

Northern Trust | Yes, Inflation is a Risk

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The keys for investors to continue taking risk in this market are positive global growth and low interest rates. But we're counting on central bankers to play their part with easing monetary policy. So why wouldn't they play their part? In a word, inflation. Let's break it down.

We've been in the stuckflation camp solidly for many years, as technology has kept prices low, and the aging global population has muted demand. Today, however, we find ourselves at an interesting place, where both the market and the Federal Reserve's expectations for inflation have fallen. In other words, are stuckflation view has become just about everyone's view.

There are few market strategists or economists who are worried about inflation. Yet, when everyone agrees, that makes us worry a little. Let's take a closer look at where we stand now.

The US economy has been in a long trend of lower inflation. The Fed's preferred measure of inflation, core personal consumption expenditure, is at 1.7%. That's below their 2% target. Broader measures of inflation tell the same story. We remain confident that this trend will continue based on muted global growth, combined with ever-advancing technology.

We are vigilant about constantly revisiting our stuckflation view, because there's a high cost of being wrong here. The combination of low inflation and growth may spur politicians to spend more, which could be inflationary. An inflation scare could force the Fed to raise rates, which would undermine economic growth at a fragile time. And if investors believe that inflation is back, they may pull back on taking risk, which could also weaken the economy.

While we're confident about stuckflation, we are vigilant about monitoring this as a very important risk case.

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