

**Low** Interest Rates!



# Lower Yields for Longer...Again?

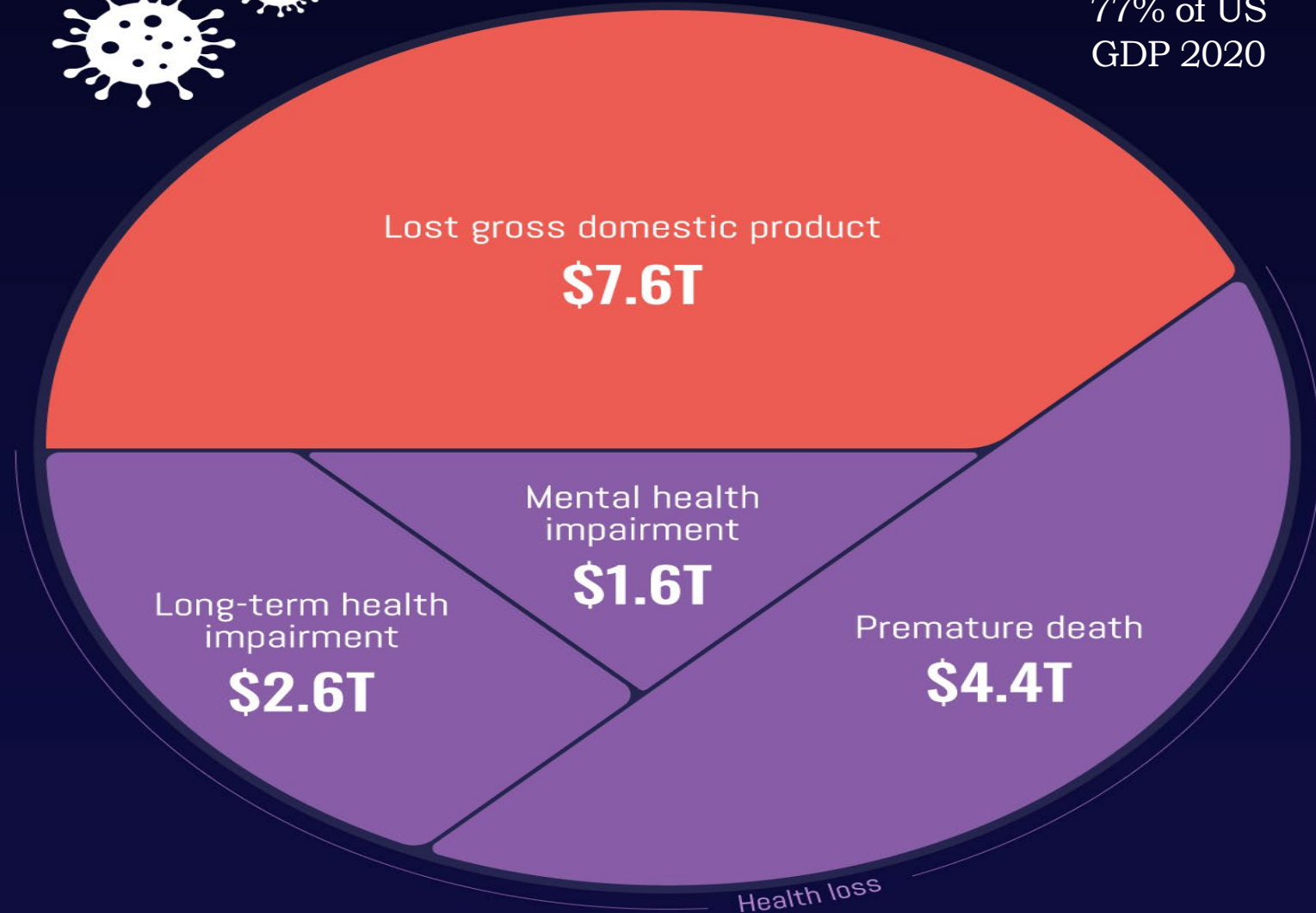
March 17, 2021

# The Pandemic Shutdown

## The Economic Costs of COVID-19 in the U.S.

**\$16.2T**

Or  
77% of US  
GDP 2020



**COLLABORATORS** RESEARCH + WRITING Avery Koop, Raul Amoros | **DESIGN** VC

**Sources:** 20 Years of War - A Costs of War Research Series by The Watson Institute for International and Public Affairs at Brown University  
The COVID-19 Pandemic and the \$16T Virus by David M. Cutler, PhD, Department of Economics, Harvard University



