



2022 interest rates and inflation outlook

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The key defining feature of the policy space this year is that accommodation is pulling back, both on the fiscal side, relative to the amount of stimulus that we provided in 2020 and 2021. And, on the monetary policy side, as the Fed steps back accommodation and starts contemplating interest rate hikes.

So, inflation this year is going to be a fascinating story, because of course, last year the story was one of increasing momentum as the economy opened up. We saw significant dislocations in the labor market. We saw significant dislocations of the global economy, in the form of our supply chains that were jammed up into the end of the year. This year, a lot of those temporary effects should fall out of the equation. And, what we should be left with is an underlying growth story that reflect some of the changes that are long lasting.

This year, my expectation is that inflation momentum should continue into the summer, and then start to organically decline. And, the key question for us is, does it decline towards 2% or 3%? And, that one percentage difference which in many areas seems a bit trivial, but for the Fed it's the world because their target is 2%, a deviation of closer to 3% by the end of the year, would imply a much faster tightening cycle.

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