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Monthly Monitor

November 2019

Have you had your Fiscal shot?

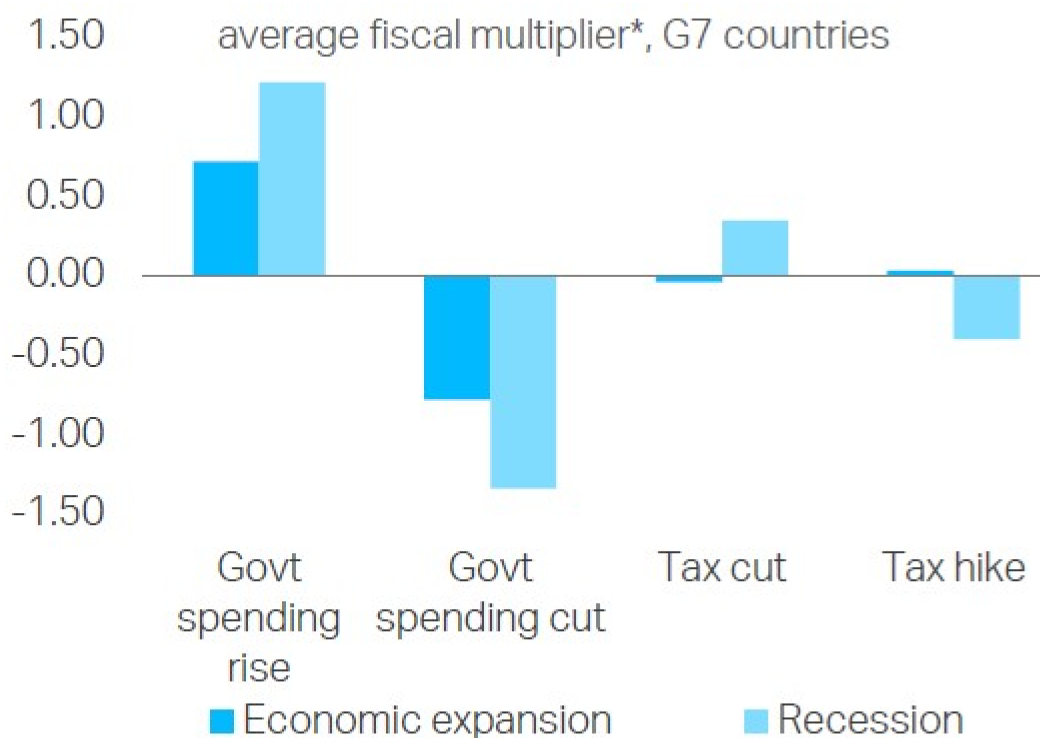
Primarily, due to Trade War concerns global economic growth has been downgraded by the IMF and OECD throughout 2019. To counteract this slowdown, as has been typical in this elongated cycle, Central Banks have provided support via interest rate cuts, the re-starting of Quantitative Easing (QE) and dovish forward guidance. However, the playbook of providing monetary stimulus when required is being openly debated with many acknowledging its limitations and effectiveness.

To reduce the possibility of this slowdown developing into a recession the "unlikely" solution being proposed is fiscal stimulus. For a number of year's post the Great Financial Crisis (GFC) the answer to reducing government debt levels (especially in the Eurozone) was the introduction of "austerity" measures. Some have argued that austerity was detrimental for economies whilst others argued that it assisted in maintaining fiscal credibility. Many governments are less concerned about fiscal credibility presently and It is notable that the election manifesto of the Labour and Conservative party makes little reference to fiscal discipline as both parties advocate increased spending for front line public services. On a similar basis, in the last few months of his tenure the President of the

ECB Mario Draghi highlighted the possibility that some countries, who had the wherewithal, should consider fiscal stimulus. Christine Lagarde, Mario Draghi's successor, has been unusually explicit in naming the Netherlands and Germany as two countries within the Eurozone that can apply significant fiscal stimulus.

However, some nations remain reluctant to open the fiscal tap. Germany as a country has been more negatively impacted than most by trade war issues and yet the government continues to abide by the "debt brake" rule. This rule was introduced in 2009 when Germans felt excessive debt was the cause of the GFC. With some exceptions it directs the Federal government and individual States to target a balanced budget. Uniquely there is popular support for this rule, even though one of the authors of the rule, Christian Kastrop, recognises the rules unsuitability in today's setting of negative yields. Fiscal stimulus in the US will also be politically complicated as Democrats and Republicans compete in the elections of late 2020. Even in the UK, where politicians of every hue are supportive of fiscal stimulus, echoes of the 1970's and the IMF bailout provide a sobering warning for some.

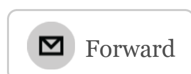
Assuming laws overseeing deficits and debt (the Stability & Growth Pact etc.) are amended or not applied, fiscal policy may become the primary instrument for re-accelerating growth. But how should it be applied and can it create sustained growth? In an environment of exceptionally low global interest rates the added benefits to growth from fiscal stimulus must seem attractive (see chart)

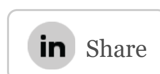


As highlighted, the type of fiscal stimulus is all important. As an example, the tax cuts from the Trump administration provided a short "sugar rush" for the economy where corporations used tax cuts to re-shore money and enact massive share buyback programs. These corporations achieved little in improving long term growth prospects, which are driven by two factors (1) positive demographics and (2) increasing productivity.

In developed economies, an ageing workforce and dismal productivity have been catalysts in downgrades to future growth forecasts. However, appropriately targeted fiscal measures can assist in boosting a recovery in long term growth levels. Such measures would focus on improving infrastructure, increasing the working age population and redesigning the educational system where skills are attained that are applicable to the modern and changing work environment.

A major limitation of fiscal policy is that it is determined by politicians who typically operate within a short time frame (the next election) and vote inducing measures often defaults as their preferred option. A possible solution to such a limitation is to conduct monetary and fiscal policy in conjunction. To a certain extent this is already happening with Central Bank mandates set by politicians and monetary authorities purchasing government bonds via QE. The recognition of Central Bank independence and the democratically issued mandate of governments should remain paramount but a blend of fiscal and monetary policy may be required to correct the environment of low inflation, low yields and low growth experienced over the last decade. For investors and policymakers the valuation of success of these measures would be an improvement in individual and corporate confidence to the extent that consumption and capex finally become the drivers to future sustainable growth.





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1 Nov 2019

Fund	Price
Appian Multi-Asset Fund	**152.82**
Appian Global Dividend Growth Fund	**199.34**
Appian Global Small Companies Fund	**171.72**
Appian Liquidity Fund	**103.98**
Appian Impact Fund	**106.15**
Appian Burlington Property Fund	**127.10**

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