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@visualcap

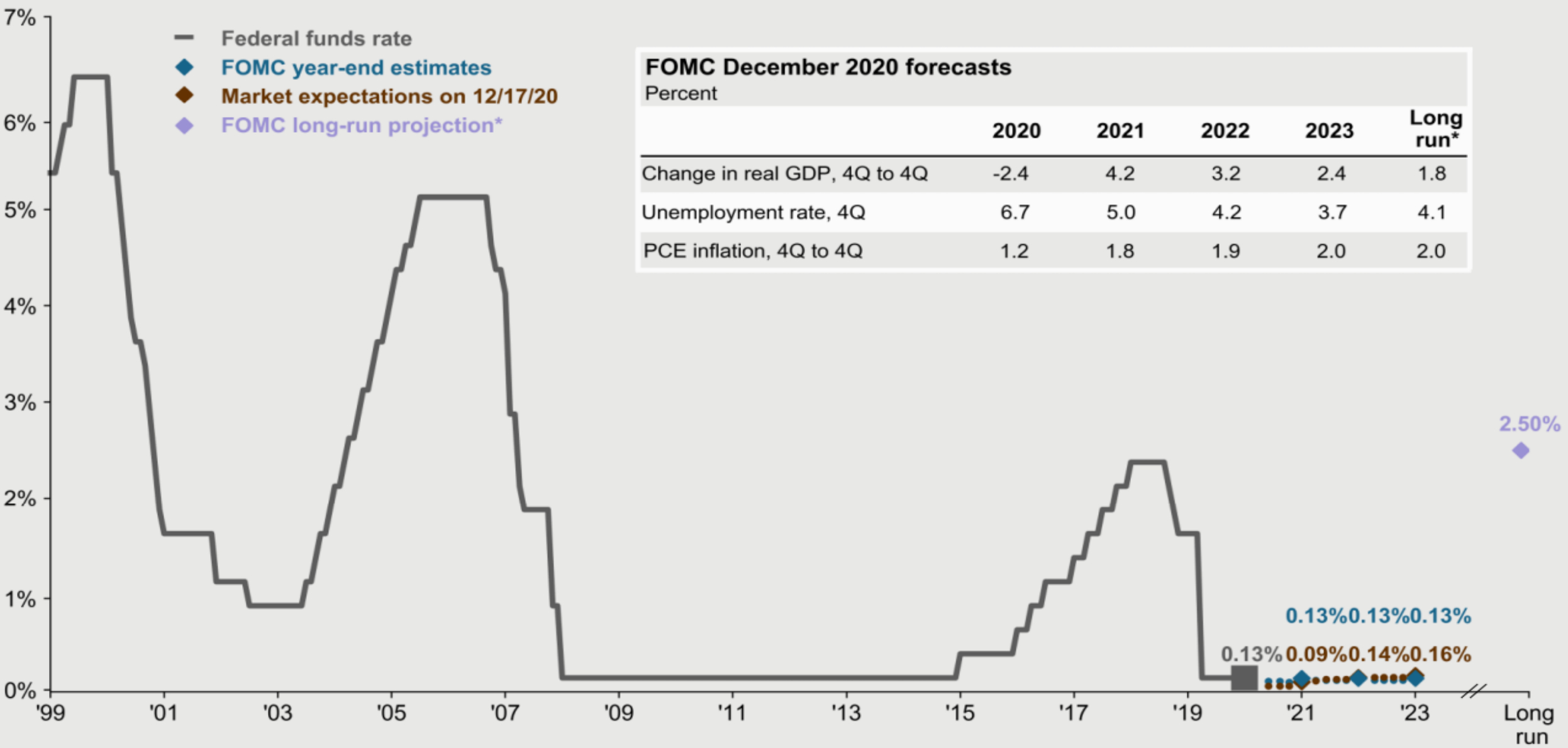


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# Federal funds rate expectations

FOMC and market expectations for the federal funds rate

## Monetary Policy



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.  
Market expectations are the federal funds rates priced into the fed futures market as of the following date of the December 2020 FOMC meeting and are through December 2023. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.  
Guide to the Markets - U.S. Data are as of March 12, 2021.

