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**Be careful what you wish for**

Ever since Mario Draghi’s “whatever it takes” speech in the summer of 2012, European equity market participants have been totally focused on unconventional monetary policies. This has various reasons, but probably the main one being that our Anglo Saxon “neighbours” seemed to get away with it within their social fabric and our Japanese friends proved that this type of unorthodox monetary policy can also be applied to conservatively run societies such as the Japanese. Over this time frame public consensus in Europe on Quantitative Easing has shifted from a view of it being outright bad over “maybe we should also try it” to “we desperately need QE now to get out of the deflationary forces upon us”.

In this context, it wasn’t coincidence that the European Central Bank Council resisted to the most expansionary/effective form of unconventional monetary policy, which is Quantitative Easing, up until the beginning of the year. Or put differently, Super Mario was not able to convince the majority of the council until the consumer price index turned outright into negative territory in the beginning of this year on an annual basis across Europe.

Since that famous “whatever it takes speech” by Mario Draghi in 2012, European equity markets have had a remarkable run that accelerated in the last few months with the significant drop in our currency versus the US dollar as well as the falling oil price fuelling oil into the “fire”.

Fighting these deflationary forces will have extraordinary effects on asset prices as we have seen over the past months. This is totally logical as the only way to get out of this deflationary spiral is to force market participants to take more risk, i.e. to force a much larger portion of your population to become active participants of their economies by not only leaving their hard earned wealth in their checking accounts, but by investing it in bonds and equities of companies that will then spend the money on hopefully value generating ideas.

The questions that come to mind now are:

What do we do, if in the coming months inflation figures in Europe now react to these unconventional policies and overshoot the expectations of the ECB. We had a 50 bps move in inflation expectations in the last couple of weeks alone, whereas the ECB is expecting inflation levels to still be only 1.3% on an annualized basis until the 3rd quarter of 2016. A time frame until which these current unconventional policies supposed to continue.

Will Super Mario keep on supporting equity markets with its required dose of QE morphin when hard data will tell him that he has achieved his price stability mandate way earlier?

If these higher inflation numbers then take bond markets lower and as such bond yields higher, the discount rate for equity holders will rise rapidly affecting the valuation of companies negatively. And if this higher yield persist, companies will have to refinance their debts at much higher rates then effecting profitability levels significantly. It is not obvious to me that going into a higher growth environment finally will be profitable for equity investors from here on if accompanied by higher rates.

My conclusion would be the jury is still out there of whether these unconventional monetary policies are good or bad and we as market participants should be careful what we wish for.