



# Is This the End Of Quantitative Tightening?

How an end to quantitative tightening could impact bond markets.

May 2019

## KEY INSIGHTS

- The end of quantitative tightening could represent a significant regime shift for financial markets.
- Tariffs exacerbate growth fears and could add to the dovish impulse of major central banks.
- There is potential for duration to act as a good diversifier again for investors versus equity risk.

Will major central banks call time on quantitative tightening? At a time when global growth is already under close scrutiny, the threat of trade tariffs has returned. If this threat lingers, it could prompt central banks to become even more cautious this year. During our latest policy meetings, the investment team discussed these developments and their implications.

2019 has seen a number of central banks, including the Federal Reserve, hit the pause button on interest rate hikes. Others, such as in Malaysia and New Zealand, have gone as far as to unveil new stimulus measures, including cutting key lending rates. "There were signs of quantitative tightening coming to an end even before trade talks soured," said Arif Husain, portfolio manager and head of International Fixed Income. "But tariff discussions create uncertainty and will add to the dovish impulse coming out of major central banks."

Against a fragile growth backdrop, tariffs have the potential to depress momentum further, given their tendency to act as a financial tightening mechanism. To counter these potential negative effects, most developed market central banks would have to lean on the side of caution. "Current tariff tensions reinforce the view that central banks of developed market countries may have to become more accommodative," said Mr. Husain.

An end to quantitative tightening would represent a significant regime shift in financial markets. In fixed income, this could significantly enhance the potential for core government bonds to deliver positive returns and to once again serve as safe-haven assets. "The Fed's pause has reset new lows for Treasury yields so there's more room for rates to rally during times of market stress," Mr. Husain said.

## Global Fixed Income Team



**Arif  
Husain**



**Andrew  
Keirle**



**Kenneth  
Orchard**



**Quentin  
Fitzsimmons**



**Ju Yen  
Tan**

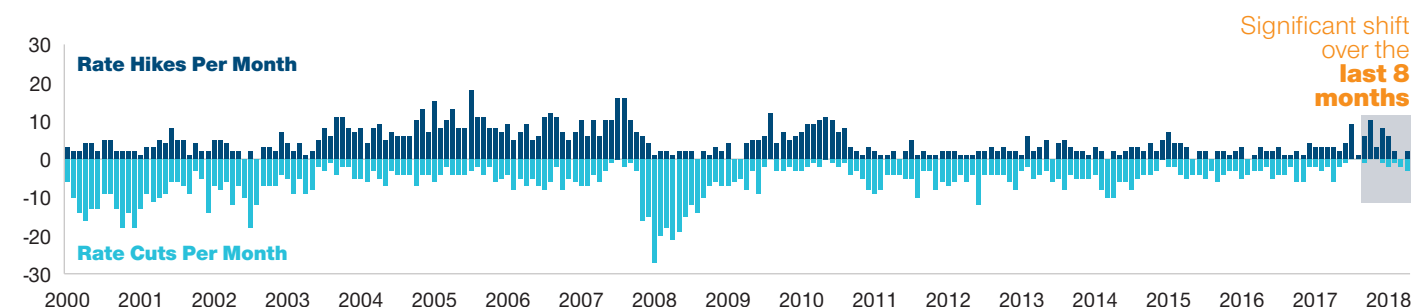


**Saurabh  
Sud**

*Each month, our portfolio managers, analysts, and traders conduct an in-depth review of the full fixed income opportunity set. This article highlights a key theme discussed.*

## (Fig. 1) Central Banks No Longer in Tightening Mode

As of May 14, 2019



Source: BIS Central Bank Policy Rates.  
Analysis by T. Rowe Price.

“There were signs of quantitative tightening coming to an end even before trade talks soured.

— Arif Husain

Head of International Fixed Income

“We are back in an environment where duration can help investors diversify away from equity risk.

— Arif Husain

Head of International Fixed Income

At a portfolio construction level, this means that owning duration may again be a good way for investors to diversify their asset allocation. “We are back in an environment where duration can help investors diversify away from equity risk,” said Mr. Husain. “This is important for portfolio construction as it means that we don’t have to rely so much on being defensive in credit markets to achieve diversification against equities within our fixed income strategies.”

The team noted that an attractive option in the current environment may be to add duration risk in countries that were candidates for rate hikes at the beginning of the year. Sweden and South Korea stand out in this regard as central banks in both countries have now rapidly changed course. Also worth considering are central banks that were on hold but are now expected to cut. Australia is a good example here, although it is debatable whether an interest rate cut would be supportive for the local economy in the absence of an economic rebound from its key trading partner, China.

Not all central banks will abandon tightening plans, however, and selective country allocation will continue to be a key aspect of duration management.

“Countries like Norway and the UK are more likely to increase rates in the future due to local inflation pressures,” said Mr. Husain.

The perception that quantitative tightening may be ending could also have a profound effect on currency markets, although it is worth noting that the U.S. dollar has been well supported so far this year despite the Fed pausing its tightening cycle. “Contrary to expectations, the Fed’s pause has not led to a significant rally in foreign currencies against the U.S. dollar.”

Growth, even though it has slowed, continues to favor the U.S. over most of its developed market peers. This has proved supportive so far for the U.S. dollar. “The irony is that the pause in the Fed tightening cycle has made U.S. fixed income more attractive,” remarked Mr. Husain, adding that at the margin the cost of hedging U.S. assets back into foreign currencies has become less punitive as markets have priced out interest rate hikes.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

## T.RowePrice®

### Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2019 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.