# CHANGE IN DEBT-TO-GDP

(Q42019-Q32020)

## Fiscal Policy



Hello, Debt!





# The Grand Reopening



Americans are saving a lot of money

Americans are  
earning more ...

Total disposable  
personal income  
**+\$1.03 trillion**

American  
personal savings  
**+\$1.56 trillion**

*That's a 173%  
increase from  
2019*

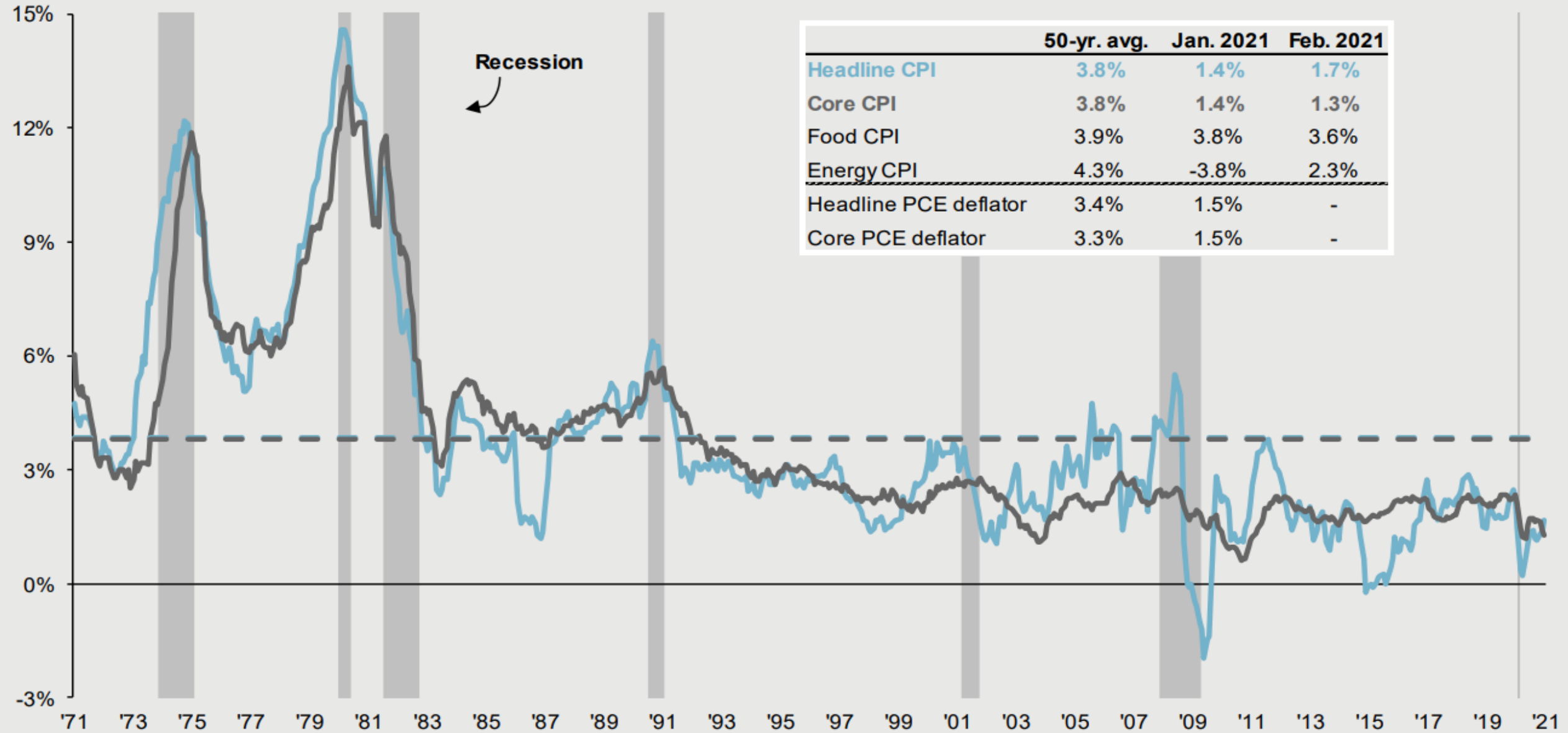
... and  
spending less

Total household  
outlays  
**-\$535 billion**

Note: Data from March to November 2020 compared with the same time period in 2019. - Source: Bureau of Economic Analysis

# CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.  
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.  
Guide to the Markets - U.S. Data are as of March 12, 2021.

