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Post-Pandemic Impacts on the Bond Market

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Investment Background

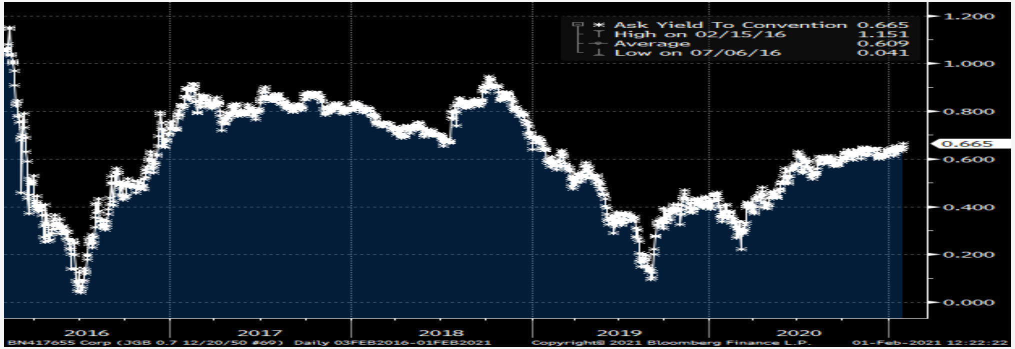
- **Democratic sweep in the US changes the background to a dramatic monetary to fiscal handoff**
- **Does the rollout of vaccines make “September” the new “January”?**

- Unemployment claims have rolled from the highest levels but remain elevated
- Current recovery is “k-shaped”. There is definitely some weakness late in 2020, and early 2021 but financial markets are looking through the data as they would with a natural disaster
- Surprise could be “higher than expected inflation” and “lower than expected growth” over the long-term as a cost of further debt expansion, especially since the Democrats have now gained control

Investment Background

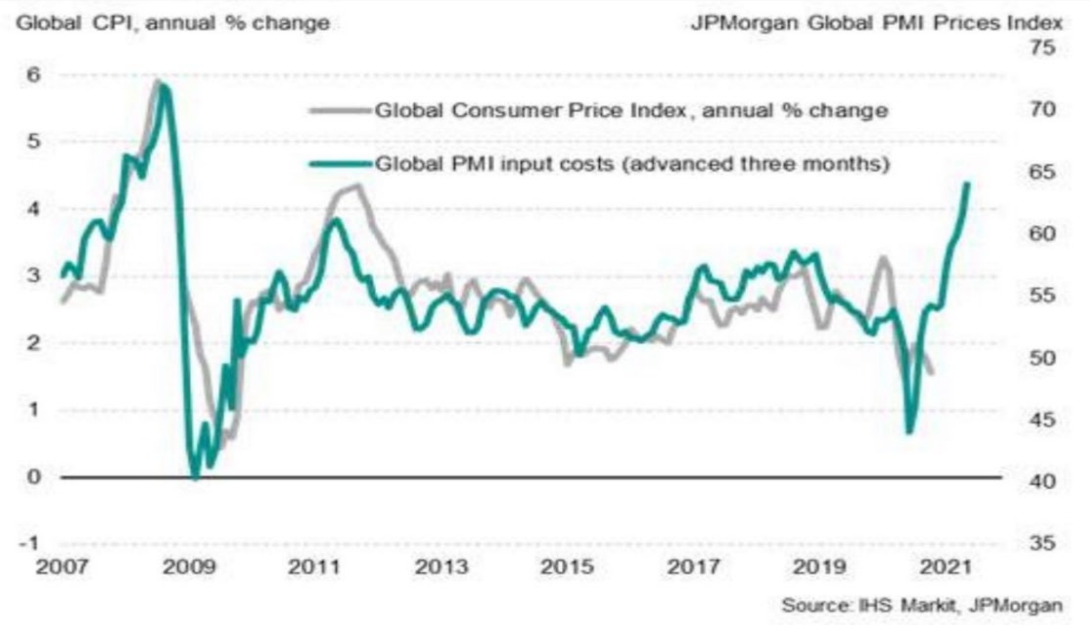
- **Long-term bond yields are beginning to rise globally, including in Japan (shown below)**

- Pace of economies reopening and the depth of shutdown will dictate growth for 2021
- Structural impediments to growth (e.g. debt levels, demographics, low productivity) remain

