

December 2022

# INFLATION REMAINS ABOVE CENTRAL BANK TARGETS PORTFOLIO STRATEGIES IN INFLATIONARY TIMES

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# Contents

03

## **Inflation remains in focus**

Overview of current inflation figures & targets

04

## **Drivers of inflation**

The four forces currently driving inflation

09

## **Central Banks in action**

10

## **Portfolio strategies**

Portfolio strategies in inflationary times



**7.7%**

**USA YoY CPI  
October 2022**

Vs 6.2% in October 2021

*US Bureau of Labor  
Statistics\**



**10.6%**

**Eurozone YoY CPI  
October 2022**

Vs 4.1% in October 2021

*Eurostat\**



**9.6%**

**UK YoY CPI  
October 2022**

Vs 3.8% in October 2021

*Office for National Statistics\*\**



**3.0%**

**Switzerland YoY CPI  
October 2022**

Vs 1.2% in October 2021

*Swiss Federal Statistical Office\**



**2.1%**

**China YoY CPI  
October 2022**

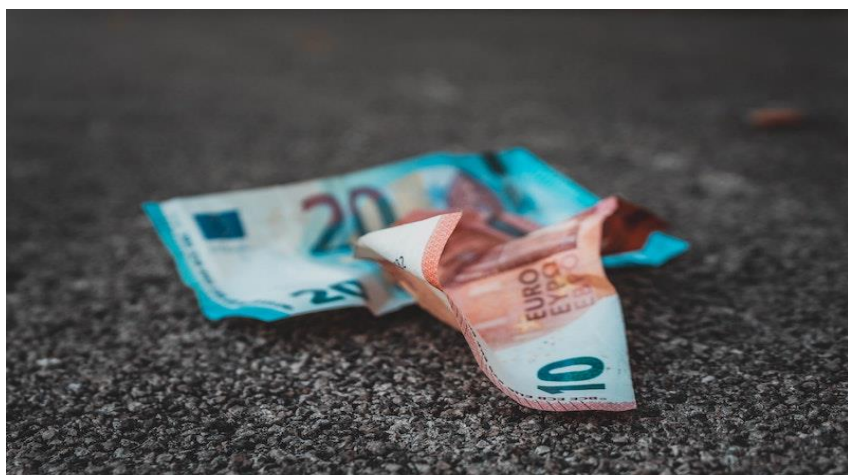
Vs 2.3% in October 2021

*National Bureau of Statistics of China\**

*Persistent inflation is here – currently well above central bank targets*

# A new inflation regime driven by four primary forces

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1 Geopolitics fuels inflation through commodity prices

2 Supply chain restructuring

3 Psychological dimension is starting to kick in

4 Structural factors: *the greenflation*

1

## Geopolitics fuels inflation

Geopolitical tensions between Russia and Ukraine exacerbates pre-existing inflationary pressures, contributing to sustained price trends, **especially for commodities**.



### Europe and the energy crisis

The energy crisis's inflationary and economic impact will depend on two main factors, the implementation of fiscal policies (at national levels and EU level) and the evolution and possible ceasefire in the Ukraine war.

### Key (non-energy) commodities

Russia's exclusion from global supply chains may impact the prices of several other key commodities, including palladium, platinum, wheat and others.

### Food and Emerging Markets

Global inflationary pressures have been boosted by the conflict, with a persistent effect on EMs due to the higher share of food in their inflation basket.

### A dividend government in US

The Biden administration is like to be busy in 2023 with domestic political battles as the Republicans will be a more disruptive force. The latter may question the US support for Ukraine in its war with Russia, with potential ramifications for the energy crisis.



2

## Supply chain restructuring

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Still persistent supply side pressures are likely to keep inflation high.



### Reshoring of supply chains

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The ongoing reshoring wave, restrictive trade policies and geopolitical tensions feed into these disruptions and add further inflationary pressure.

### Diverging inflation trends

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Inflation will remain above central bank targets in the medium term. But inflation drivers in Europe are more supply driven whereas, in the US it is more demand driven.

3

## Psychological dimension is starting to kick in

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Inflation has a critical psychological dimension that depends on forgetfulness, memory and policymaker behaviour.



### Inflation expectations

The Fed has been able to keep inflation expectations anchored with its aggressive stance. Expectations are still high amid a muddled path looking ahead.

### Tight labour market

The US labour market has been recovering quickly after the pandemic and wage growth has picked up.

### Wage-inflation loop

The demand for higher wages could increase inflation as companies pass on rising costs to consumers, creating a wage-inflation loop.

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## Structural factors: *the greenflation*

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Structural factors such as the ongoing energy transition *will ultimately add to inflationary trends over the medium/long run.*