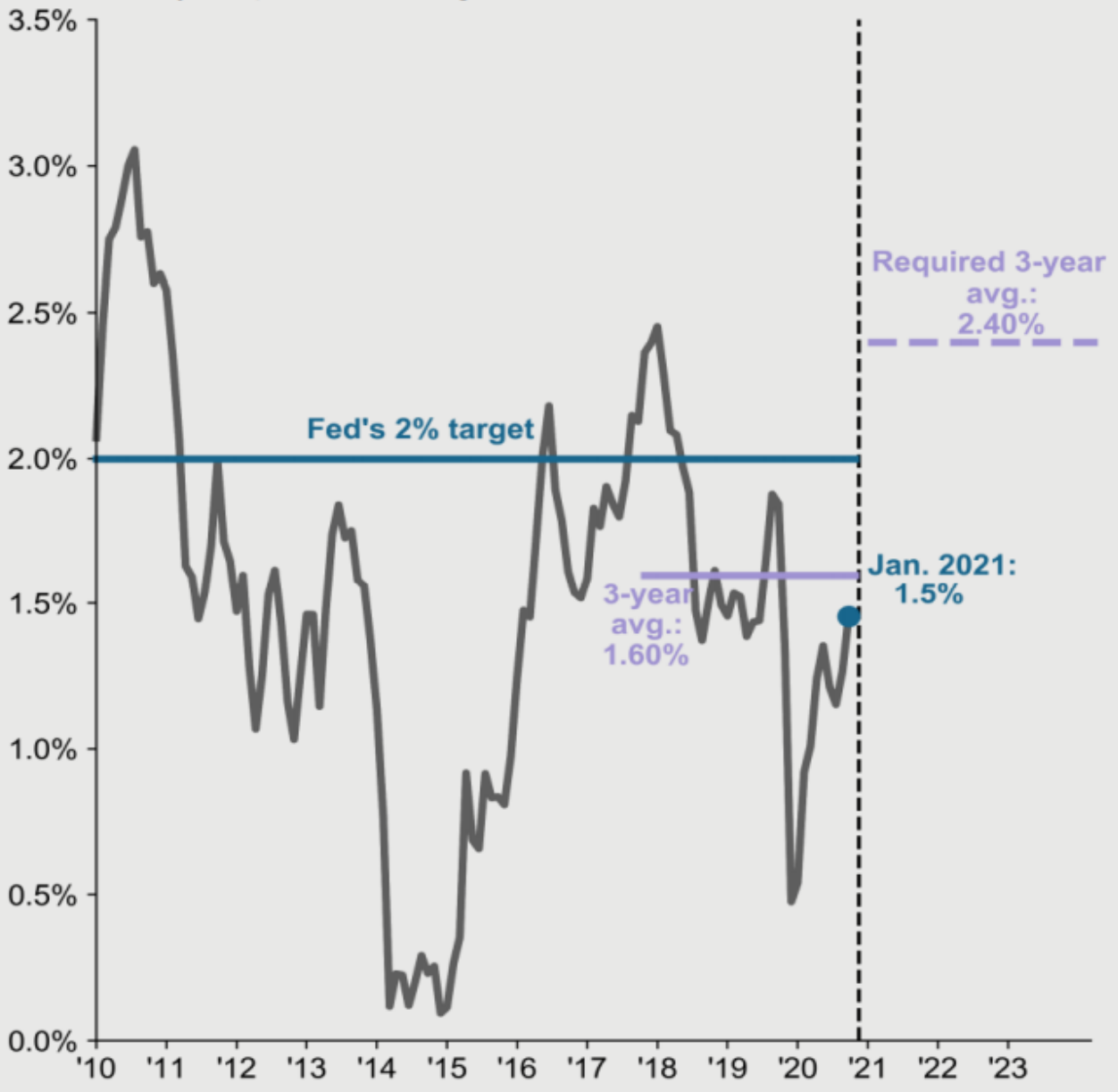
## 5-year, 5-year forward inflation expectation rate

