The era of the president
... of the central bank

In the latest issue of *Barron's* before the vote to choose the new American president, journalists decided to dedicate the cover to Jerome Powell, the man who has headed the Federal Reserve since 2018. Almost a field choice to indicate who more than anyone else has power over the economy, the American stock exchange and, as a result, the world stock exchanges. A choice that comes at the end of a difficult week for the financial markets. Uncertainty as to who will run the US over the next four years, the re-explosion of the coronavirus with the now scheduled lockdowns in Europe, and the Brexit risk are considered to be the cause of the downturn in October of the Dow Jones (-4.6%), the NASDAQ (-2.9%) but also the Eurostoxx50 (-7.37%) and the usually conservative Swiss SMI index (-5.89%). Are the central banks' weapons really the only ones capable of preventing the COVID19 from infecting the world economy? Not according to the central bankers. Their instruments serve to provide oxygen, to take time to wait for politics to deal with the complex decisions that lie ahead of it. The reality is that central banks have been keeping the world financial system going for a long time, particularly since 2008. Exceptionality has become normality. And the *Modern Monetary Theory*, which preaches the ability of central banks to create money at will (at least until inflation emerges), is experiencing its moments of glory; glory destined to explode if there is a Democrat in the White House.

The financial crisis of 2008 was the arena in which new forms of monetary intervention were tested. The COVID19 in March was the moment when central banks demonstrated how well-trained they were and therefore able to carry out that path, which in 2008 had required months and progressiveness, in a very short time and with previously unimaginable monetary amounts. The stimulus of the four major central banks (USA, EU, UK, Japan) and China, estimated by the Pictet

Bank, should reach the figure of 8 trillion USD this year, much more than the annual average of 1.4 trillion UDS in the post-2008 regime. Governments have also been much more responsive than in the past, with USD 12 trillion in fiscal stimulus (according to the International Monetary Fund). The world stock exchanges, starting in April, have taken note of this with a large participation and, at least in the United States and China, with a certain greed. Taking into account the projections of USD 3 trillion of asset purchases by the five major central banks in 2021, the fair value of the S&P should be around 3,425 points, again according to Pictet's analysis. But on 12 October, the world stock exchange's flagship index proudly circled around the level of 3,534, heartened by a momentum (self-fuelling successes) that managers know how risky it is to challenge.

In the last week of the month before the election of the U.S. president, the accumulated fears led to a worrying observation: central banks bought assets amounting to 125 billion USD, while in April, the interventions were 1.89 trillion USD. The rarefied air of the stock market high ground (especially for United States is concerned) has therefore shown itself to be clearly upset, leading to those violent corrections from which the summer calm had turned us away. Christine Lagarde, president of the ECB, did not hesitate to promise any intervention, but also noted that *"an ambiguous position of fiscal coordination"* remains *"critical"*, pushing the EU and the Member States to act immediately with the 750 billion of the Recoved Fund. Jerome Powell, while promising aid (we may see some signs as early as the first week of November), did not hesitate either to say that the United States urgently needs new fiscal stimulus, for which Democrats and Republicans could not agree before the call to the polls. Lagarde and Powell, perhaps to stay a little out of the big political appointments, have chosen, for now, not to choose. In the U.S., Powell's bazooka, probably already being studied for weeks, perhaps months, will have to be incredibly powerful if there is no immediate clarity about the new president. In Europe, Lagarde is also ready. A few tremors that may frighten German caution and awaken the arzigogolated decision-making skills of some member states, is probably necessary. But the era of central banks is certainly not over. So, neither is the era of

the stock exchanges. It is not unthinkable to review the year-end highs in the United States. Europe needs Biden, with whom it shares the Green New Deal policy, and to confirm the willingness to coordinate and share the promises of spring (which is not yet evident). China, for now, represents the winning area: the coronavirus is under control and the budget of the People's Bank of China is expected to grow only 8%, compared to its GDP, in 2021, to reach 38%. The other four central banks will be close to doubling their balance sheet (the Federal Reserve will increase from 19% to 40% of GDP and the ECB from 39% to 68%). Therefore, China will also benefit from the liquidity that the others will produce, the United States from the delayed incentives and Europe from the good will and promises that, if fulfilled, can project it into growth. But in the meantime, everyone needs central banks.

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