Introduction:

The Federal Reserve is creating dollars from scratch at an unprecedented rate, one of many tools to rescue the economy amid the coronavirus pandemic.

Besides from stimulus checks, where does the money printed go? Which asset classes are impacted? Why did technology stocks soar while other stocks had a lackluster performance since March? Are our savings at risk if money printing continues at this pace?

We hope to shed some light on these questions but first must introduce a certain monetary policy: Quantitative Easing.

Quantitative Easing is a monetary policy whereby a central bank buys government bonds or other financial assets to inject money into the economy to expand economic activity. Through large purchases of U.S. government bonds, the Federal Reserve pressures yields on government bonds lower making them the less attractive option for big investors while simultaneously making debt cheaper. What does this entail?

Big banks and financial institutions are more inclined to invest in stocks rather than bonds or other debt instruments as yields are low. Corporations are also able to issue debt at a lower price, hence increasing their cash on hand and subsequently their operational capability. This means more spending, more work, and finally more salaries for employees that, in theory, should benefit from the increase in funds.

As for the average consumer, he or she would then take advantage of the newfound low interest rates and take out a business loan, or a car loan, or maybe even refinance their mortgage.

The bottom line is that the central bank is injecting money into the system to keep the money flow going and prevent the economy from entering a recession. What could possibly go wrong?

Kindly note that while the Federal Reserve denies that this the current monetary policy, economists around the world agree that the Federal Reserve is in fact undertaking Quantitative Easing but is simply calling it something else such as “Monetizing Debt”. It is also worth mentioning that central bankers intentionally use vague and sophisticated jargon.

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Definition of Terms:

**Index:**

An index is an indicator or measure of something, and in finance, it typically refers to a statistical measure of change in a securities market. In the case of financial markets, stock, and bond market indices consist of a hypothetical portfolio of securities representing a particular market or a segment of it. – Investopedia.

**S&P 500 Index:**

The S&P 500 index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-cap U.S. equities.

We thought the S&P 500 would be the best index to broadly measure the U.S. stock market as it is very diversified, being composed of companies of various industries.

**Nasdaq 100 Index:**

The Nasdaq 100 is an index of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks. These non-financial sectors include retail, biotechnology, industrial, technology, health care, and others.

Recently, the Nasdaq 100 is overwhelmingly technology oriented and technology stocks make up most of the securities included in the index. We decided to use the Nasdaq 100 to broadly measure the performance of the technology sector.

**Bloomberg Dollar Index:**

The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

**M2 Money Supply:**

M2 is a measure of the money supply that includes cash, checking deposits, and easily convertible near money (highly liquid non-cash financial assets). M2 is a closely watched as an indicator of money supply and future inflation, and as a target of central bank monetary policy.

**10 Year U.S. Government Bond:**

The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value (issuance price) to the holder at maturity. The U.S. government partially funds itself by issuing 10-year Treasury notes while its yield is used as a benchmark when comparing similarly dated and rated debt.

**Gold Price:**

Gold price is a representation of the price of gold in U.S. dollars for an ounce of gold. Gold tends to appreciate in periods of low interest rates and is considered a safe-haven asset. Investors flock to gold in times of uncertainty.

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