COLUMBIA THREADNEEDLE INVESTMENTS

# Expect low rates and low inflation in 2021

January 12, 2021

*2021 rates outlook: Prepare for low interest rates this year and beyond. Consider adding credit risk and equity income strategies to generate income.*

- **Stop worrying about inflation.** We had a very significant disinflationary shock in March and April 2020, which means we may see slightly higher prices on a year-in-year basis in March and April 2021. But the structural story for inflation is one of stability: in the U.S., core inflation is anchored at around 1.5%. It's important to remember that the prospect for riskier assets has changed in higher inflation environments. Historically, higher inflation resulted in poor performance from risk assets because it meant that the Fed would be raising rates. **Not anymore.** In the Fed's new paradigm, higher inflation does not automatically translate to higher rates because the Fed wants to see some inflation. As a result, we believe that investors should not be focused on hedging against inflation in 2021. But it's OK: inflation hedges like gold and TIPS don't work very well anyway.

## Global Perspectives 2021

The upcoming year is all about moving forward and making progress toward long-term goals. With a vaccine for COVID-19, 2021 holds the promise of a return to a more familiar world. **What will it take for investors to succeed in this environment?**

VIEW ALL ARTICLES IN THIS SERIES »

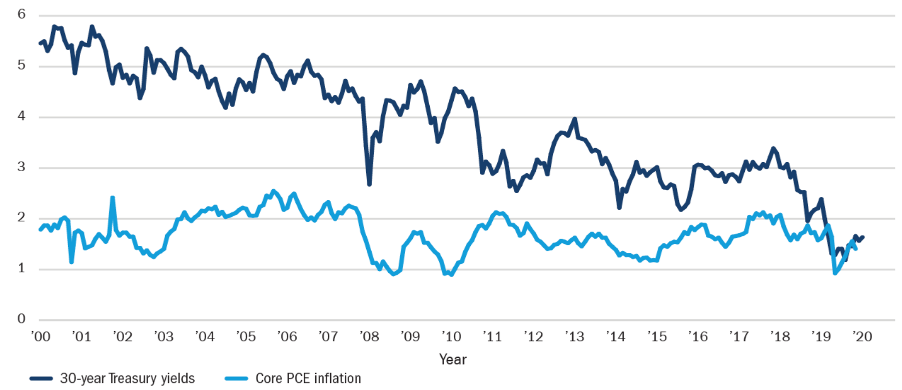
Edward Al-Hussainy
Senior Interest Rate and Currency Analyst

- **Interest rates will be low. Period. Vaccine distribution in 2021 is not going to spark an uptick in rates.** The employment rate, the inflation rate and general financial sector conditions will drive rate decisions. The labor market sustained incredible damage in 2020. It was about halfway healed by the end of the year, and over the course of 2021, we'll probably continue to see improvement. But we won't get back to low levels of unemployment this year. As we mentioned, inflation is unlikely to rise, and as we saw in 2020, the Fed was successful reestablishing financial sector stability. Together, these factors make the case for low rates in 2021 and likely for many years beyond. If your goal is income, you should think about adding credit risk, equity income strategies and moving out the risk spectrum.

• **It's unlikely that the U.S. dollar will weaken significantly.** The dollar tends to be driven by three themes. One is the growth differential between the U.S. and the rest of the world. The second is the interest-rate differential between the Federal Reserve and other central banks. And the third is the risk climate: in periods of risk aversion, people tend to crowd into the dollar versus other currencies. As we enter 2021, U.S. growth appears set to outperform, and interest rates in the U.S. will be higher relative to other developed markets. While risks are abating with the deployment of the vaccine, they're still elevated. But these variables don't necessarily mean that the U.S. dollar will be significantly weakened as we enter 2021.

### Inflation and yields are low relative to historical levels and are expected to remain this way in 2021

12/31/00-12/21/20




Source: Columbia Threadneedle Investments. Past performance is not a guarantee of future results.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

| Not Federally Insured | No Financial Institution Guarantee | May Lose Value |
|---|---|---|

COLUMBIA THREADNEEDLE INVESTMENTS



CTBPR5SB (01/21) 3407939