

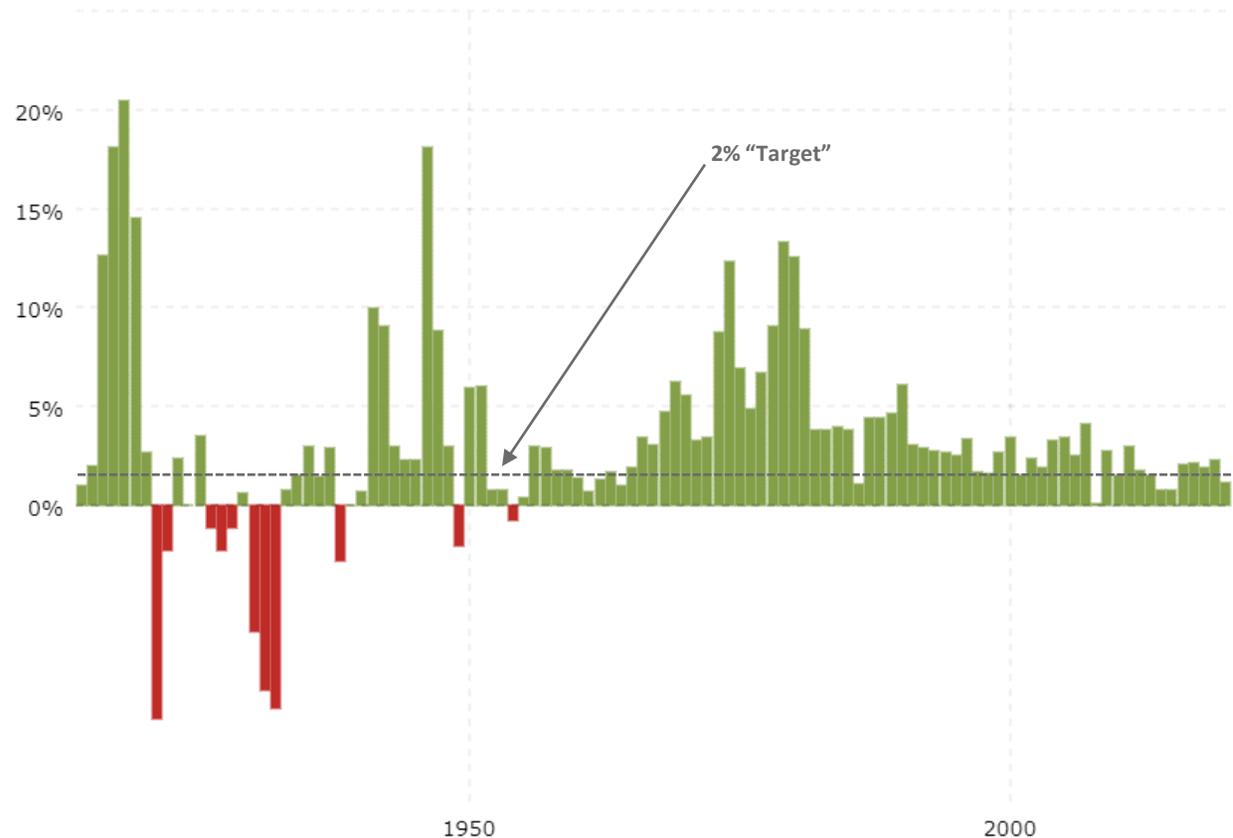
CHART OF THE WEEK

September 17, 2020

The New “Average”

Our Chart of the Week expands on a point highlighted in the [August Monthly Market Pulse](#) regarding the Fed’s policy change¹ from a 2% inflation “target” to a 2% “average.” It may seem like semantics, but it represents a bigger shift than mere wordsmithing.

The chart shown here looks at the Fed’s track record in trying to accomplish their previous 2% inflation “target.” Going forward, the real question is whether the shift to a 2% “average” could introduce a new round of inflation similar to what was experienced in the 1970s. With current “average” inflation being primarily below the 2% level of late, we could be looking at a scenario where persistent inflation north of 2% is necessary to achieve the longer-term average of 2%. Historically, when inflation breaks free of a trendline, it tends to pick up steam and accelerate.



