COLUMBIA THREADNEEDLE INVESTMENTS

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Sustained inflation is unlikely in our view

But there are structural and economic factors to monitor over the next 12 to 24 months.

We think that there are three important phases to consider in the inflation story.

1. The impact of base effects, driven by abnormally low levels of inflation one year ago
2. Inflationary pressure from the revival of economic activity and fiscal support programs intended to fuel economic growth
3. Economy at maximum employment and inflation meets or exceeds the 2% target

Source: Columbia Threadneedle Investments, March 2021.

Anwiti Bahuguna, Ph.D.
Senior Portfolio Manager, Head of Multi-Asset Strategy

As we emerge from COVID-19 lockdowns, the U.S. appears poised for a period of high growth. And along with rising GDP prospects, inflation hawks have begun sounding alarms. While we agree that the potential for rising inflation is something to take seriously, the inflation story is not so simple — partly because the Federal Reserve has been clear that its reaction to inflationary pressures will be different this time.

Near term, inflation will most likely be transient rather than persistent. But this doesn't mean the pressures will be any less real for markets and investors as the economy recovers. Longer term, the Fed's new mandate, which implies it will be more tolerant of inflation, could help smooth the economic ride and settle the market's nerves. Only time — and the data — will tell if it does. Until then, keep an eye on inflation, but don't let it dominate your view.

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