Robert Armstrong, “What if Inflation Returns?, Video, *The Financial Times*, 3 September 2020

(https://www.ft.com/video/f60120e8-7047-4d4b-844c-e446bc93a185?playlist-name=editors-picks&playlist-offset=9)

Transcript of the video.

Just about everyone thinks that interest rates are going to be very low for just about forever. This is a chart of 10-year, **10-year Treasury forwards**, which shows what investors think 10-year Treasury rates are going to be in 10 years' time. As you can see, the indicator is up against its all-time lows. This is important in large part because sustained low interest rates are so often cited as the crucial justification for today's very high stock prices. After all, investors who need returns have little choice but to buy stocks.	**10-year Treasury forwards**= a forward rate is the rate markets offer for future transactions. In this case, 10-year Treasury bonds can be bought and sold for delivery in the future at a certain price, which gives this rate.[1]
So what could upset this near universal consensus around low rates forever? Inflation is the obvious choice as it would force **bond yields** up to prevent returns from going deeply negative. Now given the Covid-19 crisis, which has slowed economic activity so much, the immediate threat is deflation, not inflation. But at the same time, take a look at the **sheer** amount of money that government monetary and fiscal stimulus has forced into the US economy.	**bond yields**= the returns on bonds (the interest paid on bonds which governments and companies sell in financial markets to borrow money) **sheer**= completely, total
Classically, such a **vast money dump** would suggest that inflation was right around the corner. Indeed, we did see a spike of inflation in July, though investors have shrugged this off as a one-off event caused by technical factors. Some dissident economists argue, however, that when the crisis passes, all that government stimulus combined with the return of demand along with political and demographic changes around the world will lead to a return of high inflation.	**vast money dump** = the injections of a huge amount of money into markets and economies
That's something to think about for stock market investors because the stocks that have benefited most from falling rates are the high-growth tech stocks like Amazon, Apple, and Netflix. These stocks **almost single handedly** have powered the recent rally. If that reverses in an inflationary world, markets are going to tremble.	**almost single handedly**= almost with one hand, almost alone

Think about what this video means in terms of investment and spending?

What do you think will be the consequences of cheap money for the private sector: companies and households?

What do you think will be the consequences for government spending?

What do you think all this says about (consumer price) inflation?

[1] For more on forward rates see: https://www.investopedia.com/terms/f/forwardrate.asp