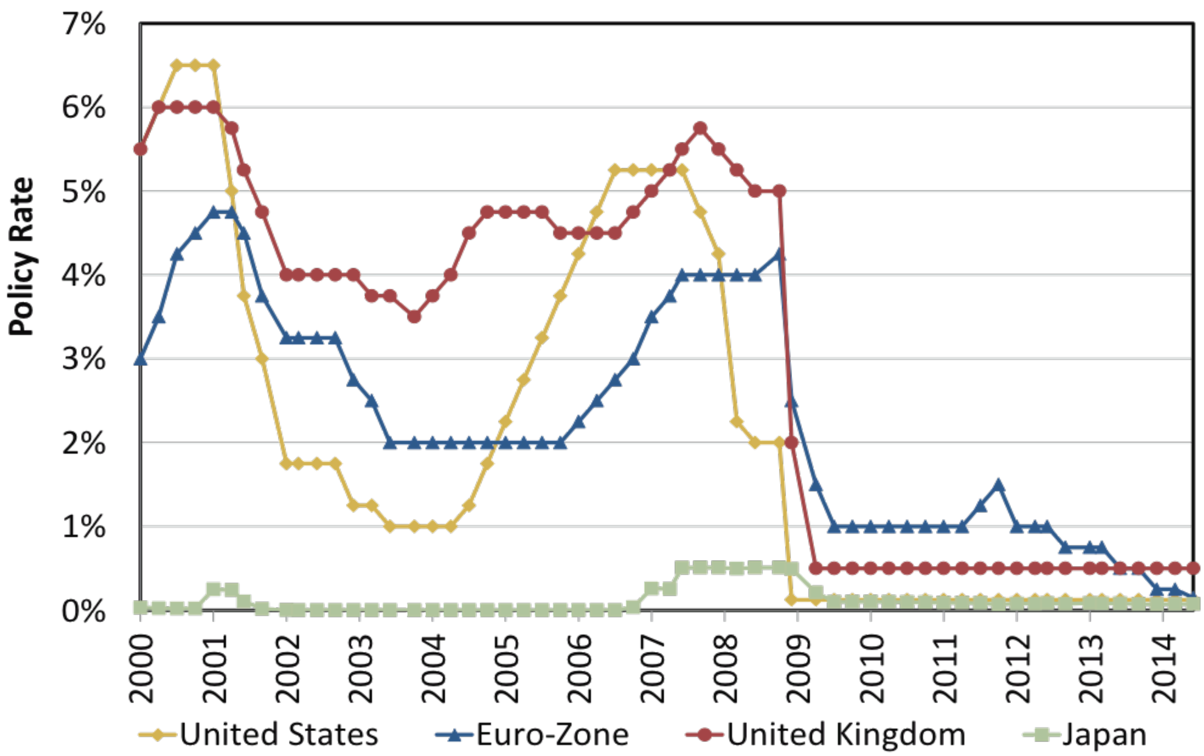
THE IMPACT OF GLOBALIZATION ON PORTFOLIO PERFORMANCE

Bryan K. Johnson, Managing Partner

One of the key lessons from the global financial crisis is the world economy, through banking and finance, has become more interconnected and thus more complex. Such a climate creates a "spillover effect" or the impact that a country's policies may generate on another country. Such a "contagion" is real and may be dangerous. As risks to the world economy and global financial stability have therefore increased and have become systemic.

In 2011, The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank announced coordinated actions to enhance their capacity to provide liquidity support to the global financial system. The purpose of these actions was to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity. These measures were thought to be temporary and generally thought of as loose agreements on policy.



Source: Bloomberg

Fast forward to 2014, Bank of England chief economist Andrew Haldane said that he would like to see "greater global policy coordination to reduce the risk of future financial crises". While getting countries to coordinate interest rate moves was unrealistic, building on efforts to "synchronize" monetary policies seems to be thought as an achievable objective.

WHERE IS CENTRAL BANK POLICY TODAY?

	Federal Reserve	European Central Bank	Bank of England	Bank of Japan
Policy Rate	0.00% - 0.25% (Stable)	0.05% (Recently Reduced)	0.50% (Stable)	0.00% - 0.10% (Stable)
Quantative Easing	Net $15B/Month* (Declining)	In Planning Stages	Net $0B/Month (Stable)	Net $70B/Month (Stable)
Other Balance Sheet Expansion	None Currently	LTROs	None Currently	ETF/REIT Purchases
Change In Balance Sheet % GDP Since 1Q2007	18%	10%	19%	26%
Policy Guidence	Accommodative	Accommodative	Mixed	Accommodative
Trend in Guidence	Tighter	Looser	Mixed	Unchanged

*Beginning October 2014

Such international macro-prudential policy coordination is not without operational problems. Coordinating national monetary policies while a desirable objective by central bankers, fails to address the divergence in monetary policy resulting from the underlying economic fundamentals in each respective central bank's constituent economy. As advanced economies such as the United States and England improve by various measures, both the Bank of England and Federal Reserve may need to hike rates earlier and faster than market expectations. In contrast, further balance sheet easing is called for in the Euro-zone and Japan may need to continue expanding its current purchase program (announced April 2013, targeted at achieving 2% inflation), the sheer scale of the program, doubling base money supply over two years, is larger than anything put in place before it. Such divergence will no doubt will increase uncertainty, promote discord and fan the fires of volatility.

EXPLOITING THE DISCORD: ACTIVE MANAGEMENT CRITICAL

The increased degree of uncertainty surrounding both short- and long-term central bank policy vis-à-vis differing rates of recovery and improvement within advanced economies will make active management in globally deployed portfolios critical.

About Johnson & Company: Johnson & Company provides marketing and fundraising advisory services to sub-institutional alternative asset managers and alternative investment consulting and education to single and multi-family offices, individual investors and institutions and as well as consultants, advisors and other key intermediaries.

Johnson & Company
Unique Clients. Distinctive Services. Intelligent Solutions.

One Congress Plaza ♦ 111 Congress Street, Suite 400 ♦ Austin, Texas 78701 ♦ 512-786-1569 ♦ www.johnsn.com