### Limited renewables production capacity

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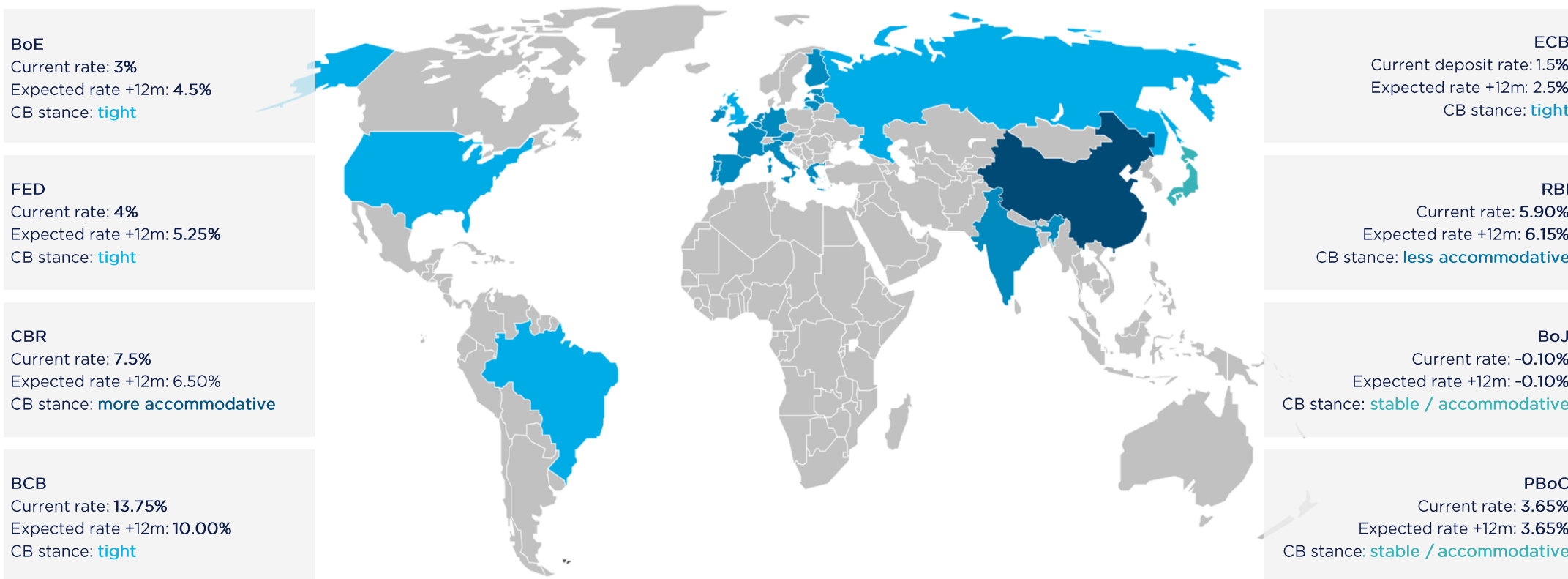
Limited production capacity of renewable energy combined with the high demand for commodities needed in the transition may push up energy bills even further and boost green transition-related commodity prices.

### Energy security driving investment

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The recent focus on energy security will likely drive a new era for energy investments. We believe regions such as Europe should continue progressing towards achieving their green goals in light of the emphasis on energy security



Amundi's projected  
policy stance direction More  
accommodative Stable /  
accommodative Less  
accommodative Tight

## Central banks on a hawkish pivot – markets have started to react

Source: Amundi Institute as of 30 March 2022. Illustrative map for monetary policies. Central bank stance refers to expected changes on QE or unconventional tools position throughout mid-2022. CB: central banks. Fed: Federal Reserve, ECB: European Central Bank, BoE: Bank of England, BoJ: Bank of Japan, PBoC: People's Bank of China, BCB: Central Bank of Brazil, CBR: Central Bank of Russia, RBI: Reserve Bank of India. For the Federal Reserve, current rate refers to the upper bound of the target range.

**Marketing communication. For professional clients only.**

# Portfolio strategies in inflationary times

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## 1 Multi-Asset and Diversifiers

## 2 Equities

## 3 Bonds

Multi-Asset / Diversifiers

## We look to real income assets and enhanced diversification strategies

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- Commodity-linked solutions (gold, green transition)
- Multi Asset real return solutions
- Real Assets
- Liquid alternative strategies



## Stay well diversified, and focus on real returns

### Select opportunities in commodities

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In a still high inflation environment, gold offers strong diversification and a hedge against inflation.

### Focus on real return

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Investors seeking real returns and opportunities to play long term themes may consider commodities and commodity-linked securities, although they should be aware of high volatility.

### Multi asset could offer opportunities

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With the uncertain evolving outlook on inflation and economic growth, investors could embrace multi-asset strategies with the aim of seeking inflation-adjusted returns.

### Gold is likely to shine

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In a still high inflation environment, gold offers strong diversification and a hedge against inflation.

## Equities

## Look for businesses with pricing power

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- US, Global quality and select emerging markets
- High dividend



## Combine quality with value and dividend

### Value is a long term theme

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Investors should look for value-oriented stocks but balance that with selection to look for companies with strong pricing power to preserve margins.

### High-quality tilt

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We look for businesses with a value and high-quality tilt, relying more on selection over market directionality.

### Earnings in focus

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In an environment of decelerating growth, businesses that can maintain profitability would be the winners. Thus, we believe balancing earnings potential with current valuations could be beneficial.

*Bonds are back*

Agility in fixed income is paramount, and as such, we think investors should consider flexible income solutions

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- Loans
- US bonds
- EM short-term bonds
- Inflation-linked bonds
- Floating-rate bonds



Flexibility is the name of the game in fixed income

Floating-rate notes

We believe floating rate notes can offer stability amid a fast-evolving environment.

Active duration management

High inflation and economic growth fears can put opposing pressure on government bond yields and create volatility in credit spreads. Investors should stay agile in adjusting their duration stance, while focusing on quality in credit.

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