Ameriprise Audiocast
Four larger investment themes to watch

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Guests:
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Colin Moore

Marcy Keckler:
Hello and welcome. I'm Marcy Keckler, vice president of Financial Advice Strategy at Ameriprise Financial. Our conversation today is one of a series of audiocasts and you can hear more at Ameriprise.com/marketvolatility.

Recently, we invited clients to join a call with some of our experts on markets and the economy and financial planning, and our purpose really was to hear insights on what's happening today and then to consider questions that clients have and things they might want to discuss with their advisor. We got so many great questions and we weren't able to answer all of them in that call, and so joining me today to answer a few more is my colleague Colin Moore. Colin is the executive vice president and global chief investment officer for Columbia Threadneedle Investments. Welcome, Colin and thanks for joining today.

Colin Moore:
Hello, Marcy. Thank you for having me.

Marcy Keckler:
So Colin, one of the questions we got was regarding the US economy and it was really from a client who wanted to understand how might the accelerated US federal debt impact the economy in the future and how might it impact the recovery?

Colin Moore:
I think it's very wise, Marcy, to break it down into those two pieces. So obviously it's designed primary to get us through the current situation that we face. I, I refer to it as the bridge across an economic cavern, and that is very important. It isn't actually designed to be stimulative in itself; it is there to help us preserve the economy and maintain small businesses, etcetera, until we pass over this deep recession that we're having caused by the COVID-19 crisis. And therefore, I think it's absolutely critical to that initial phase that we have payments like this coming from the government coming from the Federal Reserve in order to help businesses to help counties to help states. This is all absolutely critical. The trick then will be and it's in, implied in the question is what are the longer-term implications of it, once we get past this, and it will then be very important for a few things to happen. Some of these extraordinary measures could be withdrawn. We need to be careful that we're still not incenting people to stay out of work that when it is safe to return, they are also economically compelled to return as opposed to receiving too much benefit for staying at home after that safety point has been reached. We have to at some

point stop supporting businesses that could be open and not function again. We stop supporting municipalities. Because if we don't, you can have a very high impact on inflation, which I can deal with later, but there will be implications of having that over-stimulus then of the economy as opposed to aiding us getting through the current situation. So very important that once we get to a safe point, a number of these extraordinary measures are withdrawn again.

Marcy, I can't imagine a more appropriate time for people to be talking to their advisor in these extraordinary circumstances, so what question should they be asking their financial advisor right now?

Marcy Keckler:
Colin, I think there are three things that clients might want to talk with their advisor about. The first is revisiting risk tolerance. What we know is that your risk tolerance may feel a little bit different today after experiencing some recent volatility than maybe it has over the last five to ten years when we've had a much more generally smooth markets and on a general upward trajectory. So I think revisiting risk tolerance makes sense.

And then second to then revisit the corresponding appropriate asset allocation, having a, a fresh look at the strategic approach that you and your advisor are taking to your investments, what asset classes make sense, and kind of the overall composition of your portfolio is a good thing to discuss thing right now.

And then finally, I would recommend that clients and advisors consider looking at the possibility of portfolio rebalancing. Often, portfolio rebalancing is something that we do with maybe a timebound frequency, whether it's annual, semiannual, or maybe even quarterly, but given the movement we've seen in markets, now can be a good time to just take a look and see if maybe an additional rebalancing review might make sense so that you can make sure you haven't drifted farther away from the appropriate asset allocation than where you intend to be. So I think those are some thoughts for clients to think about discussing with their advisors.

And, and Colin, I'd love to turn it back to you and pick up on something you made reference to just a minute ago and that was inflation. I'm interested in your thoughts about whether you anticipate the emergence of inflation and, and, you know, what would an inflation forecast that you see in the future mean for investors and how should they think about it?

Colin Moore:
Yes, it's a very important point about these long-term implications of some of the actions that the Federal Reserve and Congress are taking. The first answer is I hope we get some inflation. It's actually encouraging time that demand is coming back in the economy. The US economy is driven primarily by consumption. It's by some estimates somewhere 70% to 72% of economic activity and so you get inflation if you have people asking for goods and services, and then that demand for those goods and services in turn (inaudible) with those, which is reflected in inflation. So when you're dealing with a pretty deep recession

as we have at the moment, you actually want some inflation. It's, it's usually an encouraging sign that we're beginning to recover.

So the key is not will we have some inflation, it's then can we control it and not have it get too high. That's an area in which we should remember that the Federal Reserve is very skilled. They have a much deeper problem and difficulty with dealing with depression, dealing with disinflation, deflation. Inflation is something that they have a set of tools for. They can increase interest rates off these extraordinarily low levels. They can ask banks to hold more money in their reserves, and that is quite important. They don't necessarily have to increase rates; they can also just take a certain amount of money out of circulation by asking banks to hold it in reserve. But it is quite important that we have that constant eye on the gauge of inflation, what is likely to cause it. Is the economy recovering? There's a concept called money velocity that it's not just the amount of money in circulation, which many are fearful of at the moment because of all the measures taken around COVID, it's also the speed at which it's moving. If I'm sitting on my money, that does not cause inflation. If I'm going to your shop, Marcy, and spending it and then you in turn buy more goods and services to restock your shop and then maybe modernize your store, all of that is money in circulation and that is velocity. So the Fed will measure all of these things and it, initial signs I think will be welcomed but then it will be how quickly they can act to dampen some of both the volume of money in circulation but also control this concept of velocity through various measures, including bank reserves.

So Marcy, having just talked a little bit about the potential for inflation, you know, how can retirees stay ahead of that inflation risk with the support of their advisor?

