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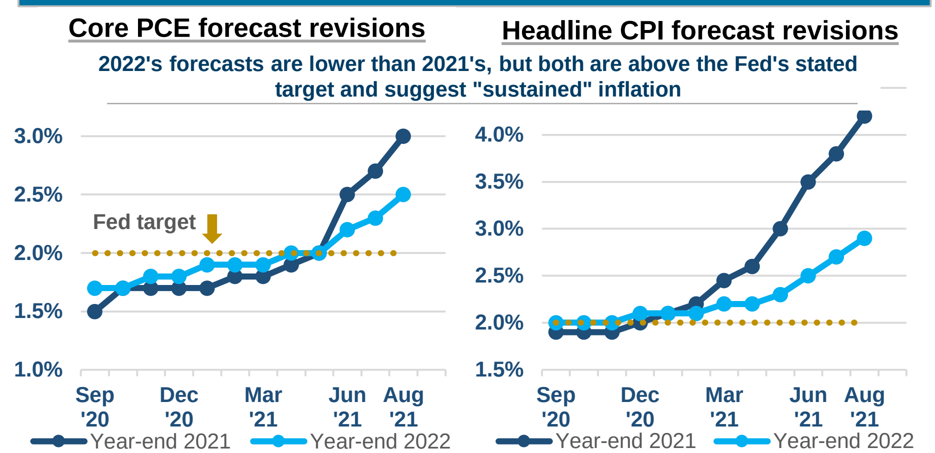
Amundi ASSET MANAGEMENT

September 2021

We Believe Investors Should Remain Positioned for Higher Inflation

Inflation Forecasts Defy Fed Predictions



Source: Bloomberg monthly survey of economists as of 8/31/21. Economists forecasted both 2021 and 2022 year-end inflation rates each month. Core PCE = Personal Consumption Expenditures less food and energy. Headline CPI = **Consumer Price Index** all items.

Consumer Inflation April - August		
10 CPI components with fast-rising prices		
1	Used Cars & Trucks	29%
2	Lodging	22%
3	Commodities	16%
4	New & Used Vehicles	15%
5	Gasoline (All Types)	12%
6	Energy Commodities	11%
7	Durables	11%
8	Air Fares	10%
9	Private Transportation	9%
10	Public Transportation	7%

Source: Bureau of Labor Statistics except Commodities (source: IMF). Figures show change from 3/31/21-8/31/21. Not seasonally adjusted.

Inflation Highest Since 1991*: Will the Fed Characterize Inflation as Transitory or Sustained?

- **Market forecasts higher than FOMC (Federal Open Market Committee)**: Key drivers of inflation include wages, housing, commodity prices, and both retail and producer prices. Looking at the Core PCE forecast chart as of August 31, 2021, economists expect Core PCE inflation to be 2.5% by year-end 2022, above the Fed's median projection of 2.3% (not shown).

- **Short- and intermediate-term inflation may remain high**. In the short term inflation may be driven by the bounceback in consumer demand, coupled with excess fiscal stimulus, supply bottlenecks, labor shortages, and higher energy prices and shelter costs. Among these factors, rising wages and shelter costs, as well as the recovery of the service sector may drive more sustained inflation.

- **The FOMC's Average Inflation Targeting policy could see extended overshoot of 2% target inflation**. We expect the Fed to remain committed to easy monetary policy in 2021. They may begin to taper their asset purchases in 2022 or slightly earlier, and only in 2023, may move to increase the Fed Funds rate.

- **Investors may seek out inflation hedges**. Given potentially higher inflation, investors may consider investing in shorter **duration** assets or in investments that hold relative short duration positions compared to their benchmarks. Additionally, floating rate assets, TIPS exposures, and more broadly, overweights to credit and underweights to Treasuries may help hedge inflation risk or benefit from a steepening **yield curve** environment.

*Source: Bloomberg. US Personal Consumption Expenditure Core Price Index 12/31/90 – 8/31/21.

Terms and Indices

Consumer Price Index (CPI) – Consumer Prices (CPI) are a measure of prices paid by consumer for a market basket of consumer goods and services.

Duration – Measures the degree to which a bond's price will fluctuate in response to changes in comparable interest rates; therefore, a relative shorter duration position compared to the broader market can potentially aid relative returns if interest rates rise.

Yield Curve – A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

Important Information

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