Percent, not seasonally adjusted



## Headline personal consumption deflator

Year-over-year percent change



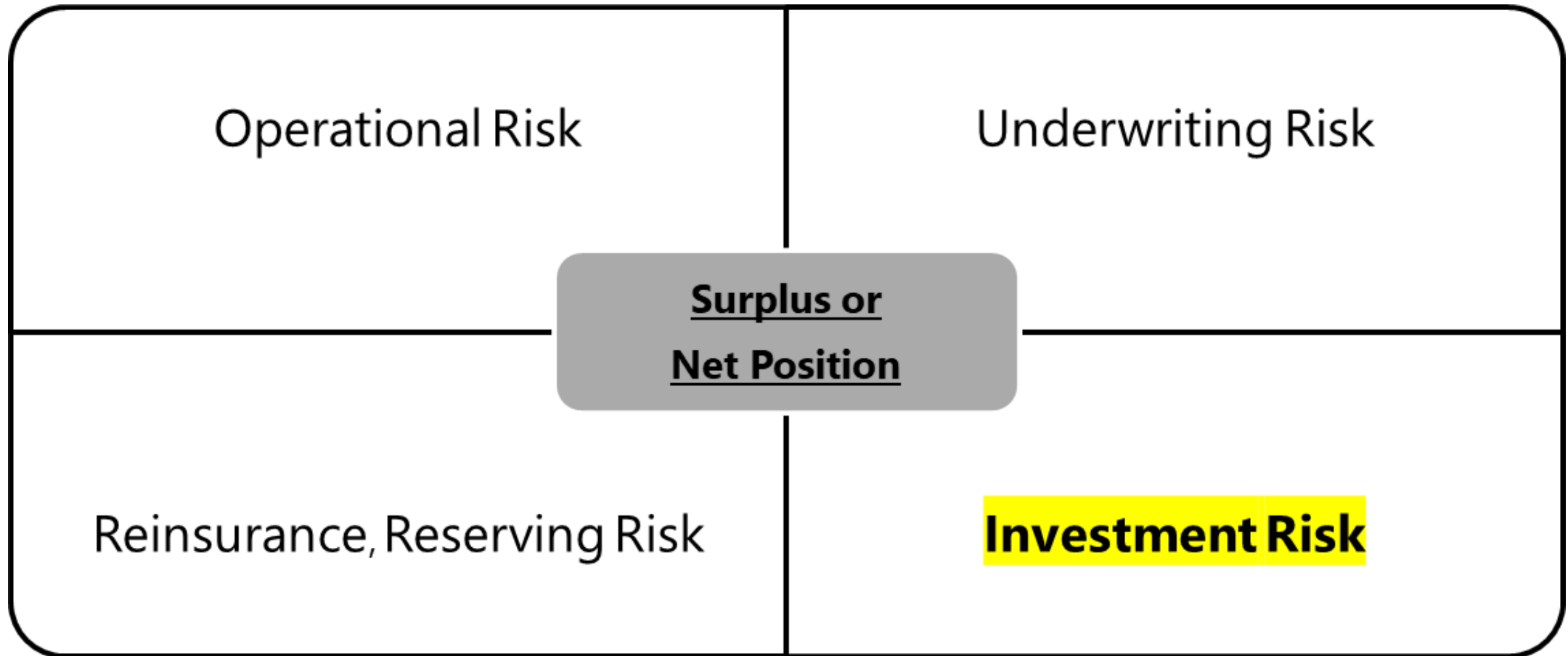
# Rethinking Risk & Reward





# It's not just about investments...

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# Basic Portfolio Risk

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## 1) Investment Risk

- ☐ MAY LOSE MONEY
- ☐ VOLATILITY OF ASSET VALUES (Short Term)

