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Orderly Global Reflation Will Support The Recovery From COVID-19, Article Says

NEW YORK, March 22, 2021 /PRNewswire/ -- (S&P Global Ratings) -- The global economic recovery is gaining steam--powered by accommodative fiscal and monetary policy stances and accelerating vaccinations. And the recent rise in U.S. Treasury yields, and its spillover into corporate bond yields, indicates greater confidence in a sustained recovery, including a normalization in market functioning and risk pricing. However, the exit path from a very unusual cycle has the potential to be uncertain and volatile for credit markets, and recent discussions have focused on the risk of rising inflation.

Fears that overaggressive fiscal policies could stoke a return of too high inflation have pushed bond yields higher and led central banks to clarify their (for now, dovish) reaction functions. In our view, these discussions confuse the risk of reflation fueled by a solid recovery, which is broadly positive, with the risk of a disorderly rise in inflation and yields, which is broadly negative. These fears are most pronounced in the U.S. but could spread as the recovery gains traction.

We think inflation fears are overblown and that orderly reflation, around a return to sustainable growth, is a healthy development for both macro and credit development, said S&P Global Ratings today in its article "Orderly Global Reflation Will Support The Recovery From COVID-19."

Risks relate to a rapid and volatile reset in risk premium or durably elevated inflation--which would hurt, in particular, corporate entities at the lower end of the rating scale and in some emerging markets.

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For further information: Global Chief Economist, Paul F Gruenwald, New York, + 1 (212) 437 1710, paul.gruenwald@spglobal.com; Global Head Of Research, Alexandra Dimitrijevic, London, + 44 20 7176 3128, alexandra.dimitrijevic@spglobal.com; Media Contact, Luke Shane, New York, + 1 (212) 438 1244, luke.shane@spglobal.com

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