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The Fed operation has been enormously successful with minimal disruption.

Overall, the likelihood of a soft landing has increased. The most amazing thing in the US is the strength of the economy and the labor market in the face of all of this. Longer term, the tightening cycle might come to an end, but whether inflation goes back to 2% or below is a different matter because of the enormous debt burden, in both the US and other advanced economies. That has to be repaid and a persistent, if low, inflation tax, translating into around 3%, which supports higher nominal GDP growth, seems to be the most likely outcome of the shorter-term tightening cycle. For markets, that's probably good news and probably means we could continue to live in an era of increased government expenditures for emergencies and for large climate related energy investments, with a higher inflation rate than we had in the past. So, a secular shift for markets.

Will we see an end to the volatility that came with inflation this year?

One of the reasons the markets took all this in their stride to an extent, is that real rates are still negative and overall, as the uncertainty subsides and the inflation outlook becomes more sanguine, markets will continue to calm down. We should also not forget that volatility is not such a bad virtue; prices need to jump around in very difficult times to get resources where they are needed. We saw that in Europe, with the volatile gas market, which eventually produced enough energy shipments lining up to fulfill demand.

How does the Russian oil embargo or price cap story end?

When the price cap was introduced, the discount on Russian oil immediately shrank because it's just an expression of the uncertainty in markets. What happened effectively was that the discount narrowed by the global price for Brent and WTI coming down. I don't think this is a lasting relief. A price cap means multiple prices for the same commodity, and it gives Russia a trigger which they can use to threaten and scale up and down their exports, which could profoundly impact the global economy, and if they are cornered, they could do the same as they did with gas. Right now, it's a quiet period until everybody sees how this price cap develops. Russia has not acted yet, but we should not rule that out, especially if the military side of the Ukraine conflict gets worse. ■

**Paraphrased Comments*

