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Macro Roundup Artcile

Headline: In Search of Safe Havens: The Trust Deficit and Risk-free Investments!

Article Link: https://aswathdamodaran.substack.com/p/in-search-of-safe-havens-the-trust

Author(s)	Aswath Damodaran
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Tweet: .@AswathDamodaran argues that central banks are rate takers, not rate makers. Rates, in his view, are ultimately set by inflation and real growth. He notes, “The fundamentals will win.”

Summary: There is no better way to show the emptiness of "the Fed did it" argument than to plot out the US treasury bond rate each year against a crude version of the fundamental risk-free rate, computed by adding the actual inflation in a year to the real GDP growth rate that year. No one (including central banks) cannot fight fundamentals: Central banks and governments that think that they have the power to raise or lower interest rates by edict, and the investors who invest on that basis, are being delusional. While they can nudge rates at the margin, they cannot fight fundamentals (inflation and real growth), and when they do, the fundamentals will win. Related: The Fed and the Secular Decline in Interest Rates and What Have We Learned About the Neutral Rate? and The Evolution of Short-Run r* After the Pandemic

Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Op-Ed/Blog Post, Weekly

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