What we're hearing:

Timely market insights from our network of industry experts, as of 11/25/21

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Help wanted: How a distorted job market may foil the Fed

- Today, the Federal Reserve faces a knotty challenge: Surging inflation is driving pressure for higher interest rates, which could stymie growth and weaken the labor market recovery. Unless the economy is able to absorb the large supply of labor that is currently sidelined and the labor force participation rate recovers to pre-pandemic levels, it seems unlikely that the U.S. unemployment rate will regain its pre-pandemic low of 3.5% by 2023.
- At its November 3 meeting, the Fed confirmed that it will begin scaling back its $120 billion-per-month asset purchase program, starting in late November. Meanwhile, the Treasury market is pricing in rate hikes by mid-2022. While the persistence of high inflation in recent data could push the Fed down that path, the challenges in labor markets could temper its pace.
- Compounding the Fed's dilemma is that a large part of the inflationary pressure is coming from supply constraints rather than demand. This pandemic shock is turning the "divine coincidence" — the idea that most negative shocks to the economy come from the demand side — on its head. In a traditional scenario, as the economy is gaining steam, the central bank can combat rising prices by lifting interest rates, which cools the economy and the labor market, in turn dampening demand. But in the current situation, lifting rates would dampen inflation but also further set back the labor market. This could create the risk of more structural dislocation in the labor market, confounding the Fed's dual mandate of price stability and full employment.

[View the full commentary.]

World Climate Summit - Glasgow: Top 10 Takeaways

- The World Climate Summit - The Investment COP - is recognized as one of the most important official side events of COP26. It is the leading forum for business and investment-driven solutions to climate change and has become a key platform for connecting markets with policies to flatten the climate curve. The Goldman Sachs Asset Management team shares their top 10 takeaways from the event.
- The role that finance can and must play in solving climate issues was notably elevated and emphasized at COP26. Business leaders, banks and investors are now literally sharing the stage with the world's political leaders. This is an acknowledgement of the need for public and private sector collaboration; no single sector can solve the challenges.
- Financial markets need to assess the risks and opportunities facing individual companies which arise from environmental, social and governance (ESG) issues, as these affect enterprise value. This is driving significant demand for high-quality data on climate impact and performance as well as forward-looking reporting; these essential tools will help investors allocate capital for the transition.

View the full commentary.

Why are rates moving, just not higher?

- The movement in bond yields so far this year has been…perplexing, to say the least. In what will undoubtedly be one of the strongest years in recent history from both a growth and inflation perspective, nominal 10-year yields are lower than they were just eight months ago. Moreover, rates have experienced some big swings recently, even though they have traded within a fairly narrow range over the past couple of months.
- Rate volatility picked up last week; daily changes in nominal 10-year rates – up or down – show on average yields bounced around +/- 6 basis points. These developments suggest nominal rates should be much higher, and while economists, professional forecasters, and policy makers alike expect growth and inflation to continue to run above-trend well into next year, long rates have struggled to break north of 1.70%, a level last seen in late March.
- In J.P. Morgan's view, we are likely moving past peak inflation and growth should recover strongly from its third-quarter slowdown. Given this, we still expect long nominal rates to gradually move higher in the months ahead driven by real yields realigning with above-trend real economic activity.

View the full commentary.

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