Source: <https://www.macrotrends.net/2497/historical-inflation-rate-by-year>

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Not Like Last Time?

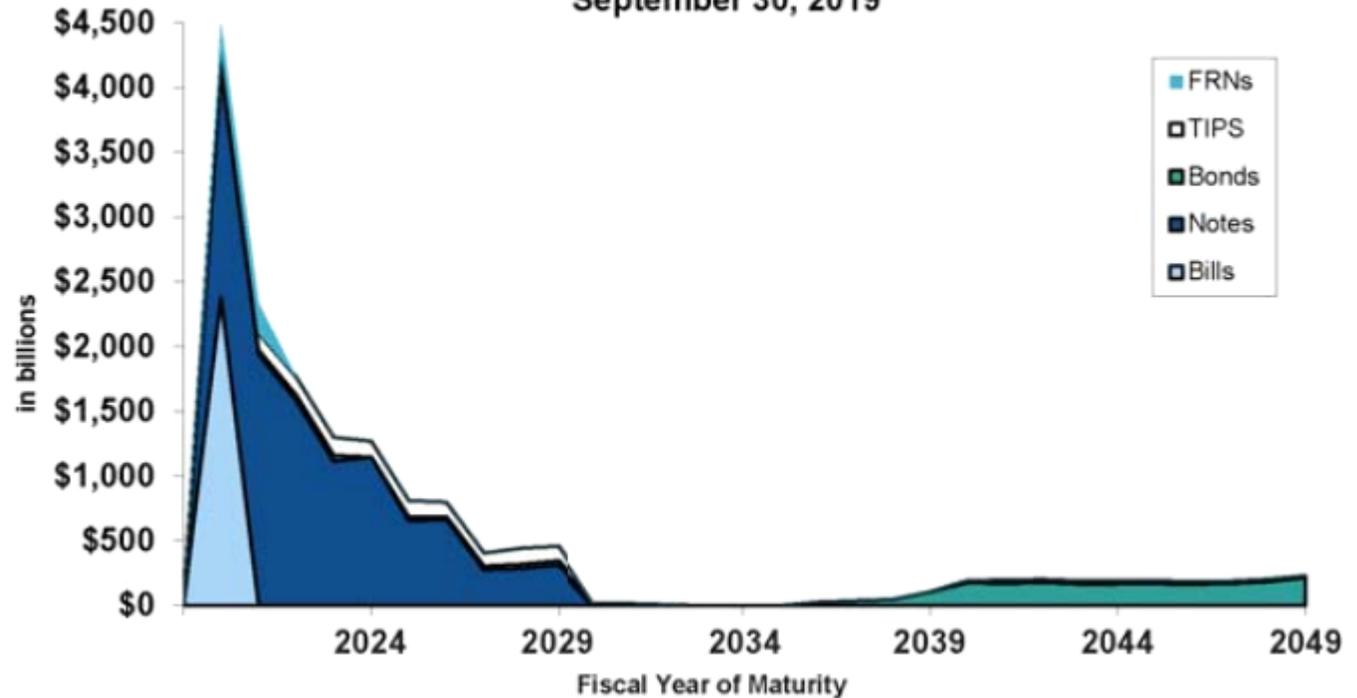
Maybe the first chart has you questioning how the federal government could let runaway inflation occur, as it could result in higher long-term rates. After all, our national debt is at its highest level since World War II.²

The chart shown here somewhat dispels concerns about higher long-term rates. At present, the U.S. Treasury has a relatively short maturity schedule for existing debt. As of the last fiscal year end—September 30, 2019—most of the issuance had a maturity of less than five years, with very little as far out as 10 years.

Of course, we are just at the outset of this shift in Fed policy, so we will continue to monitor the situation as it unfolds.

Figure 3

Maturity Dates of Marketable Debt Held by the Public as of September 30, 2019



Source: https://www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt_ann2019.pdf

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Kevin Churchill

CFA®, CFP®

Chief Investment Officer

1 <https://www.zerohedge.com/economics/watch-live-fed-chair-powell-explains-why-years-higher-inflation-good-you>

2 <https://www.yahoo.com/gma/national-debt-ready-eclipse-us-100138163.html>

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