

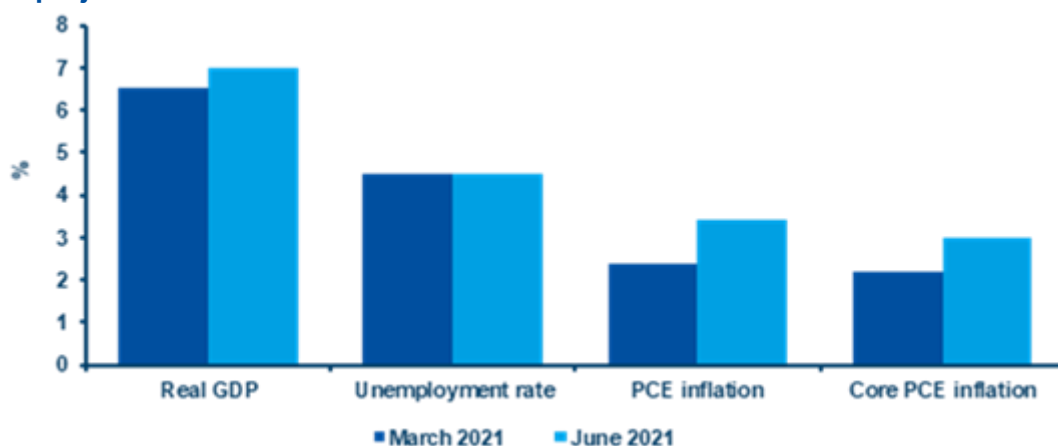
## INFLATION REVIVAL: IS YOUR PORTFOLIO PREPARED?

June 2021

### 'TAPER TALK' IS BACK ON THE TABLE

- At its June meeting, the Fed kept the federal funds rate unchanged, in line with market expectations. However, **the markets were a little surprised by the 5 bp hike in the interest rate** on excess reserves (IOER) and the reverse repo program (RRP).
- While Fed participants now **expect two rate hikes by year-end 2023**, there were no meaningful changes to the Summary of Economic Projections (SEP) in 2022 and 2023.
- Although the **Fed continues to describe inflation as transitional**, there were **major upward revisions to GDP and inflation forecasts in 2021**. The Fed revised its 2021 GDP mid-point forecast from 6.2% in the March SEP to 7.1% in the June SEP. The inflation mid-point projection was revised up from 2.2% to 3.0%.

### Economic projections of FOMC members for 2021



Source: Amundi, Federal Reserve. Data as of 17 June 2021.

### WHAT DOES THIS MEAN FOR INVESTORS?

- The **markets interpreted the Fed as hawkish**, sending asset prices lower across the board. The US five-year to thirty-year yield curve flattened and US Treasury yields rose across the board. US equities sold off, while the dollar index gained 0.7%.

- We believe a cautious exposure to US Treasuries is called for, while favouring inflation-linked bonds with some selective positions in those sectors which are best positioned to capitalise on reopening of the economy.
- Even with uncertainty set to continue, we believe the US market will remain a compelling investment opportunity, but experience and local knowledge is key to navigating the challenges of the current market.
- **CPR Focus Inflation** aims to offers a pure global inflation exposure without any interest rate risk. To do so, the fund is exposed to global inflation-linked bonds, issued by governments and/or state entities, and seeks to leverage on the expected rise of inflation across US and European markets. The fund is fully hedged to euro.

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