

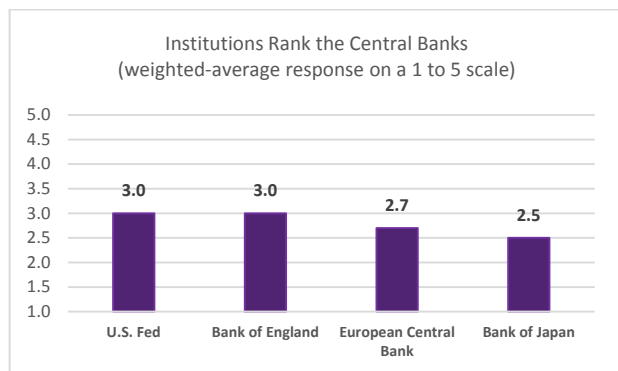
How Institutional Investors Rate Central Bank Policies

With the upcoming FOMC meeting this week, interest rate policy is back in the news yet again. Since the depths of the financial crisis in 2009, global central bank policies have played an outsized role in investor sentiment and capital market dynamics. With that in mind, we included a series of questions about central bank policy in this year’s annual global survey of institutional investors.

The Durable Portfolio Construction Research Center surveyed 340 institutional investors globally about the policy effectiveness of the four key central banks: the U.S. Federal Reserve, the European Central Bank, the Bank of England, and the Bank of Japan. The results show some clear trends overall, as well as regional differences.

How Are the Central Banks Doing?

Institutional investors were asked to grade the current policies of four central banks using a scale of one to five stars. Perhaps not surprisingly, the U.S. Fed and Bank of England had the highest ratings, both earning an average of 3 stars. Three-quarters of respondents rated the Fed and BoE 3 stars or better while just over half of respondents (56%) gave the European Central Bank 3 or more stars and barely half (51%) rated the Bank of Japan in the top three categories. This translated to an average grade of 2.7 for the ECB and 2.5 for BoJ.

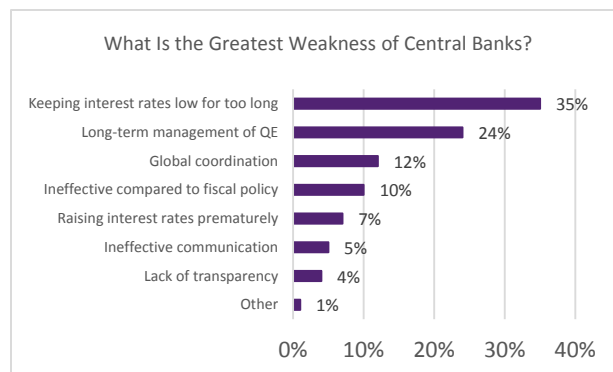


Source: Natixis Global Asset Management, Global Survey of Institutional Investors compiled by CoreData Research, October/November 2016. 340 Institutional Responses (n = 340).

Ratings varied somewhat by region, with North American respondents giving the U.S. Fed an average rating of 2.8 while investors in the five other regions (Asia, Europe, Latin America, the Middle East and the UK) rated it 3 stars or more. Perhaps North American respondents are just more critical, as they also gave the lowest grades to the ECB and BoJ – just 2.4 stars each.

Too low too long...

In a separate question, institutional investors were asked to identify the greatest weakness of central banks from a list of choices. In this case, the answers showed greater consistency. More than 35% of institutional investors stated that central banks’ greatest weakness has been keeping interest rates low for too long. The second most common response was the banks’ long-term management of quantitative easing programs.



Source: Natixis Global Asset Management, Global Survey of Institutional Investors compiled by CoreData Research, October/November 2016. 340 Institutional Responses (n = 340).

This could be a case where hindsight is 20/20, now that we are more than eight years into the era of intensive monetary policy intervention. The fact that the overall ratings were right around average at 3 stars may reflect a composite opinion that has changed over time. Innovative and accommodative central bank policy was well received during the financial crisis but it may have overstayed its welcome. While central bank policies helped stave off disaster, they’ve been much less successful at fostering growth. It’s an asymmetrical problem, and consensus seems to be that banks haven’t yet found the right balance between keeping rates low for too long and raising them too quickly.

It may also be difficult to separate central bank policies from their economies. Have the Bank of Japan and European Central Bank actually implemented less effective policies? Or were their economies worse off to begin with, making them more challenging to fix?

Moving into the new year, central bank policies are sure to be tested by economic events. While institutional investors give them passing grades post-crisis, the longer-term risk may not be raising rates too soon, but leaving them too low for too long.

To learn more about the 2016 Global Survey of Institutional Investors, please visit ngam.natixis.com.

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