

Higher Inflation Not Only Welcome But Sought In Current Climate

10-Year Government Bond Yields & CPI Rates

Country	10-Yr. Gov't Bond Yields (1/21/15)	10-Yr. Gov't Bond Yields (1/21/10)	Y-O-Y CPI Rates (2014)*
United States	1.87%	3.58%	0.80%
Canada	1.43%	3.39%	2.00%
Germany	0.52%	3.20%	0.20%
United Kingdom	1.50%	3.92%	0.50%
Japan	0.23%	1.33%	2.40%
Australia	2.59%	5.51%	1.00%
Brazil	4.13%	5.12%	6.40%
China	3.43%	3.62%	1.60%
India	7.69%	7.57%	4.10%
South Korea	2.37%	5.33%	0.80%

Sources: Bloomberg and Global-Rates.com. *Latest monthly data available used for 2014.

View from the Observation Deck

1. Today, the European Central Bank (ECB) announced that it will soon implement its own version of quantitative easing (QE) in an effort to stimulate growth in the European economy.
2. The ECB is borrowing a page from the Federal Reserve's playbook in that it intends to pump 60 billion euros (\$68.8 billion) into the economy on a monthly basis, according to Reuters.
3. The ECB announced that it intends to buy government bonds from March 2015 through September 2016, as well as continue to provide capital to banks.
4. By September 2016, more than 1 trillion euros (\$1.14 trillion at the current exchange rate) will have been created if this initiative runs its course.
5. This stimulus plan will hopefully help stave off the threat of deflation in Europe. Several European nations are already experiencing modest deflation, including Greece, Ireland and Spain.
6. Investors around the globe have known about the potential for QE in Europe for some time, and in many major markets investors have already driven government bond yields down to unusually low levels (see chart).
7. Years ago, the ECB managed to help calm investor fears over the sovereign debt crisis in the European Union simply by announcing it would provide a backstop for the markets, in our opinion.
8. Today, the ECB told the world it was ready to act. We intend to closely monitor the situation.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur.