

ECB PLAYS WAITING GAME

Nicholas Wall, manager of the Merian Strategic Absolute Return Bond Fund, Merian Global Investors

January marked the first month that the European Central Bank (ECB) hasn't expanded its balance sheet by buying bonds, and some of the eurozone's economies may already be in recession. Inevitably, there are calls for further stimulus to help out the banking system and get credit growth moving again. Correlation is not causation though.

Growth is undeniably weak and this morning's PMIs were the latest evidence of that. Much of this, however, is related to the weaker external environment due to Brexit, the waning of the US stimulus package and, in particular, due to the slowdown in China – not because the ECB's QE programme ended. ECB President Mario Draghi is skilled, but he can't fix the rest of world's problems. The domestic picture, in the aggregate, still looks solid with joblessness falling, wages rising and the oil price at low levels compared to recent history – as Draghi acknowledged today. While these external issues play out, all the ECB can do is keep financial conditions as loose as possible in the eurozone by jawboning the euro lower, engaging in strong forward guidance and rolling over maturing bonds.

The weak external environment could reverse course should the US and China find a way to end the trade and technology war, or if China's easing efforts see credit start to rise. Or the environment could deteriorate. The point is that Draghi was right not to be reactive today because the eurozone is a passenger in a global slowdown driven by the US and China. The ECB's toolkit is realistically limited to forward guidance and TLTROs (targeted longer-term refinancing operations) so it makes sense to keep the powder dry in what is a crucial few months for the global economy.

-ENDS-

This press release is for journalists only and should not be relied upon by financial advisers or customers.

We hold your name, email address, job role and the name of your publication on our **press distribution list** and use this information to send you press releases which we believe will be of interest to you. You can stop receiving emails from us at any time by emailing amelie.shepherd@merian.com and asking to be removed from the distribution list.

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

This communication is issued by Merian Global Investors (UK) Limited ("Merian Global Investors"), Millennium Bridge House, 2 Lambeth Hill, London, United Kingdom, EC4P 4WR. Merian Global Investors is registered in England and Wales (number: 02949554) and is authorised and regulated by the Financial Conduct Authority (FRN: 171847).

Any opinions expressed in this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or companies within the same group as Merian Global Investors as a result of using different assumptions and criteria. Merian Global Investors uses all reasonable skill and care in compiling the information in this communication which is accurate only on the date of this communication. You should not rely upon the information in this communication in making investment decisions. Nothing in this communication constitutes advice or personal recommendation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of any securities, markets or developments referred to in the document. In Singapore this communication is issued by Merian Global Investors (Singapore) Pte Limited, which is not licensed or regulated by the Monetary Authority of Singapore ("MAS"). Merian Global Investors (Singapore) Pte Limited is affiliated with Merian Global Investors (UK) Limited. Merian Global Investors (UK) Limited is not licensed or regulated by the MAS. This communication has not been reviewed by the MAS. In Hong Kong this communication is issued by Merian Global Investors (Asia Pacific) Limited. Merian Global Investors (Asia Pacific) Limited is licensed to carry out Type 1 and Type 4 regulated activities in Hong Kong. This communication has not been reviewed by the Securities and Futures Commission in Hong Kong. In Switzerland this communication is issued by Merian Global Investors (Schweiz) GmbH, Schützengasse 4, 8001 Zürich, Switzerland. MGI 01/19/0118