Marketing material

Infographic: A snapshot of the world economy in November 2020

Schroders

Could interest rates at zero come back to haunt the Fed?

Read article here

The US Federal Reserve will keep interest rates close to zero for three years as it aims for:

2% average inflation

maximum employment

The new policy comes after years of undershooting the inflation target

But there are two key risks:

1. It may cause a **"paradox of thrift"** where people save more to meet investment goals rather than spending
2. It could cause **bubbles in asset prices** as investors chase returns in markets

Should UK investors prepare for negative rates?

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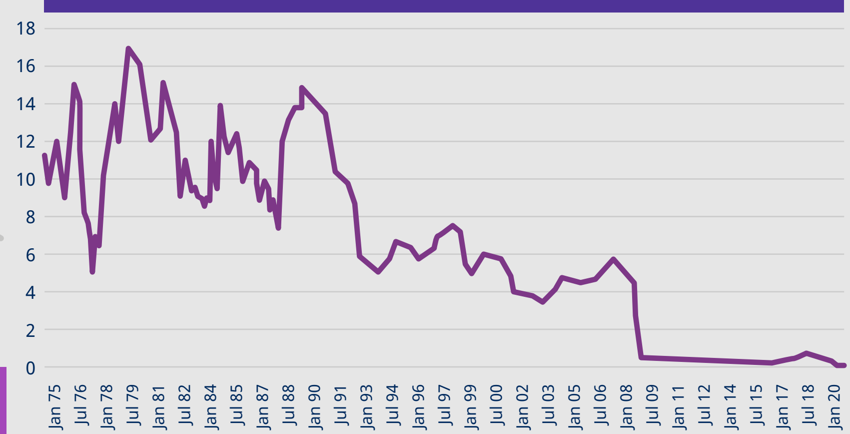
The Bank of England (BoE) recently asked UK banks how ready they were if the base rate – currently 0.1% - turned negative

- The BoE wants to keep money flowing into the economy via **loans and mortgages**
- **Cutting interest rates** is one way to do this
- **Quantitative easing** is another, where the BoE buys government and corporate bonds

As we expected, the BoE has announced more QE instead of cutting interest rates

The Bank of England base rate since 1975



Source: Bank of England, October 2020. 502363.

What is the short-term economic impact of climate change?

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Climate change will have long-term effects, but extreme weather events cause short-term economic losses too

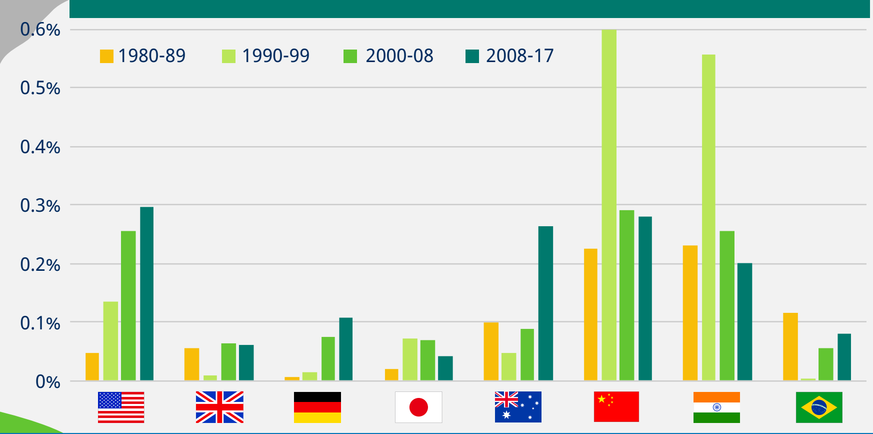
Extreme weather events are becoming **more frequent**

The average number of tropical cyclones per decade has gone from **14 to 23 since the 1980s**

23

The number of **floods has almost doubled**

Average economic loss from tropical cyclones and floods (% of GDP)



Source: The political economy of natural disaster damage. Eric Neumayer, Thomas Plümper, Fabian Barthel, 2014. Global Environmental Change; Knoma.com, Schroder Economics Group, 15 October 2020. 504389

Source: Schroders as at November 2020.

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