Noni Robinson: Can you talk about any material changes to Vanguard’s outlook since the beginning of this year?

Andrew Patterson: One thing that’s been evolving over time has been our views on Fed policy. So, heading into the fall last year, you saw a larger emphasis on international factors. The Fed started to include it in their language, in their communications and their statements. So, I think that’s been key to pushing out any further rate increases beyond what we had foreseen. We started out thinking that there could be two, possibly three rate hikes over the course of 2016. In all likelihood, it’s looking more and more like there may be zero.

There’s a chance they may go in December, but based on international factors, you have concerns around China and oil price declines—warranted or not—maybe impacting Fed policy to some extent at the beginning of the year. That’s since passed the baton to Brexit and concerns around Brexit, a very much unforeseen event.

That’s likely pushed out the next credible chance for the Fed to raise rates [to] sometime in possibly December. And even that depends on the data of remaining strong, indicating continued strength in [the] U.S. economy, and also a lack of any further unforeseen international events, which we certainly can’t rule those out with the longer-term implications of Brexit and the negotiations therein.

Joe Davis: I’ll say, to give credit to Vanguard and again, knowing that this is the future and we treat it in a distributional sense—which now we hear things such as “super forecasting,” and thinking of things as distributions—to give credit where credit is due to Vanguard, we’ve had that approach well before these books and with that appreciation of trends.

And again, we update our forecast as we go, and we’ll never have a crystal ball—that said, [I’d like] to give credit to the team because generally, [our] outlook for the economy over time, is that the U.S. economy is going to remain resilient, not grow at 4% like the good old days, which was levered, but [at] 2%; it’s right on target. And that the U.S. economy would achieve full employment this year, or our best estimate of it? Right on target.

That emerging markets would not have a cyclical bounce this year, which many in the industry thought they would because there’s a structural need for deleveraging in debt, not that they would crater—emerging markets—but they would still struggle economically? Right on target.

That China would not have a hard landing, despite significant fears in January, and [that] there’s a growing buildup of leverage in the Chinese economy, which policy makers need to address, [and that] we won’t see the story determined at the end of this year? Right on target.
[On] inflation, that there’s still deflationary bias in the world, though the drop in commodity prices and oil prices at the beginning of the year certainly surprised even us. But that said, we weathered through that and the strong dollar. That core inflation in developed markets, although still low by historical standards, would not keep falling and falling? Right on target.

And finally, for the markets, two-fold. One is that [regarding] returns, we’ve had this guarded, not bearish, but guarded outlook. And as everyone knows [who’s] watching this video, Vanguard does not offer, I think appropriately, short-term point forecasts—what the Dow Jones Industrial Average will do, the S&P 500, or say the global bond market—but that said, [we projected] more likely or not, we would have lower than historic returns. But again, our probability [was] certainly skewed well above 50% that the returns would be positive. Now, who knows about the rest of the year, but the stock market, despite the volatility, is setting new highs. Again, more to say, that’s in six months and that’s not part of our forecast ethos, but it doesn’t surprise us to see.

And then finally, we were one of the few in the industry that, despite the low level of interest rates, we were underscoring very strongly, that still the role of high quality fixed income is diversification. So yes, returns are low, [it’s] expected going forward. But despite the low level interest rates, the diversification value they’ve played for investors’ portfolios [is significant] and [we’ve said investor should] look through that low- or even negative-interest-rate environment [to view fixed income] as a ballast for equities in times of stress.

We saw it through Brexit and so forth. So, I say that [to give] credit where credit is due to Vanguard as a firm because in part, we have the ability to take a long-term view and we endorse that. And I think that that’s given us the benefit of trying to look through, when possible, through the noise that we will inevitably see and we’ll—just like the past six months—we’ll have to update our thinking, things will catch us off guard. But I give high credit, at the same time, to our outlook because more of it has been on point than been off base the past six months. But not to be complacent, we’ll have to continue to evaluate in this uncertain environment.

All investing is subject to risk, including the possible loss of the money you invest.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

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