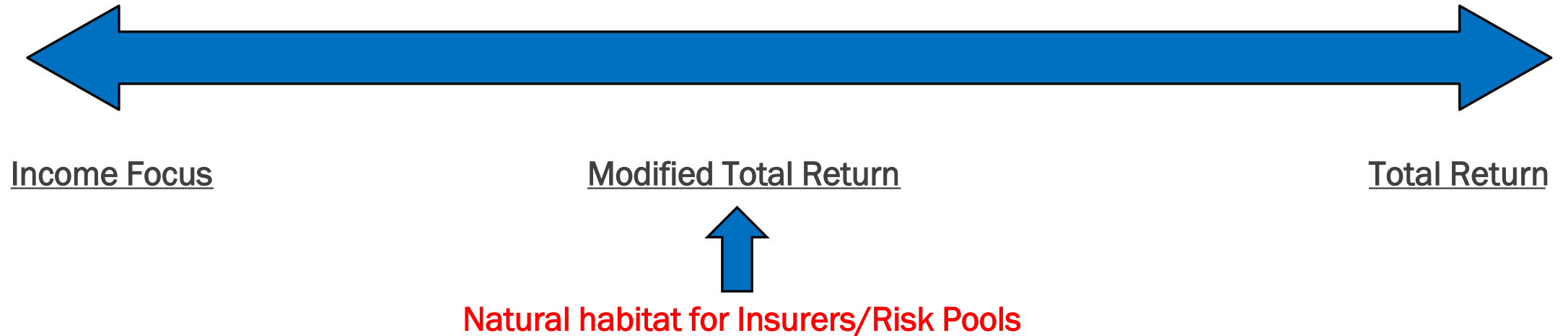
## 2) Inflation Risk

- ☐ MAY LOSE PURCHASING POWER
- ☐ LONG-TERM EROSION OF VALUE

**Risk is the permanent loss of capital, never a number.**

# Investment Approach Spectrum

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# Sources of Fixed Income Yield

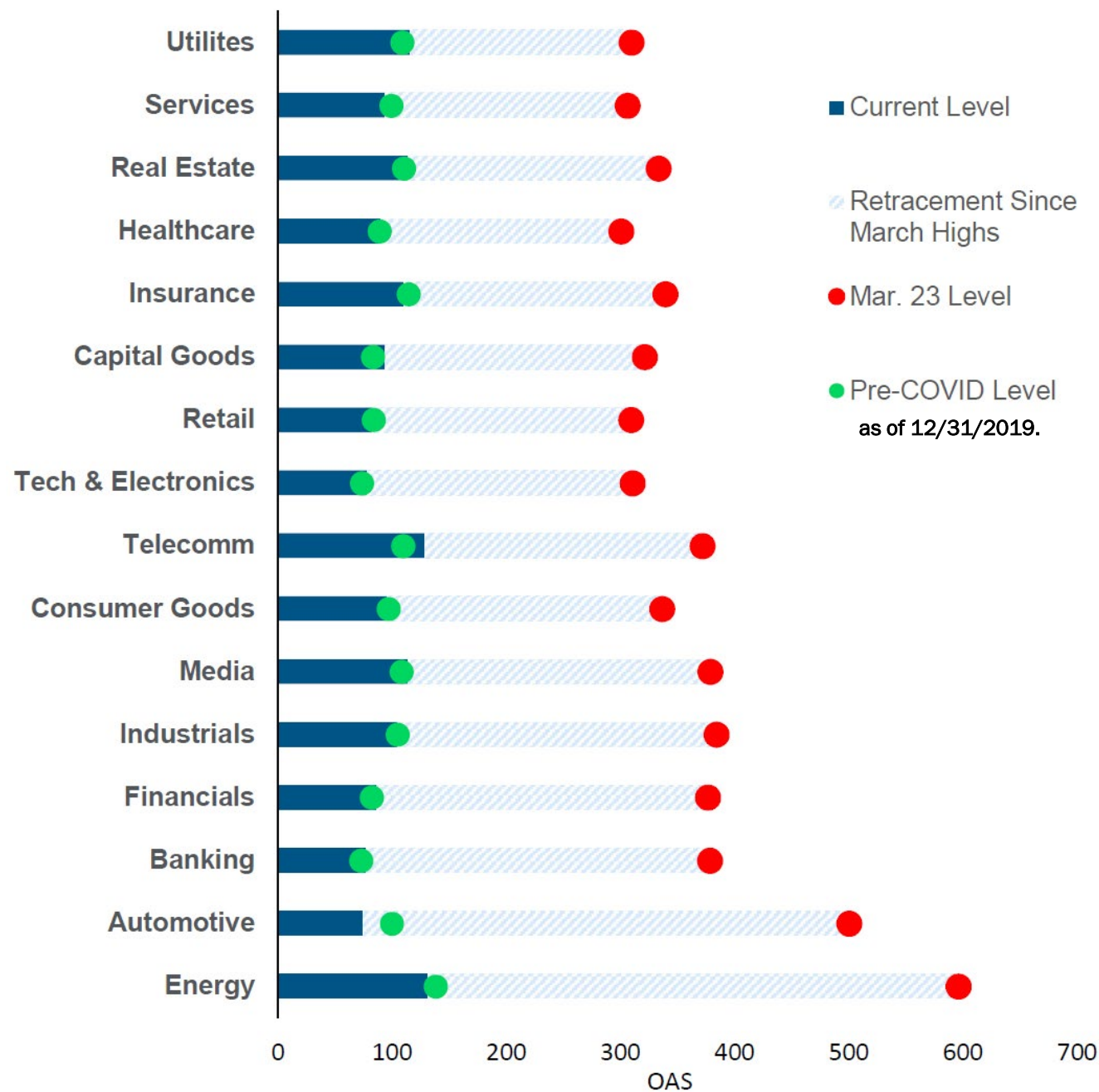
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- ☐ Duration
- ☐ Credit
- ☐ Structure
- ☐ Liquidity
- ☐ Leverage

