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Central Banks: The New Alchemists

By Randall W. Forsyth Jan. 11, 2018 12:23 p.m. ET

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Medieval alchemists dreamt of turning lead into gold. Today's speculators seemingly have achieved m with bitcoin, turning the ones and zeroes of computer code into billions, at least for now.

But they are both outdone by modern central bankers, who have been able to conjure billions in wealtl benefit of either ancient alchemy or modern mining of cryptocurrencies. And the most brilliant among the Swiss National Bank, which last year made $55 billion from its $800 billion portfolio of stocks and

That's more than Apple (ticker: AAPL) earns in a year, The Wall Street Journal reported Wednesday. By Federal Reserve earned $100 billion, less than twice as much as its Swiss counterpart, on assets wort much as the SNB.

The difference is that while the Fed's assets are made up of U.S. Treasuries and agency mortgage-bac the Swiss own foreign stocks and bonds with much higher returns. And those returns are enhanced b value of the currencies in which those securities are denominated relative to the Swiss franc.

In other words, the SNB has become like a giant hedge fund—with one huge difference. As a central b liabilities—in this case, Swiss francs—with a computer keystroke, with which it can acquire assets. For banks, those assets typically are government bonds, which are the highest-quality and most liquid inv

Since the financial crisis, global central banks have purchased an estimated $14 trillion of assets, whic effect of lowering interest rates—to below zero percent, in some cases. That raises the prices of bond stocks. It is no accident that central banks' balance sheets and equity values have risen in tandem sinc market began almost nine years ago.

For the Swiss National Bank, the linkage has been more direct. In order to keep the Swiss franc from r —and hurting the export-dependent Swiss economy—the SNB buys foreign bonds and stocks and se 760 billion francs ($776 billion), according to the Journal.

Those francs literally cost nothing to produce, but global holders of dollars or euros happily exchange Swiss currency. The SNB uses those foreign currencies to buy stocks, which have appreciated in the g market and even more so in Swiss franc terms, since the SNB has been successful in capping its curre

The bank held equities worth over $87 billion as of Sept. 30, according to its most recent 13F filing wit Securities and Exchange Commission. The portfolio looks a lot like the Standard & Poor's 500 index: A holding, with 19.2 million shares, followed by 17.3 million shares of Microsoft (MSFT), 8.9 million shares (FB), 1.5 million shares of Amazon.com (AMZN), and 2.25 million shares of Alphabet's two classes—1.15 of class C (GOOG) and 1.1 million class A shares (GOOGL).

Conspicuous in their absence are big financial stocks, notably JPMorgan Chase (JPM), Bank of Americ Fargo (WFC), and Berkshire Hathaway (BRK.A), all in the top 12 S&P 500 market caps but whose Swis may be regulated by the SNB.

If central banks have helped to boost values of assets such as equities by their unprecedented expans and suppression of interest rates, shouldn't those central banks join in the benefits?

Had the Fed earned a return on its assets comparable to what the SNB earned (relative to the size of t versus the Swiss economy), the U.S. Treasury would have seen a windfall of $1.5 trillion, the Journal no of the Swiss institution, investors can actually buy shares in the SNB, which trade "by appointment.")

Could it really be that easy? Central banks can create money out of thin air to purchase stocks, which a stream of earnings and dividends of real businesses, and inflate their values. Not in the wildest imagin alchemists was such a feat possible.

Obviously there is a limit to such money printing, as feckless regimes from Argentina to Zimbabwe hav repeatedly. The Swiss can do it because they have shown historically they care deeply about their fran the SNB has to expand the supply to keep up with demand—the opposite of other central banks that h their currencies.

The question now before markets is what happens when the major central banks cease to perform thi conjuring wealth through their quantitative easing. The Fed has begun to pare its balance sheet, while Central Bank is reducing the pace of its purchases, as is the Bank of Japan. As the Fed reduces its hol Treasury is stepping up its issuance to cover the deficit expanded by tax cuts, leaving less excess liqui risk assets.

What happens when the magic stops?

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