional Eurozone bond markets with an "effective backstop" thereby reducing tail risks from Eurozone.
- QE 3 is open-ended with Fed buying bonds and keeping interest rates low until there is a meaningful and sustained decline in the unemployment rate. While there is a debate about the effectiveness of QE measures in stimulating the economy, there is little doubt that they have provided a boost to equity markets. Stocks posted healthy gains following QE 1 and QE 2.
- Other central banks are also likely to undertake further easing measures. Further, Eurozone policy makers continue to take small, but steady, steps to resolve the debt crisis. However, stocks continue to face risks/challenges from fresh Middle East geo-political tensions, slower global growth and the drag on earnings, fears of the U.S. fiscal cliff and lingering Eurozone uncertainty. These headwinds are likely to limit equity gains and encourage profit-taking, but are unlikely to reverse the stock market uptrend.
- Global bond yields are likely to remain range-bound, caught between improving risk appetite versus weak growth outlook and central bank bond purchase programs. Bond's safe haven appeal has diminished with improving risk appetite as the ECB's plan and other policy measures have reduced tail risks from Eurozone.
- However, the global growth outlook remains weak with the U.S. limping at a below-trend pace, while Japan and Eurozone are struggling. Weak growth outlook and asset purchase programs by the ECB, Fed and BoE are likely to support bonds.