



2021 interest rates and inflation outlook

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As an investor, one of the things you can expect over the course of not just this year, but next year as well, is that interest rates will stay low.

With the arrival of the vaccine and given the shock we had last year, I think it's reasonable to say, "Well, look, there's a lot of pent up demand that's going to come through. Will this demand generate inflation? And particularly given low interest rates, does that create a situation where interest rates will rise in an uncontrolled manner and therefore be quite damaging to portfolios?"

I'll note two things. One, I think the odds that inflation comes through remain quite low.

Optically, in March and April, we'll see slightly higher prices on a year-in-year basis. So we'll see a slight bump in inflation. But largely the structural story to inflation is one of stability

The second thing is, the Fed in changing its inflation strategy last year has really tried to change the dynamic between risk assets and inflation. In other words, down the line, when we see inflation rising to 2%, we should not anticipate the Fed tightening. And if the Fed is not tightening and raising interest rates, it's unlikely that those risk assets will underperform the way they have in the past.

I think the key thing for investors this year and next year, and really for the next several years is in an environment of low interest rates, there's significant pressure to move into risky assets, whether that's in equities, in credit, in emerging markets.

So, risk adjusting expected returns becomes a very critical exercise over the next 12 months.

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