COLUMBIA THREADNEEDLE INVESTMENTS

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The big debate is, well, is raising interest rates harmful to the economy?

So, we had a tremendous financial crisis, economic crisis in the world 10 years ago. The central banks of the world embarked on extraordinary monetary policy and ultra-low interest rates for a very long period of time. But now, what's happening as the economy is beginning to normalize, we're seeing those policies being rolled back. So, the Federal Reserve is now beginning to raise interest rates again.

And then, the second element of that is what's called the flattening of the yield curve, which is, unfortunately, an obscure term, but it is quite important to those of us following the market. Because if short-term rates go up, say, interest rates from a one to two-year period, whereas 10-year rates stay reasonably flat, then you get the short rates coming up, the long rates stay flat, and you get almost no difference between the two, which is called the flattening of the curve, i.e. the difference between two-year rates and 10-year rates.

Raising rates creates fear for investors. But you do have to break it down, is it really the normalizing of rates after a crisis period? Which actually should give you confidence that growth is now more sustainable than it was a few years ago, as opposed to increasing rates to try and really put the brakes on the economy, which is traditionally what we mean by raising rates.

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