

2021 Year Ahead Outlook

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How committed do you think the Fed is to a low-rate environment?

The Federal Reserve has made a very strong statement: they are committed to a low-rate environment and their monetary policy right now is highly asymmetric in the sense that they would rather lean in the direction of keeping interest rates low for longer than threaten hiking too quickly and derailing the recovery. So what that means is that the Federal Reserve is going to look for the economy to run hot for a period of time in order to achieve a higher trend of inflation. And indeed, they've changed their framework to accommodate that. They have moved to this flexible, average inflation target, which means that after periods of undershooting the 2% inflation target, they're going to want to overshoot that 2% inflation target.

So as a result, we think the Fed will be committed to a low-rate environment and they will commit to that not only through their interest rate policy, but also through their balance sheet policy. They are still actively expanding the balance sheet through quantitative easing, buying both Treasuries and MBS. And we anticipate that that will continue certainly through 2021 and very likely beyond. The Fed's balance sheet will continue to swell. Interest rates will remain low. And in doing so, the Fed will really help to continue to spur economic growth with the ultimate goal of generating a higher trend of inflation.

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