

Q: Are we about to see QE4 initiated?

Brian Lockhart, CFP®: Yes, I believe the Fed will announce the next round of asset purchases before the end of the year and possibly as soon as the October meeting. I would hedge that statement with the fact that if a long term trade agreement with China is signed, Congress passes the United States-Mexico-Canada Agreement (USMCA), the UK agrees to terms with the EU on Brexit, and the Miami Dolphins win an NFL game, then QE4 probably is not needed.

Economies and Central Bank policy do not operate in a vacuum so what happens in one part of the world has implications elsewhere. German manufacturing, long the stalwart of Europe, is contracting at an alarming rate, causing the ECB to move aggressively to support European growth. The Bank of Japan is also adding liquidity to their economy, so if the U.S. does nothing the dollar will rise even further against other currencies, hurting U.S. exporters. The USD has risen more than 15% over the last 5 years, and the Fed knows it will negatively impact growth if not addressed. QE4 may not be justified solely on the basis of US economic growth and outlook, but in the context of what is occurring globally it is likely already late. Setting politics aside, if that is even possible, to remain competitive in the world today the dollar cannot appreciate much from current levels.

Clint Pekrul, CFA: Not long ago, the Federal Reserve was supposed to engage in quantitative tightening by letting Treasury bonds roll off its balance sheet. Now, the central bank has reversed its policy and begun buying Treasuries again. QE4 would be just the latest round of quantitative easing programs. The central bank has recently purchased \$14 billion worth of bonds after making no purchases since 2014. There's really no consensus as to how long the Fed will continue its latest round of bond purchases, but my guess is that they could continue down this path for a while, given the political pressure from President Trump for more accommodative monetary policy. Remember, at one point, Trump tried to appoint Stephen Moore and Herman Cain to the Fed board. I think many economists would question the Fed's decision to begin easing again, especially if the economy is on solid footing. It just seems counterintuitive that the central bank would go from raising rates in 2018 to QE4, especially if there's been no material change in the economic outlook.