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Macro Roundup Artcile

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

Article Link: https://www.bloomberg.com/news/articles/2023-10-19/why-the-price-of-money-is-going-to-stay-high-for-decades?sref=U3dOGIDF

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Tweet: Bloomberg Economics estimates that higher government debt levels, higher rates of investment driven by decarbonization demands, and faster growth will likely lift the natural rate to 4%, which implies a nominal 10-year yield of ~ 6%.

Summary: Bloomberg's team of economists estimates that, adjusted for inflation, the natural rate of interest for 10-year US government notes fell from 5% in 1980 to a little less than 2% over the past decade. How much higher will the natural rate go? Bloomberg Economics' model shows a rise of about a percentage point, from a trough of 1.7% in the mid-2010s to 2.7% in the 2030s. 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 that baseline suggests. According to Bloomberg Economics estimates, the combined impact of persistently high levels of government borrowing, more spending to fight climate change and faster growth would lift the natural rate to 4%, translating to a nominal 10-year bond yield in the region of 6%. Related: What Have We Learned About the Neutral Rate? and Global Natural Rates in the Long Run: Postwar Macro Trends and the Market-Implied r* in 10 Advanced Economies and In Search of Safe Havens: The Trust Deficit and Risk-free Investments!

Primary Topic: Financial Markets

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Investment, News article, Productivity

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