Marcy Keckler:
One of the things we know makes sense for retirees who, you know, really are potentially, you know, have fewer levers they can turn in their financial situation is to take a fresh look at essential expenses and really consider if your spending needs to be adjusted. But I, I think to be cautious about that, don't uh, you know, no need to be overly concerned. But I think taking a look at expenses and thinking about which ones are subject to inflation and which ones are maybe relatively more stable can just help raise confidence that you have a good handle on the expenses that you need to fund your day-to-day life.

And then I think another important thing for retirees is to make sure that they are continuing to maintain some investments that are oriented toward growth. Because that really is a great way to stay ahead of the long-term effects of inflation is to keep at least a portion of your portfolio invested for growth, even if in retirement, you may have, you know, somewhat greater orientation towards some income-producing investments. Keeping some growth investments can really make a big difference. So I think those are some thoughts for retirees as they think about inflation and really their overall financial situation.

Colin Moore:

I agree with that. Even modest inflation can really undermine people's long-term goals. One other quick point. We may get modest inflation and I, I think that's all it will be, but it may affect things that affect people's day-to-day expenditures like food inflation, etcetera, more than maybe it has done in the past, special investigator in the Confident Retirement pyramid, you know, you might want to think about how much you have to keep for immediate needs as well.

Marcy Keckler:
Yeah, it's a great reminder and I think especially as you said, the effects of inflation might be uneven, you know, for example, I think, you know, when I, I, I had to fuel up my car for the first time in a long time yesterday and I was just astonished at how low gas prices have become, and I think until there's more movement, you know, we might expect that to continue. But as you said, where there may be supply chain disruptions, we may see some increased prices, so it, it may vary tremendously based on different types of expenses. So that's a, that's a great reminder.

Colin, I know in your role as our global chief investment officer at Columbia Threadneedle, that you are always working with your team and looking globally at what's happening. I'd love to hear insights from you on economic recovery in really different regions of the world and what you think that means in terms of international investing strategies.

Colin Moore:
We remain reasonably confident about what we call the U-shaped recovery in the United States, although I would remind people in the United States is a vast country and therefore, you do have to look at that in different regions. The Tristate area may be different than California, which may be different than the Midwest. But then you're right. We also look at economies across the globe, from China, Japan, Korea, through all of the European economies. And as we're seeing economies begin to reopen again in its very early days, there are some encouraging signs that activity picks up significantly quite quickly. We believe factories, for example, in China are operating at around 85% or more of the previous capacity. Now, we also believe that consumption has not recovered as fast. So then we look to what's happening in countries that are a little earlier in the cycle of recovery, Korea, moving to some of the European economies. Again, we can see an initial burst of activity not back to the levels that we had in the fourth quarter of 2019, but still better than we had in the last few months, which is what we had predicted. We wouldn't get an immediate bounce back but we would see some acceleration. So a quick example. In Denmark, which really has handled the whole crisis relatively well and has begun to open up its economy again, just in the last week or two, we're seeing reports that credit card usage is almost back to where it was but people are spending money on different things. There is way more consumption of food, for example, because people are still a little reluctant to go out to a restaurant, less spending on expensive durable goods like cars, but total amount of their spending has actually recovered quite quickly.

Marcy Keckler:

Hmm, that is very interesting, and interesting to think about how a new pattern of living might affect markets and the economy and, and consumer spending as a, a key driver of that.

So Colin, one final question for you. One of the things that you've already referenced as kind of a variable in how economies around the globe and around the US reopen, there's some uncertainty about what happens with the virus and, you know, the timing for a vaccine, of course, is uncertain, timing of any next wave of treatments is uncertain. So given all that, and we certainly hear a lot about the potential for a second larger wave or maybe a second wave in any case of COVID-19 in the fall, what are your thoughts on how that might potentially impact markets and the economy?

Colin Moore:
It is a very, very important point to any forecast that we're making, Marcy. I want folks to understand we have assumed there will be a second wave. 'Cause we are also in our very frequent contact with hundreds of medical providers around the, the globe, certain that there won't be a widely available vaccine in the fall. Therefore, we are anticipating just because economic activity, including people getting together will pick up, there will be a second increase. So when I speak about a U-shaped recovery, that's partly why it won't be a V shape, won't be very fast because we built in this second wave, so that's very important for people to know. And I think it is also anticipated reasonably widely in many financial markets.

What we are assuming, though, is that there will be better preparation, there will be more what's called PPE, personal protective equipment, there will be more ventilation equipment, there will be better data available to know where to isolate the more vulnerable parts of our society as opposed to having the widespread closures that we have this time. So clearly, we know a lot more about what was happening in nursing homes than we knew a few months ago, so we'll be able to have these targeted closures and we believe the healthcare system will be in a better position, even though a vaccine may not be widely available until 2021. So that's in our assumptions, it's right to be concerned about it, but we are anticipating and it is part of the forecast.

Marcy Keckler:
Thank you, Colin. I really appreciate your thoughts on that and it's, it's helpful to think about the idea that the second wave wouldn't come necessarily as a surprise to the markets if or when it emerges, so that's really helpful. Thank you for joining me today. I really appreciate your insights and to all of our clients who listen today, I hope you found these questions and answers helpful and that today's audiocast has provided some ideas that you can bring to your relationship with your advisor and complement the ongoing conversations that you have. We know your advisor really understands your personal situation and they can help you make the right decisions for your investments and your overall financial life in a way that is supportive of your goals and what's most important to you and your family. So we know there's uncertainty and we want you to feel that you have good information to help raise your confidence. And finally, I'd like to say I hope you continue to stay safe and stay well.

Before we leave, I'd like to share some important disclosure information.

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