

To: Members of the MDP Class of 2021-2022  
Fr: Andy Davies

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## Re: Will New Omicron Covid Variant Affect Interest Rates in 2022???

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From: *Wall Street Journal* 11/27/21

### "Variant Upends Bets on Fed Moves"

By ANNA HIRTENSTEIN

Investors piled into government bonds and quickly recalibrated their expectations for interest-rate increases in response to the new Covid-19 variant first identified in South Africa.

The yield on the 10-year U.S. Treasury note dropped to 1.484% on Friday, according to Tradeweb, from 1.644% at Wednesday's close. That marks the largest trading-session decline since March 2020, at the start of the coronavirus pandemic. Yields fall as bond prices rise.

Federal-funds futures, a proxy for market expectations of interest-rate changes, shifted downward on Friday, with the market anticipating that the Federal Reserve will keep interest rates low for longer.

CME Group data showed that the majority of investors are now pricing in two or three quarter-percentage-point rate increases by the end of 2022, compared with three or four on Wednesday. Equivalent measures of interest-rate expectations for the eurozone and the U.K. also shifted downward.

Markets came under stress Friday after South African officials warned about the B.1.1.529 variant spreading

It is a sudden recalibration for markets that had been obsessed with inflation and the possibility of central-bank tightening. The new global travel restrictions and Friday's drop in oil prices prompted fund managers to change their views about how much the global economy could overheat and how quickly central banks may have to act to temper this, if at all.

Some saw Friday's moves as an overreaction.

"It's too early to jump to conclusions," said Carsten Brzeski, global head of macro at Dutch bank ING. He also pointed to progress made in treatments for Covid-19 and vaccine development.

"The world is much better prepared now for any new variant than 1.5 years ago. That should also mean that both government and central-bank reactions do not have to be as forceful as in March 2020," he said.

Investors fear that a new spate of restrictions to slow the spread of the variant will set back growth prospects globally.

"Pricing three rate hikes from the Fed, as we were up until last night, that makes a lot less sense now," said Andrew Mulliner, a bonds portfolio manager at Janus Henderson.

If the new Covid-19 variant derails the recovery, central banks may actually have to change course and stimulate the economy more, Mr. Mulliner said.

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