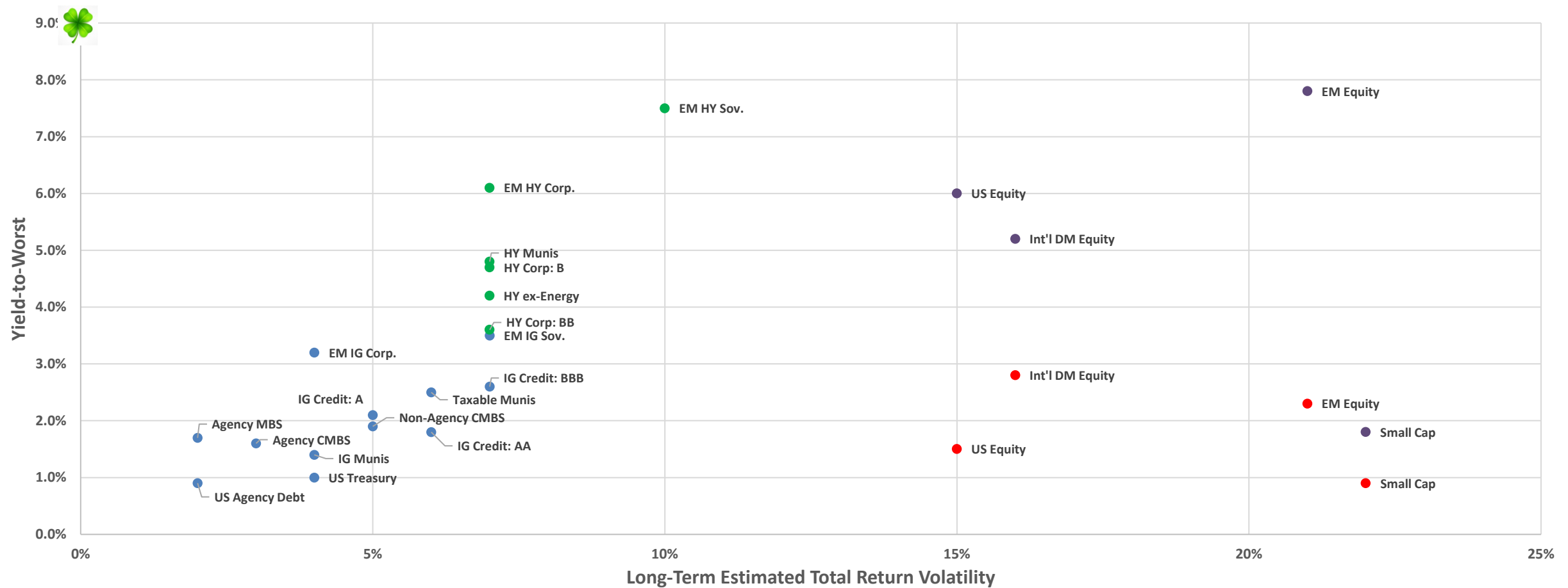


# The Great Retracement

## IG Spread Tightening by Sector







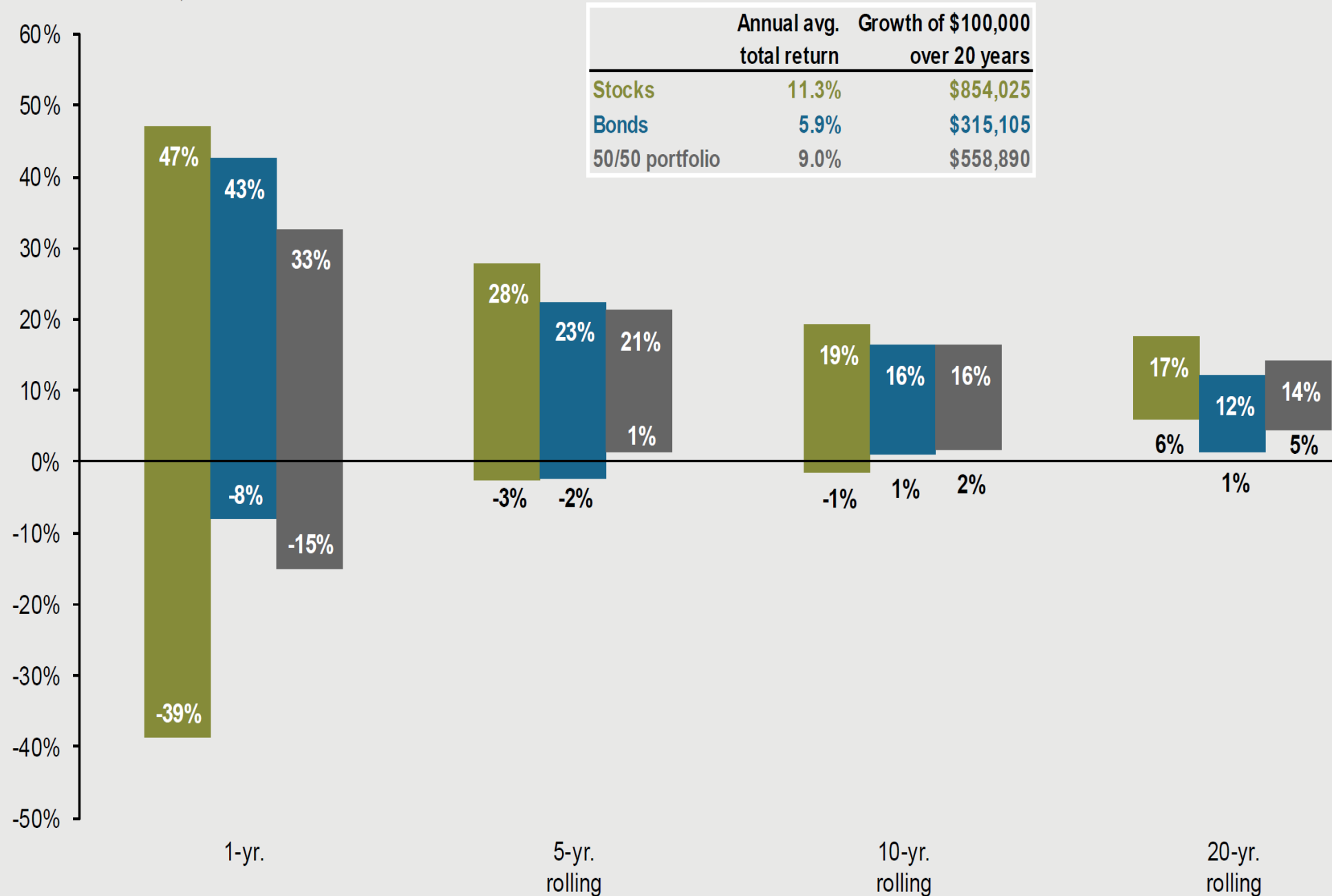
# Yield vs. Asset Class Volatility

- Investment Grade
- High Yield
- Equity (Est. Earnings Yield)
- Equity (Est. Dividend Yield)

Time,  
Diversification &  
The Volatility of  
Returns

Range of stock, bond and blended total returns

Annual total returns, 1950-2020



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management

Returns shown are based on calendar year returns from 1950 to 2020. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2020.

# The Big Set-Up



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