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Macro Roundup Artcile

Headline: The Price of Money Is Going Up, and It's Not Only Because of the Fed

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Publication	Bloomberg
Publication Date	November 06, 2023

Tweet: A @markets analysis suggests the natural rate of interest in the US will rise to 2.7% by 2050, implying 10-year Treasury yield somewhere between 4.5-5%, though higher investment levels could leave the yield at 6%.

Summary: Our model shows a rise of about a pp from a trough of 1.7% in the mid-2010s to 2.7% by 2050. In nominal terms, that means 10-year Treasury yields could settle somewhere between 4.5% and 5%. And the risks are skewed toward even higher borrowing costs than our baseline suggests. If the government doesn't get its finances in order, fiscal deficits will stay wide. The fight against climate change will require massive investment. BloombergNEF estimates getting the energy network in shape to achieve net-zero carbon emissions will cost $30 trillion. And leaps forward in artificial intelligence and other technologies might yet boost productivity—resulting in faster trend growth. High government borrowing, more spending to fight climate change, and faster growth would all drive the natural rate higher. According to our estimates, the combined impact would push the natural rate to 4%, translating to a nominal 10-year bond yield of about 6%. Related: Are High Interest Rates the New Normal? and Global Natural Rates in the Long Run: Postwar Macro Trends and the Market-Implied r* in 10 Advanced Economies and Measuring the Natural Rate of Interest After COVID-19

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Topics: Financial Markets, GDP, News article

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