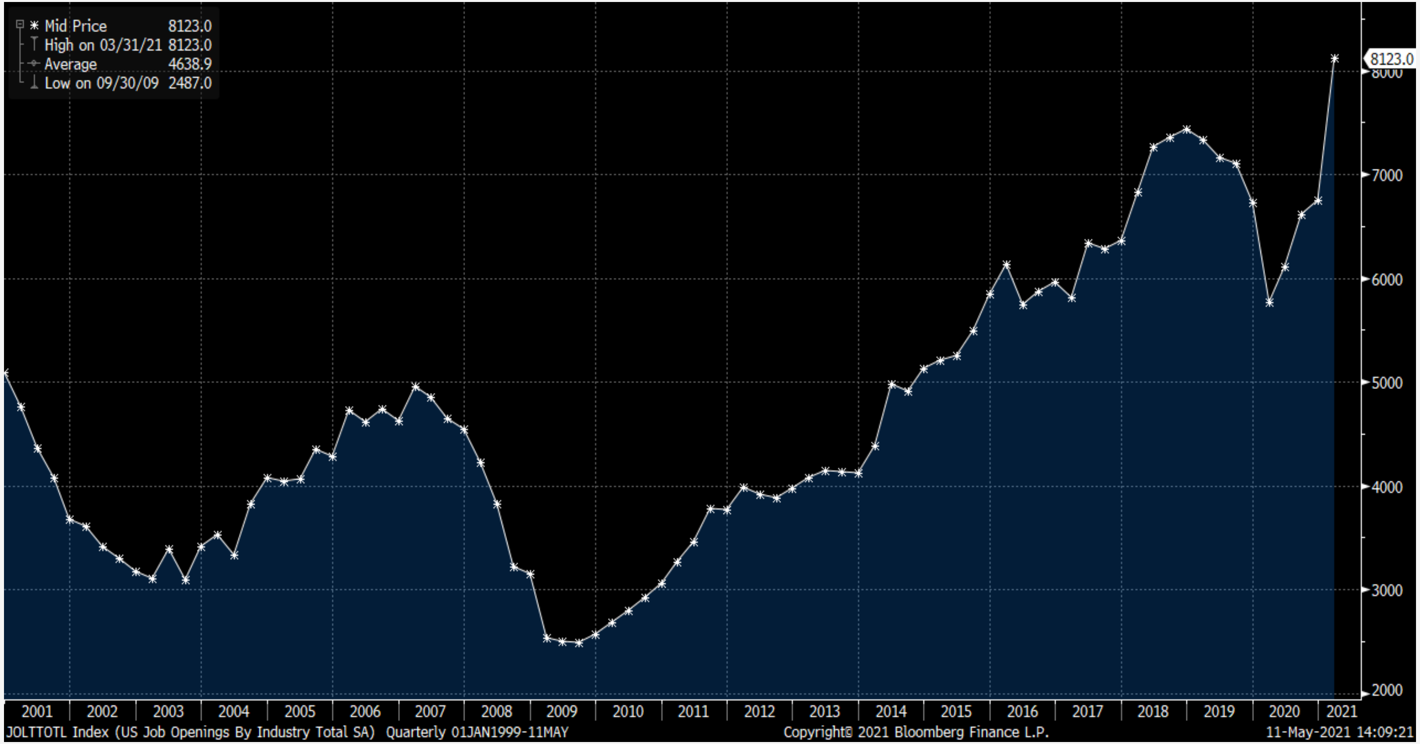


Source: Bloomberg

Global Inflation



US Job Openings



Source: Bloomberg

Investment Background

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Good quote—"Inflation is transitory" is the new "subprime is contained". Food for thought.

Wage Inflation Isn't Coming, It's Already Here

Over the past four quarters, the United States has generated more wage inflation than at any point ...

seekingalpha.com

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Macro Summary

- **COVID-19 outbreak gave the central banks and governments the greenlight for massive monetary and fiscal stimulus.**
- **Long-term rates have backed up in 2021 with the introduction of COVID-19 vaccines, the monetary-to-fiscal hand-ff and rising inflation pressures.**
- **Next few years may be better for main street vs. wall street**
- 2021 could lead to a “cat and mouse” situation where the bond market attempts to take yields up but ultimately the degree of the move could be muted by central banks
- New era of “Bigger Government” may be back.
- Risks of “Japanification” of North America remains (large debt levels, huge central bank balance sheets, low secular growth “stagnation”) including negative rates and buying of equity ETFs.

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